

**LVMC HOLDINGS(formerly known as KOLAO
HOLDINGS) AND ITS SUBSIDIARIES**

**Condensed Consolidated Interim Financial
Statements**

As of June 30, 2018

(Unaudited)

**ATTACHMENT:
INDEPENDENT AUDITORS' REVIEW REPORT**

LVMC HOLDINGS

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Independent Auditors' Review Report

English Translation of Independent Auditors' Review Report Originally Issued in Korean on August 28, 2018.

To the Shareholders and the Board of Directors of LVMC Holdings:

We have reviewed the accompanying condensed consolidated interim financial statements of LVMC Holdings (formerly known as KOLAO Holdings) (the "Company") and its subsidiaries (the "Group"). The condensed consolidated interim financial statements consist of the condensed consolidated statement of financial position as of June 30, 2018, the related condensed consolidated statements of comprehensive income for the three months and six months ended June 30, 2018 and 2017, respectively, and the related condensed consolidated statements of changes in equity and cash flows for the six months ended June 30, 2018 and 2017, respectively, all expressed in US dollars, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Condensed Consolidated Interim Financial Statements

Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standards ("IAS") No.34, *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express a conclusion on the accompanying condensed consolidated interim financial statements based on our review.

We conducted our reviews in accordance with standards for review of condensed consolidated interim financial statements in the Republic of Korea. A review is limited primarily to inquiries of Company personnel and analytical procedures applied to financial data, and this provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Review conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statement of the Company and its subsidiaries are not presented fairly, in all material respects, in accordance with International Accounting Standards ("IAS") No.34, *Interim Financial Reporting*.

Others

We audited the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2017 (not presented in the accompanying consolidated financial statements), in accordance with Korean Standards on Auditing (“KSAs”). We expressed an unqualified opinion in our independent auditors’ report dated on March 22, 2018. The condensed consolidated statement of financial position as of December 31, 2017, presented as a comparative purpose in the accompanying consolidated financial statements does not differ, in all material respects, from the audited consolidated statement of financial position as of December 31, 2017.



August 28, 2018

Notice to Readers

This report is effective as of August 28, 2018, the auditors’ review report date. Certain subsequent events or circumstances may have occurred between the auditors’ review report date and the time the auditors’ report is read. Such events or circumstances could significantly affect the accompanying condensed consolidated interim financial statements and may result in modifications to the auditors’ review report.

**LVMC HOLDINGS (formerly known as KOLAO HOLDINGS) AND
ITS SUBSIDIARIES (the “Group”)**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS OF JUNE 30, 2018 AND DECEMBER 31, 2017, AND
FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2018
AND 2017**

“The accompanying condensed consolidated interim financial statements, including all footnote disclosures were prepared by, and are the responsibility of, the Group.”

Oh, Se Young, Lee, Hyung Seung

Chief Executive Officer
LVMC Holdings

LVMC HOLDINGS (formerly known as KOLAO HOLDINGS) AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30, 2018 AND DECEMBER 31, 2017

<u>ASSETS</u>	USD	
	June 30, 2018	December 31, 2017
CURRENT ASSETS:		
Cash and cash equivalents (Notes 37 and 39)	\$ 16,938,256	\$ 22,022,774
Short-term financial instruments (Notes 6, 38 and 39)	4,954,109	9,164,206
Financial assets at fair value through profit or loss (FVTPL) (Notes 7, 37 and 39)	2,534,004	2,534,004
Trade receivables, net (Notes 6, 8, 38 and 39)	89,621,467	109,744,309
Other receivables (Notes 9, 37 and 39)	20,148,644	10,768,769
Other current assets (Notes 10 and 18)	16,251,343	9,633,542
Income tax receivable (Note 33)	820,833	486,229
Inventories (Notes 11 and 38)	179,801,707	149,246,304
TOTAL CURRENT ASSETS	331,070,363	313,600,137
NON-CURRENT ASSETS:		
Long-term trade receivables, net (Notes 6, 8, 38 and 39)	93,005,305	119,506,615
Financial assets at fair value through other comprehensive income (Notes 12, 37 and 39)	11,351,967	-
Available-for-sale ("AFS") financial assets (Notes 12, 37 and 39)	-	11,351,967
Investments in associate (Notes 6, 13 and 38)	30,243,186	33,772,223
Other receivables (Notes 9, 37 and 39)	8,722,596	2,486,107
Other non-current assets (Notes 14 and 18)	15,430,069	14,117,757
Property, plant and equipment, net (Notes 5, 15, 37 and 38)	88,348,764	84,018,007
Investment property, net (Note 16)	2,001,656	2,071,047
Intangible assets, net (Notes 5, 17 and 41)	13,360,918	7,672,984
TOTAL NON-CURRENT ASSETS	262,464,461	274,996,707
TOTAL ASSETS	593,534,824	588,596,844
<u>LIABILITIES AND EQUITY</u>		
CURRENT LIABILITIES:		
Trade payables (Notes 37, 39 and 40)	35,695,756	37,140,805
Short-term borrowings (Notes 19, 36, 37, 39 and 40)	127,257,574	108,962,840
Provisions (Note 21)	362,929	1,182,323
Other financial liabilities (Notes 22, 37, 39 and 40)	10,277,974	14,883,299
Other current liabilities (Note 23)	3,937,090	1,625,070
Income tax payable (Note 33)	65,437	265,071
TOTAL CURRENT LIABILITIES	\$ 177,596,760	\$ 164,059,408

(Continued)

LVMC HOLDINGS (formerly known as KOLAO HOLDINGS) AND ITS SUBSIDIARIES

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF
FINANCIAL POSITION (CONTINUED)**

AS OF JUNE 30, 2018 AND DECEMBER 31, 2017

	USD	
	June 30, 2018	December 31, 2017
<u>NON-CURRENT LIABILITIES:</u>		
Long-term borrowings (Notes 19, 36, 39 and 40)	\$ 60,704,412	\$ 51,587,028
Derivatives liabilities (Notes 20, 39 and 40)	307,410	746,299
Provisions (Note 21)	652,408	991,008
	<u>61,664,230</u>	<u>53,324,335</u>
TOTAL NON-CURRENT LIABILITIES	<u>61,664,230</u>	<u>53,324,335</u>
	<u>239,260,990</u>	<u>217,383,743</u>
TOTAL LIABILITIES	<u>239,260,990</u>	<u>217,383,743</u>
<u>EQUITY:</u>		
Share capital (Note 24)	11,967,377	11,967,377
Other issued capital (Note 24)	136,486,495	136,486,495
Other equity (Note 27)	(502,916)	1,146,467
Retained earnings (Note 26)	207,717,006	222,649,637
Equity attributable to the owners of the company	355,667,962	372,249,976
	<u>(1,394,128)</u>	<u>(1,036,875)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>354,273,834</u>	<u>371,213,101</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 593,534,824</u>	<u>\$ 588,596,844</u>

(Concluded)

See accompanying notes to the condensed consolidated interim financial statements.

LVMC HOLDINGS (formerly known as KOLAO HOLDINGS) AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	USD			
	2018		2017	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
SALES (Notes 5, 28 and 37)	\$ 60,612,861	\$ 129,036,651	\$ 70,137,971	\$ 147,365,956
COST OF SALES (Notes 29 and 37)	<u>(61,580,906)</u>	<u>(126,555,436)</u>	<u>(54,385,346)</u>	<u>(118,305,070)</u>
GROSS PROFIT (Note 5)	(968,045)	2,481,215	15,752,625	29,060,886
Selling, general and administrative expenses (Notes 29, 30 and 37)	(12,289,917)	(31,605,753)	(14,927,682)	(27,066,166)
Other income (Note 31)	8,033,452	30,668,847	8,365,417	23,247,707
Other expenses (Note 31)	<u>(5,298,229)</u>	<u>(6,898,430)</u>	<u>(467,743)</u>	<u>(1,549,009)</u>
OPERATING PROFIT(LOSS)	(10,522,739)	(5,354,121)	8,722,617	23,693,418
Financial income (Notes 32 and 37)	2,432,654	3,277,084	758,071	2,798,406
Financial expenses (Notes 32 and 37)	(3,041,163)	(7,615,215)	(4,468,034)	(10,685,203)
Share of profits of associates (Note 13)	<u>(1,338,146)</u>	<u>(1,884,503)</u>	<u>(1,177,218)</u>	<u>(2,133,348)</u>
PROFIT(LOSS) BEFORE INCOME TAX EXPENSE	(12,469,394)	(11,576,755)	3,835,436	13,673,273
Income tax expense (Note 33)	<u>33,627</u>	<u>(41,625)</u>	<u>(227,836)</u>	<u>(250,351)</u>
PROFIT(LOSS) FOR THE PERIOD	(12,435,767)	(11,618,380)	3,607,600	13,422,922
OTHER COMPREHENSIVE INCOME:	<u>(1,730,442)</u>	<u>(1,642,638)</u>	<u>(250,324)</u>	<u>905,995</u>
Items not to be reclassified subsequently to profit or loss:				
Changes due to associate's equity changes (Note 13)	-	-	-	-
Items to be reclassified subsequently to profit or loss:				
Changes due to associate's equity changes (Note 13)	(1,721,856)	(1,644,534)	(249,379)	906,311
Exchange differences on translating foreign operations	<u>(8,586)</u>	<u>1,896</u>	<u>(945)</u>	<u>(316)</u>
TOTAL COMPREHENSIVE INCOME(LOSS) FOR THE PERIOD	<u>\$ (14,166,209)</u>	<u>\$ (13,261,018)</u>	<u>\$ 3,357,276</u>	<u>\$ 14,328,917</u>
PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ (10,912,258)	\$ (9,613,556)	\$ 3,913,920	\$ 13,980,151
Non-controlling interests	(1,523,509)	(2,004,824)	(306,320)	(557,229)
TOTAL COMPREHENSIVE INCOME(LOSS) ATTRIBUTABLE TO:				
Owners of the Company	(12,644,204)	(11,262,939)	3,664,069	14,886,304
Non-controlling interests	(1,522,005)	(1,998,079)	(306,793)	(557,387)
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY :				
Basic and diluted earnings per share (Note 34)	\$ (0.23)	\$ (0.20)	\$ 0.08	\$ 0.30

See accompanying notes to the condensed consolidated interim financial statements.

LVMC HOLDINGS (formerly known as KOLAO HOLDINGS) AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

				USD			
	Share capital	Other issued capital	Other equity	Retained earnings	Controlling equity	Non-controlling interests	Total equity
As of January 1, 2017	\$ 11,967,377	\$ 137,058,864	\$ 444,040	\$ 214,568,121	\$ 364,038,402	\$ (1,552,975)	\$ 362,485,427
Payment of dividends	-	-	-	(5,082,693)	(5,082,693)	-	(5,082,693)
Profit for the period	-	-	-	13,980,151	13,980,151	(557,229)	13,422,922
Other comprehensive income							
Changes due to associate's equity changes	-	-	906,311	-	906,311	-	906,311
Exchange differences on translating foreign operations	-	-	(158)	-	(158)	(158)	(316)
Stock options	-	(572,369)	-	-	(572,369)	-	(572,369)
Acquisition of subsidiary	-	-	-	-	-	918,230	918,230
As of June 30, 2017	<u>\$ 11,967,377</u>	<u>\$ 136,486,495</u>	<u>\$ 1,350,193</u>	<u>\$ 223,465,579</u>	<u>\$ 373,269,644</u>	<u>\$ (1,192,132)</u>	<u>\$ 372,077,512</u>
As of January 1, 2018	\$ 11,967,377	\$ 136,486,495	\$ 1,146,467	\$ 222,649,637	\$ 372,249,976	\$ (1,036,875)	\$ 371,213,101
Payment of dividends	-	-	-	(5,319,075)	(5,319,075)	-	(5,319,075)
Profit (loss) for the period	-	-	-	(9,613,556)	(9,613,556)	(2,004,824)	(11,618,380)
Other comprehensive income							
Changes due to associate's equity changes	-	-	(1,644,534)	-	(1,644,534)	-	(1,644,534)
Exchange differences on translating foreign operations	-	-	(4,849)	-	(4,849)	6,745	1,896
Acquisition of subsidiary	-	-	-	-	-	1,640,826	1,640,826
As of June 30, 2018	<u>\$ 11,967,377</u>	<u>\$ 136,486,495</u>	<u>\$ (502,916)</u>	<u>\$ 207,717,006</u>	<u>\$ 355,667,962</u>	<u>\$ (1,394,128)</u>	<u>\$ 354,273,834</u>

See accompanying notes to the condensed consolidated interim financial statements.

LVMC HOLDINGS (formerly known as KOLAO HOLDINGS) AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	USD	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash flows generated from operations:		
Profit(loss) for the period	\$ (11,618,380)	\$ 13,422,922
Adjustments:		
Loss on valuation of Inventories	1,720,882	-
Bad debt expense	401,185	142,028
Other bad debt expenses	2,697,000	-
Loss on investments in associates	1,884,503	2,133,348
Depreciation	4,658,845	3,972,808
Gain on disposal of property, plant and equipment	(105,214)	(24,864)
Loss on disposal of property, plant and equipment	1,650	-
Depreciation in investment property	69,391	69,391
Amortization of intangible assets	651,447	599,203
Gain on valuation of derivatives	(438,889)	(2,101,000)
Impairment loss of intangible assets	767,507	776,254
Gain on transaction of derivatives	-	(8,354)
Increase (reversal) in provisions for product warranties	(94,862)	1,936,128
Increase (reversal) of provisions for return products	26,006	(54,005)
Income tax expense	41,625	250,351
Stock option compensation cost	-	(572,369)
Sales promotion cost	167,553	52,901
Gain on foreign exchange translation	(2,000,582)	(527,541)
Dividend income	(763,051)	(728,479)
Rental income	(51,600)	(27,600)
Loss on foreign exchange translation	497,497	4,793,912
Interest income	(29,201,859)	(20,865,914)
Interest expenses	7,039,474	4,488,850
Miscellaneous Income	-	(36,805)
	<u>(12,031,492)</u>	<u>(5,731,757)</u>
Movements in working capital:		
Decrease in trade and other receivables	79,669,696	44,699,786
Decrease (increase) in other current assets	(1,809,717)	5,052,118
Increase in other non-current assets	(1,050,000)	-
Increase in inventories	(20,429,082)	(14,916,990)
Decrease in trade payables and other financial liabilities	(15,797,217)	(30,015,780)
Increase(decrease) in other current liabilities	2,109,337	(3,352,096)
Decrease in provisions	<u>(941,344)</u>	<u>(1,267,884)</u>
	<u>41,751,673</u>	<u>199,154</u>
Interest received	704,095	207,713
Interest paid	(5,788,688)	(4,026,459)
Dividends received	763,051	728,479
Income tax paid	<u>(955,313)</u>	<u>(317,294)</u>
Net cash provided by operating activities	\$ <u>12,824,946</u>	\$ <u>4,482,758</u>

(Continued)

LVMC HOLDINGS (formerly known as KOLAO HOLDINGS) AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	USD	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in short-term financial instruments	\$ -	\$ (1,105,000)
Decrease in short-term financial instruments	4,161,460	-
Increase in short-term loans	(11,303,554)	(6,217,510)
Decrease in short-term loans	191,837	269,727
Increase in long-term loans	(7,550,000)	-
Decrease in long-term loans	450,000	225,000
Acquisition of investments in associate	-	(2,000,000)
Acquisition of property, plant and equipment	(8,630,649)	(1,528,276)
Disposal of property, plant and equipment	168,938	27,060
Acquisition of intangible assets	(916,024)	(793,858)
Increase in guarantee deposits	(46,990)	-
Net cash flow from acquisition of subsidiary	<u>(811,259)</u>	<u>1,582,348</u>
Net cash used in investing activities	<u>(24,286,241)</u>	<u>(9,540,509)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from short-term borrowings	(17,817,409)	21,671,768
Proceeds from long-term borrowings	25,000,000	-
Proceeds from debentures	24,233,352	23,241,251
Repayment of debentures	(19,651,982)	(18,616,378)
Settlement of derivatives liabilities	-	(203,105)
Payment of dividends	(5,261,987)	(5,012,729)
Increased paid-in capital of subsidiary	<u>-</u>	<u>4,500</u>
Net cash provided by financing activities	<u>6,501,974</u>	<u>21,085,307</u>
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(4,959,321)</u>	<u>16,027,556</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	22,022,774	6,734,767
CHANGES IN CASH AND CASH EQUIVALENTS BY FOREIGN CURRENCY TRANSLATION	<u>(125,197)</u>	<u>(119,454)</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD(Note 35)	<u>\$ 16,938,256</u>	<u>\$ 22,642,869</u>

(Concluded)

See accompanying notes to the condensed consolidated interim financial statements.

LVMC HOLDINGS (formerly known as KOLAO HOLDINGS) AND ITS SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**AS OF JUNE 30, 2018 AND DECEMBER 31, 2017,
AND FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017**

1. GENERAL:

LVMC Holdings (formerly known as KOLAO Holdings) (the “Company”) is a limited and tax-exempt entity, which was incorporated on June 16, 2009, in Cayman Islands to control Auto World (KOLAO Developing) Co., Ltd. (the “subsidiaries”), under the Companies Law of Cayman Islands. The Company was transferred shares of Auto World (KOLAO Developing) Co., Ltd. from Oh, Se Young who owned 100% of Auto World (KOLAO Developing) Co., Ltd. in exchange for investment in kind on December 24, 2009, in order to reorganize the controlling structure. The Company’s registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, and the Company and its subsidiaries operated a business in Laos, Myanmar and Vietnam to engage in import, manufacture and sales of automobile and motorcycle.

On November 30, 2010, the Company’s shares were listed in the Korea Exchange. As of June 30, 2018, the Company has issued 47,869,508 shares and the Company’s share capital amounts to US dollars (USD) 11,967,377, as a result of the several issuances of new shares from \$1 at the establishment of the Company.

With effect from March 30, 2018, the name of the Company was changed from KOLAO Holdings to LVMC Holdings.

As of June 30, 2018, the Company’s shareholders and the respective percentage of ownership are as follows:

<u>Shareholders</u>	<u>Number of shares owned</u>	<u>Percentage of ownership (%)</u>
Oh, Se Young	21,266,682	44.43
Others	26,602,826	55.57
	<u>47,869,508</u>	<u>100.00</u>

2. SIGNIFICANT ACCOUNTING POLICIES:

(1) Basis of Preparation

The Company and its subsidiaries’ (the “Group”) condensed consolidated interim financial statements as of and for the period ended June 30, 2018, have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. To have a better understanding of the condensed consolidated interim financial statements, they should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2017.

The significant accounting policies as applied in the condensed consolidated interim financial statements correspond to those pertaining to the annual consolidated financial statements as of and for the year ended December 31, 2017, except for the adoption effect of the new and revised accounting standards and interpretations described below.

- 1) New and revised standards that have been applied from the period beginning on January 1, 2018 are as follows:

Enactments to IFRS 9 – Financial Instruments

The enactments to IFRS 9 contain the requirements for the classification and measurement of financial assets and financial liabilities based on a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses, and broadened types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting and the change of the hedge effectiveness test. This enactment supersedes IAS 39 ‘Financial Instruments: Recognition and Measurement’.

The Group elects not to restate comparative information for the prior period when applying this enactment for the first time.

The main contents of this enactment and impacts on the Group’s consolidated financial statements are as follows:

A. Classification and measurement of financial assets

When the Group adopts new standard of IFRS 9, the Group classifies financial assets as seen in the table below based on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset: as measured at amortised cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”). If the host contract is determined in a hybrid contract, an entity may classify the entire hybrid contract as a financial asset rather than separating the embedded derivative from the host contract.

Business model	Contractual cash flow characteristic	
	Solely payments of principal and interest	Otherwise
Objective is to hold financial assets in order to collect	Measured at amortised cost (*1)	
The financial asset is held within a business model whose objective is achieved by both collecting contractual cash	FVOCI (*1)	FVTPL (*2)
Objective is to sell financial assets and others	FVTPL	

(*1) An entity may designate as measured at FVTPL to eliminate or significantly reduce an accounting mismatch (irrevocable).

(*2) An entity may designate as FVOCI for investments in equity instruments that are not held for trading (irrevocable).

The Group has evaluated and reviewed financial assets held in relation to classification and measurement based on the information available at the date of initial application, and financial impacts on financial assets are as follows:

The objective of financial assets held that are recognized as measured at amortized cost under IAS 39, such as loans and receivables is to collect contractual cash flows and the nature of their cash flows are solely payments of principal and interest on the principal amount outstanding. Therefore, loans and receivables are classified as financial assets measured at amortized cost under IFRS 9, and there are no significant impact on the Group’s consolidated financial statements.

IFRS 9 permits an entity to make an irrevocable election to designate at other comprehensive income for changes in the fair value of an investment in an equity instrument that is not held for trading. Gains and losses presented in other comprehensive income cannot be subsequently recycled to profit or loss.

AFS financial assets under IAS 39 are classified as financial assets measured at fair value through other comprehensive income (“FVOCI”) under IFRS 9. Therefore, there are no significant impact on the Group’s consolidated financial statements.

On the date of initial application, January 1, 2018, the financial instruments of the Group subject to reclassifications were as follows (in USD):

Financial Assets	Category		Carrying Amount	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost	22,022,774	22,022,774
Short-term financial instruments	Loans and receivables	Amortized cost	9,164,206	9,164,206
Financial assets at fair value through profit or loss	Assets at fair value through profit or loss	Fair value through profit or loss	2,534,004	2,534,004
Trade receivable	Loans and receivables	Amortized cost	109,744,309	109,744,309
Other receivables	Loans and receivables	Amortized cost	10,768,769	10,768,769
Long-term trade receivables	Loans and receivables	Amortized cost	119,506,615	119,506,615
Available-for-sale financial assets	Available-for-sale financial assets	Fair value through other comprehensive income	11,351,967	11,351,967
Other non-current receivables	Loans and receivables	Amortized cost	2,486,107	2,486,107
			<u>287,578,751</u>	<u>287,578,751</u>

B. Classification and measurement of financial liabilities.

For financial liabilities designated as at FVTPL using the fair value option, IFRS 9 requires the effects of changes in fair value attributable to an entity's credit risk to be recognised in other comprehensive income. The amounts presented in other comprehensive income are not subsequently transferred to profit or loss unless this treatment of the credit risk component creates or enlarges a measurement mismatch.

Except for the above-mentioned changes, there are no significant impact on the Group's classification and measurement of financial liabilities.

C. Impairment: Financial assets and contract assets

Under IAS 39, the impairment is recognized only when there is an objective evidence of impairment based on incurred loss model, but under IFRS 9, impairment is recognised based on expected credit loss model for debt instrument, lease receivables, contract assets, loan contracts and financial guarantee contracts that are measured at amortised cost or fair value through other comprehensive income.

Under IFRS 9, financial assets are classified into three stages depending on the extent of increase in the credit risk on financial instruments since initial recognition. The loss allowance is measured at an amount equal to 12-month expected credit losses or the lifetime expected credit losses and therefore credit losses will be recognized earlier than under the incurred loss model of IAS 39.

	Case	The loss allowance
Stage 1	Non-significant increase in credit risk since initial recognition	12-month expected credit losses: The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
Stage 2	Significant increase in credit risk since initial recognition	Lifetime expected credit losses: The expected credit losses that result from all possible default events over the expected life of a financial instrument.
Stage 3	Credit-impaired financial assets	

Under IFRS 9, the Group shall only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.

The Group shall recognize allowance of trade notes, accounts receivable and contract assets that have a significant financing component for lifetime expected credit losses from initial recognition until derecognition (the simplified approach) for low credit risk.

The Group assessed the impairment of the financial assets held at the date of initial application using reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that a financial instrument was initially recognized and to compare that to the credit risk at the date of initial application.

There are no significant impact on the Group's impairment of financial assets and contract assets.

Enactments to IFRS 15 – Revenue from Contracts with Customers

The core principle under IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduce a five-step approach to revenue recognition and measurement: 1) Identify the contract with a customer, 2) Identify the performance obligations in the contract, 3) Determine the transaction price, 4) Allocate the transaction price to the performance obligations in the contract and 5) Recognize revenue when (or as) the entity satisfies a performance obligation. This standard supersedes IAS 11 - Construction Contracts, IAS 18- Revenue, IFRIC 13 - Customer Loyalty Programs, IFRIC 15-Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers and SIC 31- Revenue-Barter Transactions Involving Advertising Services.

The main contents of this enactment and the Group's accounting policies are as follows:

A. Identify the performance obligations in the contract

The Group identifies the performance obligation in the contract with customers which are (1) Vehicle sales, (2) Additional service, (3) Additional warranty and (4) Other services. Timing of the revenue recognition may change depending on when the performance obligation is satisfied, either at a point in time or over time.

B. Allocation of the transaction price

The Group allocates the transaction price of multiple performance obligation identified in one contract based on relative standalone selling price. The Group uses an expected cost plus margin approach by estimating the expected costs for each transaction and adding an appropriate profit margin.

C. Variable consideration

The Group estimates the amount of consideration depending on which method the entity expects to better predict the amount of consideration to which it will be entitled—the expected value or the most likely amount. Variable consideration is included in the transaction price only to the extent that it is probable or highly probable that a significant reversal in the cumulative amount of revenue recognized will not occur in the future periods.

In accordance with transition in this enactment, the Group applies this enactment retrospectively with the cumulative effect of initially applying this standard as of January 1, 2018. The Group elects to apply this standard retrospectively only to contracts that are not completed at the date of initial application. The Group does not restate all contract modifications that occurred before the date of initial application in accordance with the following practical expedients.

The effects of the application of this enactment on the consolidated interim financial statements for the period ended June 30, 2018 are as follows (in USD):

Category	June 30, 2018		
	IAS 18	Adjustments	IFRS 15
Sales(*1)	130,141,430	(1,104,779)	129,036,651
Cost of sales(*2)	126,566,967	(11,531)	126,555,436
Selling, general and administrative expenses(*1)	32,699,001	(1,093,248)	31,605,753
Operating profit(loss)	(5,354,121)	-	(5,354,121)
Profit(loss) for the period	(11,618,380)	-	(11,618,380)

(*1) Deducted the consideration paid to the customer (incentives, performance bonuses, etc.) from revenue.

(*2) Deducted the overpaid amount from the transaction price in exchange for the customer's excess over the fair value of the goods received from the customer

The application of this enactment did not have any significant effect on the consolidated cash flow statement for the period ended June 30, 2018.

Amendments to IFRS 40 – Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IFRS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The above-mentioned change in amendment did not have any significant effect on the Group's interim consolidated financial statements.

Enactments to IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The enactment addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability. The enactment specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the enactment requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The above-mentioned change in amendment did not have any significant effect on the Group's interim consolidated financial statements.

Annual Improvements to IFRSs 2014-2016 cycle

The Annual Improvements include amendments IFRS 1 'First-time Adoption' and IFRS 28 'Investment in Associates and Joint Ventures.' The amendments to IFRS 28 clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity(IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The above-mentioned change in amendment did not have any significant effect on the Group's interim consolidated financial statements.

- 2) New and revised International Financial Reporting Standards (“IFRSs”) in issue, but not yet effective

Enactments to IFRS 16 – Leases

This enactment provides a single lessee accounting model that operating leasees recognize a right-of-use asset and a lease liability.

This enactment will supersede IAS 17 ‘Leases’, IFRIC 4 ‘Determining whether an Arrangement contains a Lease’, IFRIC 5 ‘Operating Leases—Incentives’, and IFRIC 27 ‘Evaluating the Substance of Transactions Involving the Legal Form of a Lease’. The enactment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted.

At inception of a contract, the entity assesses whether the contract is, or contains, a lease. The entity also assesses it at the date of initial application. However, the entity is not required to reassess whether a contract before at the date of initial application is, or contains if the entity adopts a practical expedient.

For a contract that is, or contains, a lease, an entity accounts for each lease component within the contract as a lease separately from non-lease components of the contract.

At the commencement date, a lessee recognizes a right-of-use asset and a lease liability. A lessee may elect not to apply the requirements to short-term leases that, at the commencement date, has a maximum possible term of 12 months or less and leases for which the underlying asset is of low value (e.g. below USD 5,000). As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

In lessor accounting, this standard is not significantly changed from IAS 17 ‘Leases’.

The Group is currently evaluating the impacts of the above-mentioned enactment on the Group’s interim consolidated financial statements.

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES:

In the preparation of the Group’s interim consolidated financial statements, management is required to apply accounting policies and make judgements, estimation and assumptions affecting the carrying amounts of assets and liabilities, income and expenses. Actual results may be different from those estimations. The management’s significant judgements about the application of the Group’s accounting policies and the main resources of the uncertainty are consistent with those of the annual consolidated financial statements for the year ended December 31, 2017, except for the new significant judgements related to the application of IFRS 9 ‘Financial Instruments’ and IFRS 15 ‘Revenue from Contracts with Customers’ as described in Note 2.

4. SUBSIDIARIES:

(1) The details of consolidated subsidiaries as of June 30, 2018 and December 31, 2017 are as follows:

Subsidiaries	Country	Reporting date	Percentage of Ownership		Main business
			June 30, 2018	December 31, 2017	
Auto World(KOLAO Developing) Co., Ltd.	Laos	Dec. 31	100	100	Manufacture and sales of automobile and motorcycle
LVMC Holdings Singapore Pte., Ltd.	Singapore	Dec. 31	100	100	Holding company, Foreign trade
LVMC Holdings (HM) Singapore Pte., Ltd. (*1)	Singapore	Dec. 31	84	84	Sales of automobile
KOLAO Holdings Myanmar Co., Ltd. (*1)	Myanmar	Dec. 31	99	99	Sales of automobile
DAEHAN Co., Ltd. (*1)	Myanmar	Dec. 31	99	99	Sales of automobile
Fortune KOLAO international Motors Co., Ltd. (*2)	Myanmar	Dec. 31	100	100	Trading company
International KLM Co., Ltd. (*2)	Myanmar	Dec. 31	99	99	Sales of automobile and automobile parts, repairs of automobile
Global KLM Co., Ltd. (*2)	Myanmar	Dec. 31	99	99	Sales of automobile and automobile parts, and repairs of automobile
LVMC Investment Limited	Hong Kong	Dec. 31	100	100	Financial business
KOLAO Holdings (Cambodia) Co., Ltd.	Cambodia	Dec. 31	100	100	Sales of automobile
Daehan-Dewan Motor Company (Pvt.) Ltd.(*3)	Pakistan	Dec. 31	50	50	Manufacture and sales of automobile
Chongqing Kolao-Yuan R&D Co.,Ltd.(*3,4)	China	Dec. 31	50	50	Manufacture and sales of automobile
Chongqing LVMC Yuan Auto Trading Co.,Ltd.(*5,6)	China	Dec. 31	100	-	Trading company
Shwe Daehan Motors Co.Ltd.(*2,6)	Myanmar	Dec. 31	99	-	Manufacture and sales of automobile and motorcycle
Daehan Motors Co., Ltd.	Vietnam	Dec. 31	60	-	Manufacture and sales of automobile

(*1) The entities are the subsidiaries of LVMC Holdings Singapore Pte., Ltd.

(*2) The entities are the subsidiaries of LVMC Holdings (HM) Singapore Pte., Ltd

(*3) The Group is considered to have substantial control over the entity by an agreement with other investors.

(*4) The entity is the subsidiary of Auto World (KOLAO Developing) Co., Ltd.

(*5) The entity is the subsidiary of Chongqing Kolao-Yuan R&D Co., Ltd.

(*6) The entities are newly established for the period ended June 30, 2018.

(2) Subsidiaries newly included in consolidation for the period ended June 30, 2018 are as follows:

Changes	Name of subsidiaries	Description
Included	Chongqing LVMC Yuan Auto Trading Co., Ltd.	Establishment
Included	Shwe Daehan Motors Co., Ltd.	Establishment
Included	Daehan Motors Co., Ltd.	Acquisition

(3) The summaries of financial information of subsidiaries as of and for the period ended June 30, 2018, are as follows (Unit: USD):

Subsidiaries	Assets	Liabilities	Controlling equity	Non-controlling interests	Sales	Profit for the period	Total comprehensive income
Auto World(KOLAO Developing) Co., Ltd.	472,465,325	169,167,770	303,297,555	-	115,562,107	2,875,817	2,875,817
LVMC Holdings Singapore Pte., Ltd. (*1)	45,853,802	41,796,436	6,756,202	(2,698,836)	5,815,216	(4,097,295)	(4,097,295)
LVMC Investment Limited	17,405,891	-	17,405,891	-	763,051	844,026	844,026
Kolao Holdings (Cambodia) Co., Ltd.	5,018,939	4,788,517	230,422	-	501,571	(267,509)	(267,509)
Daehan-Dewan Motor Company (Pvt.) Ltd.	9,544,087	10,947,880	(658,761)	(745,032)	5,241,909	(1,778,303)	(1,778,303)
Chongqing Kolao-Yuan R&D Co.,Ltd.(*1)	2,298,036	638,273	829,881	829,882	1,264,358	81,304	81,304
Daehan Motors Co., Ltd.	30,142,612	27,092,968	1,829,786	1,219,858	7,974,580	(1,044,301)	(1,044,301)

(*1) Based on the subsidiary's consolidated financial statements.

All financial information of subsidiaries is the amounts after adjusting differences in accounting policies from the Company, but before eliminating all intragroup transactions.

(4) The summaries of cash flows of subsidiaries for the period ended June 30, 2018, are as follows (Unit: USD):

Subsidiaries	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Changes in cash and cash equivalents by foreign currency translation	Cash and cash equivalents, beginning of the period	Cash and cash equivalents, end of the period
Auto World(KOLAO Developing) Co., Ltd.	19,834,993	(7,491,293)	(16,403,933)	-	14,384,148	10,323,915
LVMC Holdings Singapore Pte., Ltd. (*1)	(3,278,366)	2,279,198	-	-	2,916,795	1,917,627
LVMC Investment Limited	754,870	(700,000)	-	-	9,539	64,409
Kolao Holdings (Cambodia) Co., Ltd.	(1,821,830)	(1,251,710)	2,000,000	-	1,316,828	243,288
Daehan-Dewan Motor Company (Pvt.) Ltd.	(416,075)	(125,227)	-	(50,733)	803,824	211,789
Chongqing Kolao-Yuan R&D Co.,Ltd.(*1)	(265,528)	(104,879)	-	(4,164)	1,605,496	1,230,925
Daehan Motors Co., Ltd.	2,631,858	(2,496,689)	(4,989,363)	(13,231)	6,688,741	1,821,316

(*1) Based on the subsidiary's consolidated financial statements.

All cash flows information of subsidiaries is the amounts after adjusting differences in accounting policies from the Company, but before eliminating all intragroup transaction.

- (5) Net assets and profit of non-controlling interests as of and for the period ended June 30, 2018, are as follows (Unit: USD):

Subsidiary	Non-controlling interests	Profit for the period attributable to non-controlling interests	Total comprehensive income attributable to non-controlling interests	Dividends paid to non-controlling interests
LVMC Holdings Singapore Pte., Ltd. (*1)	(2,698,836)	(738,604)	(738,604)	-
Chongqing Kolao-Yuan R&D Co.,Ltd.(*1)	(745,032)	(889,152)	(868,337)	-
Daehan-Dewan Motor Company (Pvt.) Ltd.	829,882	40,652	29,830	-
Daehan Motors Co., Ltd.	1,219,858	(417,720)	(420,968)	-

(*1) Based on the subsidiary's consolidated financial statements.

5. SEGMENT INFORMATION:

- (1) Details of products and services from which segments derive their revenues are as follows:

The operating segments are decided under reported information for Group's chief operation decision maker for evaluating performance and allocating resources to the segment for administrative purpose. The Group's operating segments are as follows:

Segment	Description
Merchandise	Business to distribute in Laos after importing new automobile or buying local used car.
Finished goods	Business to distribute in Laos the 'DAEHAN' brand cars, which KOLAO develops after ordering, processing and assembling parts, and assembling and selling products after importing the finished cars in disassembled state
Automobile	
Export	Business to export the 'DAEHAN' brand cars to foreign country in the form of CKD.
Motorcycle	Designing its own model and selling products under the name of 'KOLAO' after making orders, processing and assembling of major parts.
Wholesale	Selling accessories and other supplies designed for automobiles and motorcycles.
A/S	Providing after-service and repair service for automobiles and motorcycles.
Others	Selling and buying used local automobiles and providing rental services in Laos

- (2) Revenues and gross profit by segments are as follows (Unit: USD):

		Sales by segment				Gross profit by segment			
		2018		2017		2018		2017	
		Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Automobile	Merchandise	30,372,451	81,384,329	34,576,870	74,320,993	(628,391)	2,091,789	3,811,388	6,999,712
	Finished goods	27,158,096	39,638,640	28,421,465	57,442,456	(258,743)	(1,511,308)	10,702,099	18,293,516
	Export	-	-	3,118,337	3,948,260	(1,449)	-	302,772	359,489
Motorcycle		291,377	691,064	954,578	3,624,862	(157,212)	(142,895)	252,696	638,816
Wholesale		594,395	2,277,648	1,565,801	3,027,114	(274,852)	(78,108)	352,588	555,953
AS		1,824,554	3,529,695	1,188,758	3,580,085	(19,386)	606,462	18,920	791,214
Others		371,988	1,515,275	312,162	1,422,186	371,988	1,515,275	312,162	1,422,186
		<u>60,612,861</u>	<u>129,036,651</u>	<u>70,137,971</u>	<u>147,365,956</u>	<u>(968,045)</u>	<u>2,481,215</u>	<u>15,752,625</u>	<u>29,060,886</u>
Unallocated income and expenses						(11,501,349)	(14,057,970)	(11,917,189)	(15,387,613)
Profit before income tax expense						<u>(12,469,394)</u>	<u>(11,576,755)</u>	<u>3,835,436</u>	<u>13,673,273</u>

All the revenues and results reported above are the amounts after eliminating all intragroup transactions in full on consolidation.

The gross profit by segment is reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

(3) Assets and liabilities by segments are as follows (Unit: USD):

		Assets		Liabilities	
		June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Automobile	Merchandise	233,026,311	228,884,571	22,781,084	22,826,107
	Finished goods	184,810,300	185,780,302	11,095,640	10,880,425
	Export	-	15,881,460	-	1,372,854
Motorcycle		10,224,581	11,734,680	193,442	621,041
Wholesale		6,977,814	5,355,898	637,559	554,342
A/S		14,431,386	14,064,408	988,031	886,036
Others		1,306,853	813,914	-	-
		450,777,245	462,515,233	35,695,756	37,140,805
Unallocated assets and liabilities		142,757,579	126,081,611	203,565,234	180,242,938
Total assets and liabilities		593,534,824	588,596,844	239,260,990	217,383,743

All the assets and liabilities reported above are the amounts after eliminating all intragroup transactions in full on consolidation.

The chief operating decision maker manages each segment's trade receivables, inventories, property, plant and equipment, trade payables for the purposes of resource allocation and assessment of segment performance, whereas other assets and liabilities are not allocated.

(4) Other segment information is as follows (Unit: USD):

		Depreciation(*1)		Acquisition of non-current assets(*2)	
		Period ended June 30,		Period ended June 30,	
		2018	2017	2018	2017
Automobile	Merchandise	2,745,120	1,922,319	1,812,749	1,528,232
	Finished goods	2,177,121	2,136,335	882,908	1,181,165
	Export	-	79,247	-	81,186
Motorcycle		120,448	210,790	15,393	74,537
Wholesale		82,201	84,657	50,732	62,245
A/S		170,006	129,759	78,620	73,616
Others		15,396	8,904	33,752	29,244
		5,310,292	4,572,011	2,874,154	3,030,225

(*1) The amounts are from property, plant and equipment and intangible assets.

(*2) The amounts of acquisition on non-current assets for the periods ended June 30, 2018 and 2017, include \$26,431 and \$666,191, respectively, which was transferred from inventory to vehicles.

(5) Geographical information

Although the Group operates its business in Laos, Myanmar, Cambodia and Vietnam, most of the Group's revenue is generated in Laos.

(6) Information about major customers

The Group's revenues are generated from dealers and transactions with individuals and there are no major customers who contribute to generate more than 10% of total revenues.

6. RESTRICTED FINANCIAL ASSETS:

Restricted financial assets as of June 30, 2018 are as follows (Unit: USD):

	Description	June 30, 2018
Short-term financial instruments	Pledged for borrowings	4,262,213
Investments in associates	Pledged for borrowings	28,498,147
Trade receivables	Pledged for borrowings	26,745,119
		<u>59,505,479</u>

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS:

Details of financial assets at fair value through profit as of June 30, 2018 and December 31, 2017, are as follows (Unit: USD):

Description	June 30, 2018	December 31, 2017
Financial asset at FVTPL:		
Investment in convertible bonds (*1)	2,534,004	2,534,004

(*1) The contract for the composite financial instruments containing one or more embedded derivatives has been designated by the Group as financial assets at FVTPL for the entire composite contract.

8. TRADE RECEIVABLES:

The payback period of trade receivables is determined based on each customer's credit rating. The Group strictly controls the balance not collected and reviews regularly the balance of trade receivables that are past due. Also, the Group holds deposits in respect of some customers.

(1) Details of trade receivables as of June 30, 2018 and December 31, 2017, are as follows (Unit: USD):

Description	June 30, 2018	December 31, 2017
Trade receivables in current assets	90,371,657	110,093,314
Less: Allowances for doubtful accounts	(750,190)	(349,005)
Subtotal	89,621,467	109,744,309
Trade receivables in non-current assets	93,005,305	119,506,615
Less: Allowances for doubtful accounts	-	-
Subtotal	93,005,305	119,506,615
	<u>182,626,772</u>	<u>229,250,924</u>

The trade receivables, excluding interest-bearing receivables, obtained from installment sales are classified as current assets because they reach maturity within one year from the end of the reporting period. The fair value approximates the book value because the effect of discount is not material. The interest-bearing receivables obtained from the installment sales, which reach maturity after one year, are classified as non-current assets and discount on present value according to effective interest method for long-term installment receivables is recorded. The Group used an interest rate of installment receivables that has a similar credit condition, because there is no local enterprise that has a same credit condition.

If the trade receivables become overdue, the Group renegotiates the payment terms, such as an extension of due by each overdue receivable, and reassess the overdue trade receivables according to the new payment terms.

By the individual analysis, the Group recognizes impairment loss on overdue receivables that are not collected, if the initial or new payment terms cannot be met.

Trade receivables of \$26,745,119 of the Group are pledged as collateral for borrowings (Note 38).

- (2) Changes in allowance for doubtful accounts for the periods ended June 30, 2018 and 2017, are as follows (Unit: USD):

Description	June 30, 2018	June 30, 2017
Beginning balance	349,005	764,958
Bad debt expenses	401,185	142,028
Ending balance	750,190	906,986

9. OTHER RECEIVABLES:

- (1) Details of other receivables as of June 30, 2018 and December 31, 2017, are as follows (Unit: USD):

Description	June 30, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Loans	16,823,534	7,550,000	7,511,884	1,347,000
Other accounts receivables	2,806,069	403,832	3,077,317	586,108
Accrued income	519,041	-	179,568	-
Business leasehold deposit	-	402,530	-	401,286
Guarantee deposits	-	366,234	-	151,713
	20,148,644	8,722,596	10,768,769	2,486,107

- (2) The business leasehold deposit related to business and mold development of CKD provided for Chery Automobile Co., Ltd. are classified as non-current assets because they do not have fixed maturity dates and their expected maturity exceeds one year. In addition, the fair value of business guarantee deposits and guarantee deposits approximates the book value because the effect of discount is not material.

10. OTHER CURRENT ASSETS:

Details of other current assets as of June 30, 2018 and December 31, 2017, are as follows (Unit: USD):

Description	June 31, 2018	December 31, 2017
Advance payments	4,892,312	3,225,708
Prepaid expenses	8,603,140	5,948,708
Value-added tax prepayment	2,755,891	459,126
	16,251,343	9,633,542

11. INVENTORIES:

Details of inventories as of June 30, 2018 and December 31, 2017, are as follows (Unit: USD):

Description	June 30, 2018			December 31, 2017		
	Acquisition cost	Accumulated loss on valuation	Book value	Acquisition cost	Accumulated loss on valuation	Book value
Raw materials	73,294,489	-	73,294,489	62,596,481	-	62,596,481
Merchandise	72,252,064	(1,637,924)	70,614,140	62,893,694	(901,957)	61,991,737
Work in process	17,187,457	-	17,187,457	8,736,601	-	8,736,601
Finished goods	15,119,143	(1,201,993)	13,917,150	7,864,853	(217,078)	7,647,775
Goods in transit	4,788,471	-	4,788,471	8,273,710	-	8,273,710
	182,641,624	(2,839,917)	179,801,707	150,365,339	(1,119,035)	149,246,304

Inventories of the Group are pledged as collateral for borrowings (Note 38).

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME:

Details of financial assets at FVOCI as of June 30, 2018 and details of AFS financial assets as of December 31, 2017, are as follows (Unit: USD):

Description	June 30, 2018	December 31, 2017
Unlisted equity securities		
Indochina Bank Co., Ltd. (*1,2)	11,351,967	11,351,967

(*1) LVMC Investment Limited acquired 11.99% of ownership of Indochina Bank Co., Ltd. which is another related party.

(*2) For equity instruments held for strategic investments other than short-term investments, the Group has applied the irrevocable option designated as financial assets measured at fair value through other comprehensive income at the date of initial application.

13. INVESTMENTS IN ASSOCIATES:

(1) Details of investments in associate as of June 30, 2018 and December 31, 2017, are as follows (Unit: USD):

Associates	Country	Year-end	June 30, 2018			December 31, 2017			Main business
			Percentage of ownership	Acquisition cost	Carrying value	Percentage of ownership	Acquisition cost	Carrying value	
KR Motors Co., Ltd.(*1)	Korea	December	24.70%	46,849,684	28,498,147	24.70%	46,849,684	31,991,056	Manufacture and sales of motorcycle
KB KOLAO LEASING Co., Ltd.									
	Laos	December	20.00%	2,000,000	1,745,039	20.00%	2,000,000	1,781,167	Installment financing, facility rental

(*1) Pledged as collateral for long-term borrowings (Note 38).

(2) Market value of the associate as of June 30, 2018 and December 31, 2017, is as follows (Unit: USD):

Associates	June 30, 2018	December 31, 2017
KR Motors Co., Ltd.	15,898,066	13,456,333

(3) As the fair value of KR Motors Co., Ltd. declines significantly below the acquisition cost, the Group calculated the recoverable amount based on the value in use with the help of external evaluation institutions. As of December 31, 2017, value in use is estimated by applying a 9.15% discount rate and a 1.0% terminal growth rate within 5 years, the period for the estimated future cash flows, based on management's business plan. The terminal growth rate does not exceed long-term average growth rate of its industry. Based on value in use, impairment loss of \$3,116,371 was recognized for the investment in associates of KR Motors Co., Ltd. as of December 31, 2017.

(4) Changes in investments in associate for the periods ended June 30, 2018 and 2017, are as follows (Unit: USD):

Name of the Company	Beginning balance	June 30, 2018			Changes due to associate's equity changes	Ending balance
		Acquisition	Share of profits			
KR Motors Co., Ltd.	31,991,056	-	(1,848,029)		(1,644,880)	28,498,147
KB KOLAO LEASING Co.,LTD.	1,781,167	-	(36,474)		346	1,745,039

Name of the Company	June 30, 2017				
	Beginning balance	Acquisition	Share of profits	Changes due to associate's equity changes	Ending balance
KR Motors Co., Ltd.	38,256,699	-	(2,058,517)	917,028	37,115,210
KB KOLAO LEASING Co.,LTD.	-	2,000,000	(74,831)	(10,719)	1,914,450

- (5) The summaries of financial information of associate as of June 30, 2018 and December 31, 2017, are as follows (Unit: USD):

Name of the company	June 30, 2018			
	Current assets	Non-current assets	Current liabilities	Non-current Liabilities
KR Motors Co., Ltd.	44,448,318	68,567,541	56,999,998	14,613,525
KB KOLAO LEASING Co., LTD.	51,253,464	1,042,721	4,473,708	39,097,280

Name of the company	Sales	Operating profit	Profit for the period	Total comprehensive income
KR Motors Co., Ltd.	11,060,766	(6,072,619)	(8,128,169)	(9,064,574)
KB KOLAO LEASING Co., LTD.	2,012,342	(192,485)	(182,356)	(313,710)

Name of the company	December 31, 2017			
	Current assets	Non-current assets	Current liabilities	Non-current Liabilities
KR Motors Co., Ltd.	40,384,196	71,216,959	41,756,739	19,536,359
KB KOLAO LEASING Co., LTD.	36,519,489	1,276,993	10,848,372	18,042,284

Name of the company	Sales	Operating profit	Profit for the period	Total comprehensive income
KR Motors Co., Ltd.	36,841,547	(23,239,080)	(28,027,682)	(21,846,630)
KB KOLAO LEASING Co., LTD.	858,718	(976,066)	(986,451)	(1,094,174)

- (*) Above financial information reflects the adjustments of differences in accounting policies and fair value from acquisition of shares, but before the elimination of the all intragroup transaction and goodwill.

- (6) The Group's investments in associates after reflecting the adjustment from net assets of associates as of June 30, 2018 and December 31, 2017, are as follows (Unit: USD):

Name of the Company	June 30, 2018				
	Group's share of net assets(*1)	Goodwill	Unrealized profit (loss)	Impairment loss	Book Value
KR Motors Co., Ltd.	6,917,120	24,833,595	(136,197)	(3,116,371)	28,498,147
KB KOLAO LEASING Co.,LTD.	1,745,039	-	-	-	1,745,039

Name of the Company	December 31, 2017				
	Group's share of net assets(*1)	Goodwill	Unrealized profit (loss)	Impairment loss	Book Value
KR Motors Co., Ltd.	9,244,143	25,999,481	(136,197)	(3,116,371)	31,991,056
KB KOLAO LEASING Co.,LTD.	1,781,167	-	-	-	1,781,167

(*1) The amounts are the adjusted net assets, which include consideration for stock warrants and others of non-controlling interests.

14. OTHER NON-CURRENT ASSETS:

The Group's other non-current assets as of June 30, 2018 and December 31, 2017 are as follows (Unit: USD):

Description	June 30, 2018	December 31, 2017
Prepaid expenses	15,430,069	14,117,757

15. PROPERTY, PLANT AND EQUIPMENT:

Changes in property, plant and equipment for the periods ended June 30, 2018 and 2017, are as follows (Unit: USD):

Description	June 30, 2018						Ending balance
	Beginning balance	Acquisition	Transfer (*1)	Disposal	Depreciation	Others(*2)	
Buildings	69,712,779	-	-	-	(2,271,682)	3,072,099	70,513,196
Vehicles	8,321,686	269,446	26,431	(62,985)	(1,484,577)	1,251,912	8,321,913
Tools and equipment	3,459,111	798,496	-	-	(608,449)	2,772,540	6,421,698
Office equipment	1,280,095	121,107	-	(2,387)	(241,434)	2,978	1,160,359
Other tangible assets	404,595	69,049	-	-	(52,703)	(2,685)	418,256
Construction in progress	839,741	673,601	-	-	-	-	1,513,342
	<u>84,018,007</u>	<u>1,931,699</u>	<u>26,431</u>	<u>(65,372)</u>	<u>(4,658,845)</u>	<u>7,096,844</u>	<u>88,348,764</u>

(*1) The amounts transferred from inventory to vehicles are \$26,431.

(*2) Others include the effect of foreign exchange differences, transfers from acquisitions due to business combination.

Description	June 30, 2017						Ending balance
	Beginning balance	Acquisition	Transfer (*1,2)	Disposal	Depreciation	Others(*3)	
Buildings	59,350,467	218,333	-	-	(1,875,517)	-	57,693,283
Vehicles	8,665,544	42,796	666,191	(17,369)	(1,393,801)	-	7,963,361
Tools and equipment	2,410,023	252,360	-	-	(392,035)	287,372	2,557,720
Office equipment	1,210,667	102,271	-	-	(277,038)	14,094	1,049,994
Other tangible assets	209,982	158,662	-	-	(34,417)	-	334,227
Construction in progress	594,388	795,754	(548,062)	-	-	-	842,080
	<u>72,441,071</u>	<u>1,570,176</u>	<u>118,129</u>	<u>(17,369)</u>	<u>(3,972,808)</u>	<u>301,466</u>	<u>70,440,665</u>

(*1) The amounts transferred from inventory to vehicles are \$666,191.

(*2) The amounts transferred from Construction in progress to Software are \$548,062.

(*3) Others include the effect of foreign exchange differences, transfers from acquisitions due to business combination.

16. **INVESTMENT PROPERTY:**

(1) Changes in investment property for the periods ended June 30, 2018 and 2017, are as follows (Unit: USD):

Description	Beginning balance	June 30, 2018			Ending balance
		Acquisition	Transfer	Depreciation	
Buildings	2,071,047	-	-	(69,391)	2,001,656

Description	Beginning balance	June 30, 2017			Ending balance
		Acquisition	Transfer (*1)	Depreciation	
Buildings	2,209,828	-	-	(69,391)	2,140,437

(2) Details of income and expenditure for the periods ended June 30, 2018 and 2017, are as follows (Unit: USD):

Description	June 30, 2018	June 30, 2017
Rental income	51,600	27,600

(3) The fair value of investment property cannot be determined reliably on the grounds that comparable market transactions are infrequent and alternative reliable estimates of fair value are not available.

(4) The investment property is directly held by the Group.

17. **INTANGIBLE ASSETS:**

Changes in intangible assets for the periods ended June 30, 2018 and 2017 are as follows (Unit: USD):

Assets	Beginning balance	June 30, 2018					Ending balance
		Acquisition	Amortization(*1)	Impairment(*2)	Transfer	Others(*3)	
Software	519,145	7,172	(68,070)	-	-	-	458,247
Development cost	7,153,839	908,852	(554,650)	(767,507)	-	-	6,740,534
Goodwill	-	-	-	-	-	5,028,792	5,028,792
Other intangible assets	-	-	(28,727)	-	-	1,162,072	1,133,345
	<u>7,672,984</u>	<u>916,024</u>	<u>(651,447)</u>	<u>(767,507)</u>	<u>-</u>	<u>6,190,864</u>	<u>13,360,918</u>

(*1) The amounts allocated to cost of sales are \$554,650.

(*2) The Group has recognized an impairment loss of \$767,507 to identify indication of impairment.

(*3) Others include the effect of foreign exchange differences, transfers from acquisitions due to business combination.

Assets	Beginning balance	June 30, 2017					Ending balance
		Acquisition	Amortization(*1)	Impairment(*2)	Transfer(*3)	Others	
Software	233,508	-	(50,342)	-	548,062	-	731,228
Development cost	<u>8,157,542</u>	<u>793,858</u>	<u>(548,861)</u>	<u>(776,254)</u>	<u>36,806</u>	<u>-</u>	<u>7,663,091</u>
	<u>8,391,050</u>	<u>793,858</u>	<u>(599,203)</u>	<u>(776,254)</u>	<u>584,868</u>	<u>-</u>	<u>8,394,319</u>

(*1) The amounts allocated to cost of sales are \$548,861.

(*2) The Group has recognized an impairment loss of \$776,254 to identify indication of impairment.

(*3) The amounts transferred from construction in progress to software are \$548,062.

18. OPERATING LEASE ARRANGEMENTS:

(1) The Group as lessee

The Group has entered into operating leases for lands, etc. Details of the major lease contracts that the Group have executed as of June 30, 2018 are as follows (Unit: USD):

Location	Leased assets	Issue month	Expiry month	Gross lease payments
Khammouane	Showroom land	Jun-09	Jun-19	29,403
Vientiane	Showroom land	Jun-09	Jun-19	68,600
Vientiane	Showroom land	Jun-09	Jun-19	170,000
Vientiane	Showroom land	Oct-09	Sep-24	250,000
Champasak	Showroom land	Oct-10	Sep-25	182,400
Vientiane	Land	Dec-12	Nov-22	250,000
Khammouan	Showroom land	Mar-13	Mar-23	16,903
Vientiane	Showroom land	Aug-13	Aug-18	90,000
Vientiane	Showroom land	Aug-13	Aug-18	1,150
Vientiane	Showroom land	Aug-13	Aug-18	767
Vientiane	Showroom land	Aug-13	Aug-18	60,000
Vientiane	Showroom land	Aug-13	Aug-18	1,916
Vientiane	Showroom land	Aug-13	Aug-18	150,000
Savannakhet	Showroom land	Dec-13	Dec-18	1,200,000
Savannakhet	Factory land	Jun-14	Jun-19	1,000,000
Vientiane	Showroom	Sep-14	Sep-19	240,000
Vientiane	Office land	Oct-14	Apr-22	30,000
Vientiane	AS Center land	Jan-15	Dec-22	308,864
Vientiane	Showroom land	Jan-15	Dec-24	372,000
Vientiane	Showroom land	Jan-15	Dec-24	248,000
Luangnamtha	Showroom	Feb-15	Jan-31	960,000
Vientiane	Showroom land	Sep-15	Sep-18	27,000
Vientiane	Showroom land	Dec-15	Nov-20	132,000
Vientiane	Office	Dec-15	Nov-20	3,713,256
Vientiane	Showroom land	Mar-16	Dec-20	2,819,040
Vientiane	Showroom land	Apr-16	Dec-20	1,310,400
Vientiane	Office	Apr-16	Dec-20	928,800
Champasak	AS Center land	May-16	Dec-25	2,000,000
Vientiane	Showroom	Jun-16	Dec-25	90,000
Vientiane	Showroom	Jun-16	Dec-25	45,000
Vientiane	Showroom	Jun-16	Dec-25	15,000
Vientiane	Buildings	Dec-16	Jan-19	181,229
Vientiane	Buildings	Dec-16	Jan-19	6,000
Khammouan	KOLAO CARE land	Jan-17	Jan-37	270,000
Vientiane	Dormitory	Mar-17	Mar-22	72,000
Vientiane	Training Center	Mar-17	Mar-22	126,000
Vientiane	Showroom land	Apr-17	Apr-22	157,500
Vientiane	Showroom land	Jun-17	Jun-22	295,000
Vientiane	Office	Jul-17	Jul-20	218,837
Vientiane	Parking lot	Jul-17	Jul-22	650,000
Paskse	Showroom	Aug-17	Aug-32	330,000
Xiengkuang	KOLAO CARE land	Aug-17	Aug-32	750,000
Vientiane	KOLAO CARE land	Aug-17	Aug-32	450,000
Vientiane	KOLAO CARE land	Aug-17	Aug-32	765,000
Oudomxay	KOLAO CARE land	Aug-17	Aug-32	690,000

Location	Leased assets	Issue month	Expiry month	Gross lease payments
Luangnamtha	KOLAO CARE land	Aug-17	Aug-32	1,125,000
Luangnamtha	KOLAO CARE land	Aug-17	Aug-32	270,000
Champasak	KOLAO CARE land	Aug-17	Aug-32	1,110,000
Bolikhamxay	KOLAO CARE land	Aug-17	Aug-32	810,000
Xayyabuly	KOLAO CARE land	Aug-17	Aug-32	409,500
Vientiane	Land	Jan-18	Jul-22	450,000
Vientiane	Office	Jan-18	Jan-19	11,286
Savannakhet	KOLAO CARE land	Jan-18	Jan-23	1,865,000
Vientiane	AS Center land	Feb-18	Feb-19	1,494,700
Vientiane	Office	Apr-18	Apr-19	14,683
				<u>29,232,234</u>

When the operating lease contract is terminated, it can be renewed with both parties' consent. Both parties can also change the amount of lease payments considering financial condition at the time of renewing the lease contract. However, the Group does not have an option to purchase the leased land at the expiry of the lease periods.

According to the operating lease contract, the Group recognized as lease expenses amounting to \$2,544,829 and \$1,619,545 for the years ended June 30, 2018 and 2017, respectively.

The prepaid amounts for minimum lease payment are \$19,238,417 as of June 30, 2018.

Minimum lease payments that the Group will make subsequently as of June 30, 2018, are as follows (Unit: USD):

Description	Minimum lease payments
July 1, 2018 - June 30, 2019	5,264,389
July 1, 2019 - June 30, 2023	8,594,144
July 1, 2023 and thereafter	5,379,884
	<u>19,238,417</u>

(2) The Group as lessor

The Group provides the investment property to a lessee under operating lease, and the leases terms are five years and seven years. The lessee has the option to continue to lease the asset for thirty years and does not have the purchase option at the expiration of the lease term.

Minimum lease payments that the Group will make subsequently as of June 30, 2018, are as follows (Unit: USD):

Description	Minimum lease payments
July 1, 2018 - June 30, 2019	58,600
July 1, 2019 and thereafter	162,000
	<u>220,600</u>

19. **BORROWINGS:**

(1) Details of borrowings as of June 30, 2018 and December 31, 2017, are as follows (Unit: USD):

Description	June 30, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Short-term borrowings	103,794,028	-	89,517,080	-
Long-term borrowings	-	35,454,248	-	26,424,685
Debentures	23,463,546	25,250,164	19,445,760	25,162,343
	<u>127,257,574</u>	<u>60,704,412</u>	<u>108,962,840</u>	<u>51,587,028</u>

(2) Details of short-term borrowings as of June 30, 2018 and December 31, 2017, are as follows (Unit: USD):

Description	Creditor	Interest rate	June 30, 2018	December 31, 2017
L/C TR	Indochina Bank Co., Ltd.(*1)	9.00%	4,726,137	10,787,778
L/C TR	VIETIN Bank Lao Limited (*1,4)	7.10%, 8.5%	33,618,720	33,917,994
L/C TR	Military Commercial Joint Stock Bank (*3,4)	6.60%~7.42%	11,868,438	14,019,974
L/C TR	First Bank(*1)	6.75%	9,998,247	3,778,506
L/C TR	Cathay United Bank	-	-	5,630,893
General loans	First Bank(*1,4)	6.50%	4,275,525	4,340,215
General loans	Cathay United Bank(*2,4)	5.91%	5,865,187	7,041,720
General loans	Joint Development Bank (*3,4)	8.00%	16,235,140	10,000,000
General loans	Vietin Bank(*5)	5.80% ~ 9.60%	2,986,117	-
General loans	Insight Global Investment Pte. Ltd.	2.00%	200,000	-
General loans	AHRISU Holdings Pte. Ltd.	2.00%	6,443,360	-
General loans	Chailease International Leasing Co., Ltd.	8.80% ~ 9.00%	70,999	-
Loans on trade receivables collateral	Meritz Securities(*6, 7)	6.00%	7,506,158	-
			<u>103,794,028</u>	<u>89,517,080</u>

(*1) Payment guarantees and collateral of land and others are provided by the major shareholder (Note 37).

(*2) Payment guarantees are provided by the major shareholder and the Group provided collateral for the Group's PP&E (Notes 15, 37, 38).

(*3) The Group provided collateral for the Group's inventories (Note 11).

(*4) Include Foreign currency borrowings borrowed at LAK 208,079,132,858 are included.

(*5) The Group provided collateral for the Group's PP&E and intangible assets (Note 38).

(*6) Payment guarantees and collateral of securities are provided by major shareholder. And, the group provided collateral for the Group's investment in associates (Notes 37 and 38).

(*7) Trade receivables of Auto World (KOLAO Developing) Co., Ltd., a subsidiary of the Group, are pledged as collateral (Notes 8 and 38).

(3) Details of long-term borrowings as of June 30, 2018 and December 31, 2017 are as follows (Unit: USD):

Description	Creditor	Interest rate	June 30, 2018	December 31, 2017
General loans	KEB HANA Bank (*1)	3 month LIBOR Rate+1.62%	9,000,000	9,000,000
General loans	Meritzs Securities(*2, 3)	6.00%	-	17,424,685
General loans	Vietin Bank(*4)	9.60%	1,345,711	-
General loans	Chailase International Leasing Co., Ltd.	8.80% ~ 9.00%	108,537	-
General loans	Industrial and Commercial Bank of China(*5)	6.02%	25,000,000	-
			<u>35,454,248</u>	<u>26,424,685</u>

(*1) Payment guarantees and collateral of securities are provided by major shareholder. And, the Group provided collateral for the Group's short-term financial instruments and investment in associates (Notes 37, 38).

(*2) Payment guarantees and collateral of securities are provided by major shareholder. And, the group provided collateral for the Group's investment in associates (Notes 37, 38).

(*3) Trade receivables of Auto World (KOLAO Developing) Co., Ltd., a subsidiary of the Group, are pledged as collateral (Notes 8 and 38).

(*4) The Group provided collateral for the Group's PP&E and intangible assets (Note 38).

(*5) Payment guarantees are provided by major shareholder. And, financial arrangement has been entered into concluded with respect to the lien on the Group's accounts receivable (Note 36).

(4) Details of debentures as of June 30, 2018 and December 31, 2017 are as follows (Unit: USD):

Description	June 30, 2018				December 31, 2017	
	Interest rate	Maturity	Current	Non-current	Current	Non-current
15 th Private placed bond (*1)	-	Jun-18	-	-	8,400,224	-
17 th Private placed bond (*1)	-	Feb-18	-	-	6,533,508	-
18 th Private placed bond (*1)	-	Mar-18	-	-	1,866,716	-
19 th Private placed bond (*1)	-	Jun-18	-	-	2,800,075	-
20 th Private placed bond (*1)	5.80%	Aug-18	7,132,032	-	-	-
21 st Private placed bond (*1)	5.80%	Sep-18	1,783,008	-	-	-
22 nd Private placed bond (*1)	5.80%	Nov-18	4,457,520	-	-	-
23 rd Private placed bond (*1)	5.95%	Jun-19	8,023,536	-	-	-
23 th Private placed bond (*1)	5.80%	Dec-18	2,228,760	-	-	-
Private placed bond	5.50%	Aug-20	-	25,700,000	-	25,700,000
Less discount on debentures			(161,309)	(449,836)	(154,763)	(537,657)
			<u>23,463,546</u>	<u>25,250,164</u>	<u>19,445,760</u>	<u>25,162,343</u>

(*1) Payment guarantees are provided by the major shareholder (Note 37).

20. DERIVATIVE LIABILITIES:

Details of current derivative liabilities as of June 30, 2018 and December 31, 2017, are as follows (Unit: USD):

Description	June 30, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Financial liabilities at FVTPL				
Currency Swap (*1,2)	-	307,410	-	746,299

(*1) Payment guarantees and collateral of securities are provided by the major shareholder. (Note 37)

(*2) Some of short-term financial instruments and investments in associates are pledged as collateral (Note 38).

21. PROVISIONS:

(1) Details of the Group's provisions as of June 30, 2018 and December 31, 2017 are as follows (Unit: USD):

Description	June 30, 2018			December 31, 2017		
	Current	Non-Current	Total	Current	Non-Current	Total
Provisions for product warranties	301,899	652,408	954,307	1,147,299	991,008	2,138,307
Provisions for return products	61,030	-	61,030	35,024	-	35,024
	<u>362,929</u>	<u>652,408</u>	<u>1,015,337</u>	<u>1,182,323</u>	<u>991,008</u>	<u>2,173,331</u>

As the Group provides free repair service for a certain period to customers who purchased its products, estimated costs of future repair service are accounted for as provisions for product warranties. In addition, the Group records the gross profit from estimated return on product sales as a provision for return products.

(2) Changes in provisions for product warranties for the periods ended June 30, 2018 and 2017, are as follows (Unit: USD):

Description	June 30, 2018	June 30, 2017
Beginning balance	2,138,307	2,072,679
Increase in provisions (*1)	(242,656)	2,887,247
Use of provisions	<u>(941,344)</u>	<u>(1,267,884)</u>
Ending balance	<u>954,307</u>	<u>3,692,042</u>

(*1) Some of expenditures required to settle a provision are expected to be reimbursed by a third party, and it is virtually certain that reimbursement will be received if the entity settles the obligation. The amount to be reimbursed is accounted for as other receivable in the condensed consolidated interim statement of financial position and, after being offset with the amount accounted for as receivable, recognized as selling, general and administrative expenses in the condensed consolidated interim statement of comprehensive income (see Note 9).

(3) Changes in provisions for return products for the periods ended June 30, 2018 and 2017, are as follows (Unit: USD):

Description	June 30, 2018	June 30, 2017
Beginning balance	35,024	107,684
Increase (reversal) in provisions	26,006	(54,005)
Use of provisions	<u>-</u>	<u>-</u>
Ending balance	<u>61,030</u>	<u>53,679</u>

22. OTHER FINANCIAL LIABILITIES:

Details of other financial liabilities as of June 30, 2018 and December 31, 2017 are as follows (Unit: USD):

Description	June 30, 2018	December 31, 2017
Other account payables	3,609,442	9,087,101
Accrued expenses	5,781,887	5,653,205
Security deposit	886,645	142,993
	<u>10,277,974</u>	<u>14,883,299</u>

23. OTHER CURRENT LIABILITIES:

Details of other current liabilities as of June 30, 2018 and December 31, 2017 are as follows (Unit: USD):

Description	June 30, 2018	December 31, 2017
Withholdings	587,757	414,350
Advances received	3,172,154	1,025,982
Rental income received in advance	159,561	101,491
Value-added taxes withheld	-	61,076
Consumption taxes withheld	17,618	22,171
	<u>3,937,090</u>	<u>1,625,070</u>

24. CAPITAL AND OTHER ISSUED CAPITAL:

(1) Details of the Company's share capital as of June 30, 2018 and December 31, 2017 are as follows:

Description	June 30, 2018	December 31, 2017
Number of shares authorized (*1)	160,000,000 shares	160,000,000 shares
Par value	\$ 0.25	\$ 0.25
Number of shares issued	47,869,508 shares	47,869,508 shares
Share capital	\$ 11,967,377	\$ 11,967,377

(*1) Preferred stocks of 40,000,000 shares are included in the number of shares authorized as of June 30, 2018 and December 31, 2017, and the par value of the preferred shares is the same as the common shares.

(2) Details associated with the Group's other issued capital as of June 30, 2018 and December 31, 2017, are as follows (Unit: USD):

Description	June 30, 2018	December 31, 2017
Paid-in capital in excess of par value	144,934,903	144,934,903
Stock options	-	1,164,995
Treasury	(9,614,151)	(9,614,151)
Gains on sale of treasury	748	748
Other	1,164,995	-
	<u>136,486,495</u>	<u>136,486,495</u>

- (3) Changes in the Group's other issued capital for the periods ended June 30, 2018 and 2017 are as follows (Unit: USD):

Description	June 30, 2018	June 30, 2017
Beginning balance	136,486,495	137,058,864
Stock option	(1,164,995)	(572,369)
Other(*1)	<u>1,164,995</u>	<u>-</u>
Ending balance	<u>136,486,495</u>	<u>136,486,495</u>

*1) Changes due to expiration of stock options.

25. SHARE-BASED PAYMENT:

As of June 30, 2017, the Group granted stock options with the grant date May 27, 2013, and the vesting conditions for the stock options are for them to remain in employment for three years from the grant date to some employees.

The fair value was calculated based on the option-pricing model applying the following parameters.

	Description
Grant date	May 27, 2013
Stock price at grant date	KRW 31,850
Exercise price	KRW 30,782
Expected volatility	0.344948297
Option maturity	May 26, 2018
Risk-free rate applied	2.70%
The numbers of granted stock options	116,000
The numbers of expired stock options	(116,000)

26. RETAINED EARNINGS AND DIVIDENDS:

- (1) Changes in retained earnings for the periods ended June 30, 2018 and 2017 are as follows (Unit: USD):

Description	June 30, 2018	June 30, 2017
Beginning balance	222,649,637	214,568,121
Payment of dividends	(5,319,075)	(5,082,693)
Profit of owners of the parent for the year	<u>(9,613,556)</u>	<u>13,980,151</u>
Ending balance	<u>207,717,006</u>	<u>223,465,579</u>

- (2) Details of the paid dividends for the periods ended June 30, 2018 and 2017, are as follows:

	Cash dividend	
	June 30, 2018	June 30, 2017
Number of issued shares	47,869,508 shares	47,869,508 shares
Number of shares entitled to dividends	47,273,278 shares	47,273,278 shares
Dividends per share	KRW 120	KRW 120
Amount of dividends	\$ 5,319,075	\$ 5,082,693

27. **OTHER EQUITY:**

Changes in other equity of the Group for the periods ended June 30, 2018 and 2017 are as follows (Unit: USD):

June 30, 2018				
	Changes in value of financial assets at FVOCI	Changes due to associate's equity changes	Exchange differences on translating foreign operations	Total
Beginning balance	1,388,805	(238,537)	(3,801)	1,146,467
Changes	-	(1,644,534)	(4,849)	(1,649,383)
Ending balance	<u>1,388,805</u>	<u>(1,883,071)</u>	<u>(8,650)</u>	<u>(502,916)</u>
June 30, 2017				
	Gains on valuation of AFS financial assets	Changes due to associate's equity changes	Exchange differences on translating foreign operations	Total
Beginning balance	2,133,526	(1,689,486)	-	444,040
Changes	-	906,311	(158)	906,153
Ending balance	<u>2,133,526</u>	<u>(783,175)</u>	<u>(158)</u>	<u>1,350,193</u>

28. **REVENUES:**

Revenues for the three months and six months ended June 30, 2018 and 2017 are as follows (Unit: USD):

		Sales by segment			
		2018		2017	
		Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Automobile	Merchandise	30,372,451	81,384,329	34,576,870	74,320,993
	Finished goods	27,158,096	39,638,640	28,421,465	57,442,456
	Export	-	-	3,118,337	3,948,260
Motorcycle		291,377	691,064	954,578	3,624,862
Wholesale		594,395	2,277,648	1,565,801	3,027,114
AS		1,824,554	3,529,695	1,188,758	3,580,085
Others		<u>371,988</u>	<u>1,515,275</u>	<u>312,162</u>	<u>1,422,186</u>
		<u>60,612,861</u>	<u>129,036,651</u>	<u>70,137,971</u>	<u>147,365,956</u>

29. EXPENSES CLASSIFICATION ACCORDING TO NATURE:

Details of expenses classified according to nature for the periods ended June 30, 2018 and 2017 are as follows (Unit: USD):

	June 30, 2018		
	Cost of sales	Selling, general and administrative expense	Total
Changes in inventories	74,899,797	-	74,899,797
Finished goods	(11,933,232)	-	(11,933,232)
Work in progress	(4,979,731)	-	(4,979,731)
Merchandise	91,812,760	-	91,812,760
Use of raw materials	24,079,712	-	24,079,712
Salaries	3,707,506	9,316,167	13,023,673
Depreciation	2,082,593	2,576,252	4,658,845
Amortization of intangible assets	583,377	68,070	651,447
Taxes and dues	5,328,247	473,028	5,801,275
Supplies	1,493,749	412,106	1,905,855
Others	14,380,455	18,760,130	33,140,585
	<u>126,555,436</u>	<u>31,605,753</u>	<u>158,161,189</u>

	June 30, 2017		
	Cost of sales	Selling, general and administrative expense	Total
Changes in inventories	65,952,057	-	65,952,057
Finished goods	1,250,037	-	1,250,037
Work in progress	(2,734,204)	-	(2,734,204)
Merchandise	67,436,224	-	67,436,224
Use of raw materials	32,821,462	-	32,821,462
Salaries	3,142,934	6,780,794	9,923,728
Depreciation	1,441,777	2,531,031	3,972,808
Amortization of intangible assets	548,861	50,343	599,204
Taxes and dues	1,614,360	726,836	2,341,196
Supplies	2,682,840	659,986	3,342,826
Others	10,100,779	16,317,176	26,417,955
	<u>118,305,070</u>	<u>27,066,166</u>	<u>145,371,236</u>

30. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:

Details of selling, general and administrative expenses for the three and six months ended June 30, 2018 and 2017 are as follows (Unit: USD):

	2018		2017	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Salaries	4,995,387	9,316,167	3,153,831	6,780,794
Entertainment	210,789	359,164	194,467	388,470
Advertisement	578,345	1,003,507	157,847	320,990
Sales promotion cost	928,973	1,844,591	837,270	1,806,628
Sales commission	(3,530,214)	17,270	1,751,248	1,873,646
Increase (reversal) in provisions for product warranties	21,955	(94,862)	2,218,786	1,936,208
Lease	1,946,053	3,790,518	1,098,633	2,516,929
Depreciation	1,154,063	2,576,252	1,253,073	2,531,031
Amortization of intangible assets	(152,061)	68,070	(262,015)	50,343
Taxes and dues	292,646	473,028	183,983	726,836
Supplies	130,178	412,106	283,798	659,986
Fees and charges	1,962,949	4,586,510	1,975,167	3,526,527
Other	3,750,854	7,253,432	2,081,594	3,947,778
	<u>12,289,917</u>	<u>31,605,753</u>	<u>14,927,682</u>	<u>27,066,166</u>

31. OTHER INCOME AND EXPENSES:

Details of other income and expenses for the three and six months ended June 30, 2018 and 2017 are as follows (Unit: USD):

	2018		2017	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Gain on foreign currency exchange transactions and translation	(2,551,348)	758,747	(369,986)	728,861
Rental income	10,800	51,600	13,800	27,600
Gain on disposal of property, plant and equipment	59,334	105,214	8,149	24,864
Interest income of installment sale	10,583,079	28,782,154	8,813,875	20,641,290
Miscellaneous income	(68,413)	971,132	124,579	1,825,092
Total	<u>8,033,452</u>	<u>30,668,847</u>	<u>8,590,417</u>	<u>23,247,707</u>
Loss on foreign currency exchange transactions and translation	1,630,227	1,829,966	(444,388)	473,915
Other bad debt expense	2,697,000	2,697,000	-	-
Depreciation in investment property	34,696	69,391	34,696	69,391
Impairment loss on Intangible assets	767,507	767,507	776,254	776,254
Loss on disposal of property, plant and equipment	1,650	1,650	-	-
Donation	87,154	1,480,926	97,007	217,143
Miscellaneous expenses	79,995	51,990	4,174	12,306
Total	<u>5,298,229</u>	<u>6,898,430</u>	<u>467,743</u>	<u>1,549,009</u>

32. **FINANCIAL INCOME AND EXPENSES:**

- (1) Details of financial income for the three and six months ended June 30, 2018 and 2017 are as follows (Unit: USD):

	2018		2017	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Interest income:	(351,421)	419,705	144,409	224,624
Gain on foreign currency exchange transactions and translation	2,285,225	2,358,529	66,039	464,428
Gain on derivative valuation	498,850	498,850	547,623	2,101,000
Gain from derivative transactions	-	-	-	8,354
Total	<u>2,432,654</u>	<u>3,277,084</u>	<u>758,071</u>	<u>2,798,406</u>

- (2) The Group's financial expenses for the three and six months ended June 30, 2018 and 2017 are as follows (Unit: USD):

	2018		2017	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Interest expenses	2,769,789	7,039,474	2,431,129	4,488,850
Loss on derivative valuations	-	59,961	-	-
Loss on transaction of derivative	17,332	17,332	-	-
Loss on foreign currency exchange transactions and translation	254,042	498,448	2,036,905	6,196,353
Total	<u>3,041,163</u>	<u>7,615,215</u>	<u>4,468,034</u>	<u>10,685,203</u>

33. **INCOME TAX EXPENSE:**

- (1) Details of current tax assets and liabilities as of June 30, 2018 and December 31, 2017 are as follows (Unit: USD):

Description	June 30, 2018	December 31, 2017
Income tax receivable	820,833	486,229
Income tax payable	65,437	265,071

The Company was established in Cayman Islands and 100% corporate tax-exempt entity. On the other hand, Auto World(Kolao Developing) Co., Ltd. is a subsidiary and recognized as a foreign-invested entity under the Laotian Law. As a result, the corporate tax rate is 24%. The amount of a subsidiary's taxable income is determined by taxation authorities at the end of tax years. When determining the amount of taxable income, differences between accounting income and taxable income of the current year do not carry over to deduct from or add to the future taxable income.

- (2) The comparison between income and income tax expense for the periods ended June 30, 2018 and 2017 are as follows (Unit: USD):

Description	June 30, 2018	June 30, 2017
Profit before income tax expense	(11,576,755)	13,673,273
Income tax expense	<u>41,625</u>	<u>250,351</u>
Effective tax rate	<u>(*1)</u>	<u>1.83%</u>

*1) As the Group incurred a net loss before income tax expense, the effective tax rate is not calculated.

34. EARNINGS PER SHARE:

(1) Earnings per share for the three and six months ended June 30, 2018 and 2017 are as follows (Unit: USD):

	June 30, 2018		June 30, 2017	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Profit attributable to owners of the Company	(10,912,258)	(9,613,556)	3,913,920	13,980,151
Weighted-average number of shares (shares)	47,273,278	47,273,278	47,311,355	47,311,355
Basic earnings per share	<u>(0.23)</u>	<u>(0.20)</u>	<u>0.08</u>	<u>0.30</u>

(2) Diluted earnings per share for the three and six months ended June 30, 2018 and 2017 are as follows (Unit: USD):

	June 30, 2018		June 30, 2017	
	Three months ended June 30	Six months ended June 30	Three months ended June 30	Six months ended June 30
Profit attributable to owners of the Company	(10,912,258)	(9,613,556)	3,913,920	13,980,151
Profit used for calculation of the diluted earnings per share for the period	(10,912,258)	(9,613,556)	3,913,920	13,980,151
Weighted-average number of shares for calculation of the diluted earnings per share for the period (shares)	47,273,278	47,273,278	47,311,355	47,311,355
Diluted earnings per share	<u>(0.23)</u>	<u>(0.20)</u>	<u>0.08</u>	<u>0.30</u>

Although the Group had stock options for the period ended June 30, 2018, the diluted earnings per share are the same as the basic earnings per share due to their antidilutive effect.

Diluted earnings per share are calculated by applying the weighted-average number of common shares outstanding, which is adjusted assuming that all dilutive potential ordinary shares were converted into ordinary shares.

35. CASH FLOWS:

(1) Major non-cash transactions that were not included in the condensed consolidated interim statements of cash flows for the periods ended June 30, 2018 and 2017 are as follows (Unit: USD):

	June 30, 2018	June 30, 2017
Transfer to vehicles from inventories	26,431	666,191
Transfer to buildings from construction in progress	-	548,062
Transfer to current portion of prepaid expenses from non-current prepaid expenses	143,728	-
Transfer to current portion of advance payments from non-current advance payments	-	832,442
Transfer to other accounts payables from acquisition of property, plant and equipment	57,898	41,900
Transfer to acquisition of property, plant and equipment from other accounts payables	6,756,462	-
Transfer to other accounts receivables from disposal of property, plant and equipment	-	15,173
Transfer to investments in subsidiary from advance payments	-	1,000,000
Transfer to the short-term borrowings from long-term borrowings	17,642,629	-
Transfer to current portion of trade receivable from non-current trade receivable	58,581,184	40,223,540

(2) Net cash flow from acquisition of subsidiary accounted for investing cash flow is composed of as follows (Unit: USD):

Description	Amounts
Subsidiary acquisition cost	7,500,000
Cash and cash equivalents held by subsidiaries at acquisition	6,688,741
Net cash flow from acquisition of subsidiaries	(811,259)

(3) Changes in liabilities arising from financial activities for the year ended June 30, 2018 are as follows:

Description	Beginning of the year	Cash flows from Financing activities	Changes from non-cash transactions				End of the year
			Effect of exchange rate changes	Interest expenses	Transfer	Others	
Short-term borrowings	89,517,080	(17,817,409)	(833,375)	566,144	17,642,629	14,718,959	103,794,028
Long-term borrowings	26,424,685	25,000,000	77,806	137,256	(17,642,629)	1,457,130	35,454,248
Debentures(current)	19,445,760	4,581,370	(856,637)	293,053	-	-	23,463,546
Debentures(non-current)	25,162,343	-	-	87,821	-	-	25,250,164
	<u>160,549,868</u>	<u>11,763,961</u>	<u>(1,612,206)</u>	<u>1,084,274</u>	<u>-</u>	<u>16,176,089</u>	<u>187,961,986</u>

36. CONTINGENT LIABILITIES, PAYMENT GUARANTEES AND COMMITMENTS:

(1) Details of the Group's major contractual commitments for purchase as of June 30, 2018, are as follows:

Contract counterparty	Contract term	Commitments for minimum purchase	Other
Hyundai Motors	2017.01.01–2018.12.31	2017.01.01–2017.12.31 : 4,500 cars 2018.01.01–2018.12.31 : 4,800 cars	Decision on whether to renew before the expiry of the contract period
Kia Motors	2017.12.01–2020.11.30	2017.12.01–2018.11.30 : 2,400 cars 2018.12.01–2019.11.30 : 2,500 cars 2019.12.01–2020.11.30 : 2,600 cars	Decision on extending or renewing the contract by mutual consent four months before the expiration date

- (2) The details of the Group's major commitments with financial institutions as of June 30, 2018, are as follows (Unit: USD):

Financial institution	Agreement amounts	Used amounts	Description
Indochina Bank Co., Ltd.			Comprehensive limit
	11,000,000	4,726,137	USANCE L/C, TR
Vietin Bank Lao Limited	36,000,000	33,618,720	"
Military Commercial Joint Stock Bank	20,000,000	11,868,438	"
First Commercial Bank	10,000,000	9,998,247	"
First Commercial Bank	4,340,217	4,275,525	Working capital loans
Cathay United Bank Co., Ltd.	7,008,258	5,865,187	"
Joint Development Bank	17,245,173	16,235,140	"
Meritz Securities	7,506,158	7,506,158	"
KEB Hana Bank	9,000,000	9,000,000	"
Vietin Bank	4,331,828	4,331,828	"
Insight Global Investment Pte. Ltd.	200,000	200,000	"
AHRISU Holdings Pte. Ltd.	6,443,360	6,443,360	"
Chailease International Leasing Co., Ltd.	179,536	179,536	"
Industrial and Commercial Bank of China	25,000,000	25,000,000	"

In regards to long-term borrowings of \$25,000,000 for Industrial and Commercial Bank of China, The Group has entered into financing arrangements that the Group is required to provide collateral for the Group's trade receivables to the Industrial and Commercial Bank of China under certain conditions.

- (3) The Group has been charged with one litigation claim, which amount to KRW 1,000,000 thousand. The Group's management does not expect that the results from the litigation claim as no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

37. **RELATED-PARTY TRANSACTIONS:**

(1) The Group's related parties as of June 30, 2018 are as follows:

	<u>Related party</u>
Associate	KR Motors Co., Ltd.
Other related party	Kolao Farm Co., Ltd, Indochina Bank Co., Ltd IT&T Co., Ltd., KRM America.Inc., KR Global Networks Co., Ltd., etc.

(2) Details of transactions with related parties for the periods ended June 30, 2018 and 2017 are as follows
(Unit: USD):

<u>Related Party</u>	<u>Account</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
KR Motors Co., Ltd.	Cost of sales	1,896	1,453,004
	Financial income	299,990	49,967
Indochina Bank Co., Ltd.	Cost of sales	28,695	36,508
	Selling, general and administrative expenses	1,040	38,718
	Financial expenses	522,891	480,752
Intervia Automobile Industry Complex Special Economic Zone Co., Ltd.	Financial income	15,465	-
KR Motors (Cambodia) Co., Ltd.	Financial income	1,240	-
Daehan Auto (Cambodia) Co., Ltd.	Financial income	586	-
Kolao Resort Co., Ltd.	Selling, general and administrative expenses	-	175,702
GLOVIA Co., Ltd.	Cost of sales	-	4,110,452
	Selling, general and administrative expenses	-	58,272
Kolao I-Tech Construction Co., Ltd.	Acquisition of property, plant and equipment	-	357,497
	Selling, general and administrative expenses	-	155,220
I-Furniture Lao Co., Ltd.	Acquisition of property, plant and equipment	-	6,197
	Selling, general and administrative expenses	-	90,251
KLD Computer Co., Ltd. (K-plaza)	Acquisition of property, plant and equipment	-	17,051
	Selling, general and administrative expenses	-	71,517

(3) The outstanding balances with related parties as of June 30, 2018 and December 31, 2017 are as follows
(Unit: USD):

<u>Related party</u>	<u>Account</u>	<u>June 30, 2018</u>	<u>December 31, 2017</u>
KR Motors Co., Ltd.	Other financial liabilities	3,921	3,921
	Trade payables	619,700	2,624,698
	Other receivables	353,127	54,368
Indochina Bank Co., Ltd.	Cash and cash equivalents	3,157,141	6,533,034
	Other receivables	34,400	28,000
Intervia Automobile Industry Complex Special Economic Zone Co., Ltd.		13,146	
	Other receivables		329
KR Motors (Cambodia) Co., Ltd.	Other receivables	1,054	518
Daehan Auto (Cambodia) Co., Ltd.	Other receivables	498	5,801

(4) Financial transactions with related parties for the period ended June 30, 2018 are as follows (Unit: USD):

Name	Account	Beginning balance	Increase	Decrease	Others	Ending balance
KR Motors Co., Ltd.	Financial assets					
	at FVTPL	2,534,004	-	-	-	2,534,004
	Short-term loans	5,300,000	9,950,000	-	-	15,250,000
	Long-term loans	-	7,550,000	-	-	7,550,000
Indochina Bank Co., Ltd.	Financial assets					
	at FVOCI	11,351,967	-	-	-	11,351,967
	Short-term borrowings	10,787,778	4,750,484	(10,812,125)	-	4,726,137
Intervia Automobile Industry Complex Special Economic Zone Co., Ltd.	Short-term loans	60,750	1,200,000	-	-	1,260,750
KR Motors (Cambodia) Co., Ltd.	Short-term loans	100,000	-	-	-	100,000
Daehan Auto (Cambodia) Co., Ltd.	Short-term loans	-	50,000	-	-	50,000

(5) Details of payment guarantees provided by the major shareholder as of June 30, 2018 are as follows (see Notes 19 and 20) (Unit: USD):

Company	Description
Indochina Bank Co., Ltd.	L/C TR guarantee and collateral of land and others
Vietin Bank Lao Limited	L/C TR guarantee and collateral of land and others
Cathay United Bank	General loans guarantee
First Commercial Bank	L/C TR and general loans guarantee and collateral of land and others
Industrial and Commercial Bank of China	General loans guarantee
KEB Hana Bank	General loans guarantee and collateral of equity securities
Meritz Securities	Loans on trade receivables collateral guarantee and collateral of equity securities
KDB Bank & Securities	Private placed bond guarantee
KTB Investment & Securities	Private placed bond guarantee
eBEST Investment & Securities	Private placed bond guarantee

(6) As of June 30, 2018, the payment guarantees and collateral the Group provided for the related parties are as follows (thousand KRW):

Company	Description	Amount	Financial institution
KR Motors Co., Ltd.	Collateral of trade receivables	KRW 30,000,000	Meritz Securities
	Payment guarantees	KRW 12,000,000	

(7) Compensation of key management personnel

Compensation of directors and other members of key management personnel for the periods ended June 30, 2018 and 2017 are as follows (Unit: USD):

Description	June 30, 2018	June 30, 2017
Salaries	495,931	747,840
Share-based payment	-	(231,505)

38. COLLATERAL:

The Group's assets pledged as collateral to financial institutions for the Group's short-term and long-term borrowings as of June 30, 2018 are as follows (Unit: USD, thousand KRW):

Collateral	Book value	Maximum claim (Collateralized amount)	Financial institution	Borrowings
Short-term financial instruments	4,262,213	USD 4,688,434	KEB Hana Bank	9,000,000
Investments in associate	3,854,542	USD 6,000,000		
Investments in associate	24,643,605	KRW 30,000,000	Meritz Securities	7,506,158
Trade receivables	26,745,119			
Inventories	33,872,478	USD 33,872,478	Military Commercial Joint Stock Bank	11,868,438
			Joint Development Bank	16,235,140
Buildings	3,105,327	USD 3,105,327	Cathay United Bank	5,865,187
Buildings, Intangible assets, etc.	3,003,531	USD 7,025,720	Vietin Bank	4,331,828

39. FINANCIAL INSTRUMENTS:

(1) Categories of financial instruments as of June 30, 2018 and December 31, 2017 are as follows (Unit: USD):

(Financial assets)

Description	June 30, 2018			
	Financial assets at FVTPL	Financial assets measured at amortized cost	Financial assets at FVOCI	Total
Cash and cash equivalents	-	16,938,256	-	16,938,256
Short-term financial assets	-	4,954,109	-	4,954,109
Financial assets at FVTPL	2,534,004	-	-	2,534,004
Trade receivables (*1)	-	182,626,772	-	182,626,772
Other receivables (*1)	-	28,871,240	-	28,871,240
Financial assets at FVOCI	-	-	11,351,967	11,351,967
	<u>2,534,004</u>	<u>233,390,377</u>	<u>11,351,967</u>	<u>247,276,348</u>

Description	December 31, 2017			
	Financial assets at FVTPL	Loans and receivables	Financial assets AFS	Total
Cash and cash equivalents	-	22,022,774	-	22,022,774
Short-term financial assets	-	9,164,206	-	9,164,206
Financial assets at FVTPL	2,534,004	-	-	2,534,004
Trade receivables (*1)	-	229,250,924	-	229,250,924
Other receivables (*1)	-	13,254,876	-	13,254,876
AFS financial assets	-	-	11,351,967	11,351,967
	<u>2,534,004</u>	<u>273,692,780</u>	<u>11,351,967</u>	<u>287,578,751</u>

(*1) The receivables include all of the current and non-current assets.

(Financial liabilities)

June 30, 2018			
Description	Financial liabilities at FVTPL	Financial liabilities measured at amortized cost	Total
Trade payables	-	35,695,756	35,695,756
Borrowings (*1)	-	187,961,986	187,961,986
Derivatives liabilities (*1)	307,410	-	307,410
Other financial liabilities	-	10,277,974	10,277,974
	<u>307,410</u>	<u>233,935,716</u>	<u>234,243,126</u>

December 31, 2017			
Description	Financial liabilities at FVTPL	Other financial liabilities	Total
Trade payables	-	37,140,805	37,140,805
Borrowings (*1)	-	160,549,868	160,549,868
Derivatives liabilities (*1)	746,299	-	746,299
Other financial liabilities	-	14,883,299	14,883,299
	<u>746,299</u>	<u>212,573,972</u>	<u>213,320,271</u>

(2) The categorization of fair value measurements into the different levels of the fair value hierarchy depends on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement (Unit: USD):

June 30, 2018				
Description	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Investment in convertible bonds	-	2,534,004	-	2,534,004
Financial assets at FVOCI				
Unlisted equity securities	-	-	11,351,967	11,351,967
Financial liabilities at FVTPL				
Currency swap	-	307,410	-	307,410

December 31, 2017				
Description	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Investment in convertible bonds	-	2,534,004	-	2,534,004
AFS financial assets				
Unlisted equity securities	-	-	11,351,967	11,351,967
Financial liabilities at FVTPL				
Currency swap	-	746,299	-	746,299

No significant transfers between Level 1 and Level 2 have been made for the periods ended June 30, 2018, and December 31, 2017.

(3) The following table gives information about how the fair values of these financial instruments, classified as Levels 2 and 3, are determined (in particular, the valuation technique(s) and inputs used) (Unit: USD):

	June 30, 2018			
	Fair value	Valuation method	Unobservable input	Range
Financial assets at FVTPL				
Investment in convertible bonds	2,534,004	DCF, Option Pricing model	Stock Volatility	17.83%
Financial assets at FVOCI				
Non-marketable equity securities	11,351,967	DCF	Discount rate Growth rate	18.80% -
Financial liabilities at FVTPL				
Currency swap	307,410	DCF	N/A	N/A

40. FINANCIAL RISK MANAGEMENT:

(1) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. In order to maintain such optimization of the debt and equity balance, the Group may adjust dividend payments, issue of shares and reduction of capital. The Group applied the same capital risk management strategy that was applied in the prior year.

(2) Financial risk management

The Group is exposed to diverse financial risks, including market risk (foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk as a result of its operating activities. The purpose of risk management of the Group is to identify the potential risks to financial performance and minimize those risks to a degree acceptable to the Group. The board of directors approved the Group's financial risk management policy to be managed by the treasury department of the Group, which collaborates with other sales departments to identify, assess and evade those financial risks. The Group applied the same financial risk management strategy that was applied in the prior year.

1) Market risk

(a) Foreign exchange risk

Foreign exchange risk refers to the risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's foreign exchange risk occurs when forecasted transactions and recognized assets and liabilities are not presented in USD that is a functional currency.

Except sales of the Group's motorcycle segment that are presented in BAHT and KIP, most of sales and operating costs are presented in USD. The Group's management believes that foreign exchange risk relating to motorcycle sales in USD is limited because the management maintains flexible prices for motorcycles in BAHT and KIP, considering exchange rate changes.

The Group does not have any hedging instrument to avoid foreign exchange risk, and in order to avoid transaction risk, it uses a method that allows amount received from and paid to each of foreign currencies to be the same. The Group's foreign assets and liabilities as of June 30, 2018 and December 31, 2017 are as follows (Unit: USD):

Currency	Foreign assets		Foreign liabilities	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
BAHT	80,437	504,860	-	-
KIP	3,000,259	8,011,148	24,712,427	20,150,327
KRW	876,401	10,408,641	31,705,195	19,445,760
SGD	-	9	-	267,723
MMK	1,569,077	1,228,211	145,028	172,078
VND	4,010,424	-	4,681,637	-
PKR	211,789	-	-	-
CNY	27,597	-	18,921	-

The group has entered into a currency swap contract in order to avoid the foreign exchange risk of foreign currency cash flow of long-term borrowings within the scope of the risk amount.

Details of currency swap contract that are not settled as of June 30, 2018, are as follows (Unit: USD, thousand KRW):

Name	Begin	End	Acquisition			Disposal		
			Currency	Amount	Interest rate	Currency	Amount	Interest rate
Hana Bank	Aug-17	Aug-20	USD	9,000,000	3 months Libor+1.62%	KRW	10,256,400	5.48%

(b) Price risk

As of June 30, 2018 and December 31, 2017, the Group has no marketable financial assets at FVOCI.

(c) Interest rate risk

Interest rate risk refers to the risk that interest income and interest expense arising from deposits or borrowings will fluctuate as a result of changes in market interest rates in the future. This mainly arises from deposits and borrowings under variable interest rate terms. The Group's objective for interest rate risk management is to maximize the value of the company by seeking to minimize uncertainty and net interest expense due to interest rate fluctuations.

The Group's sensitivity to a 1% change in interest rates on yearly interest expense as of June 30, 2018 would be as follows (Unit: USD):

	Increase by 1%	Decrease by 1%
Borrowings	(308,652)	308,652

2) Credit risk

Credit risk refers to the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group has adopted a policy of only dealing with reputable counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Customers' credit is evaluated upon their financial status, sales history and other factors. Based on this information, the Group limits the aggregate amount and receives security or certain amount of deposit from customers. The Group regularly monitors customers' credit ratings, checks on the counterparties' credit limit and readjusts deposit or aggregate amount of transactions. The Group concluded that credit risk exposure to any single counterparty is not material.

As of June 30, 2018, the Group's maximum exposure to credit risk is as follows (Unit: thousand KRW):

	June 30, 2018
Financial guarantee contract(*1) KRW	12,000,000

3) Liquidity risk

Liquidity risk refers to risk caused by being unable to raise enough funds to fulfill all the terms of financial contracts by its maturity date. The Group creates short-term and long-term fund management plans and analyzes and reviews actual cash outflow and its budget to correspond the maturity of financial liabilities and assets in order to manage liquidity. Management of the Group believes that financial liability may be redeemed by cash inflow arising from operating activities and financial assets. The Group's major commitments in order to further reduce the liquidity risk are detailed in Note 36 (2). These amounts are the contractual undiscounted cash flows and are classified based on the earliest contractual maturity date.

The Group's financial liabilities by residual contractual maturity as of June 30, 2018 and December 31, 2017 are classified as follows (Unit: USD):

	June 30, 2018			
Description	Less than one year	1 year–2 years	More than two years	Total
Trade payable	35,695,756	-	-	35,695,756
Short-term borrowings	106,887,859	-	-	106,887,859
Long-term borrowings	3,318,024	28,563,832	36,039,174	67,921,030
Private placed bond	24,554,658	-	-	24,554,658
Other financial liabilities	10,277,974	-	-	10,277,974
	<u>180,734,271</u>	<u>28,563,832</u>	<u>36,039,174</u>	<u>245,337,277</u>

	December 31, 2017			
Description	Less than one year	1 year–2 years	More than two years	Total
Trade payable	37,140,805	-	-	37,140,805
Short-term borrowings	91,788,890	-	-	91,788,890
Long-term borrowings	2,748,481	2,751,088	54,394,694	59,894,263
Private placed bond	19,993,340	-	-	19,993,340
Other financial liabilities	14,883,299	-	-	14,883,299
	<u>166,554,815</u>	<u>2,751,088</u>	<u>54,394,694</u>	<u>223,700,597</u>

The Group's derivative financial instruments by residual contractual maturity as of June 30, 2018, are classified as follows (Unit: USD):

	June 30, 2018			
	Less than one year	1 year ~2 years	More than two years	Total
Currency Swap				
Increase	493,199	495,902	9,122,962	10,112,063
Decrease	501,070	503,816	9,268,546	10,273,432

41. BUSINESS COMBINATION:

To advance into the Vietnamese automotive market, the Company acquired 60% of the equity shares of Daehan Motors Co., Ltd. on March 31, 2018.

Considerations for acquisition and the fair value of the assets acquired at the acquisition date are as follows (in USD):

<u>Description</u>	<u>Amounts</u>
Considerations transferred	7,500,000
Non-controlling interests	1,640,826
Assets and liabilities acquired :	
Current assets	27,482,424
Non-current assets	8,329,784
Current liabilities	28,501,481
Non-current liabilities	<u>3,208,662</u>
Fair value of identifiable net assets	<u>4,102,065</u>
Goodwill	<u><u>5,038,761</u></u>

The Group recognized sales of \$7,974,580 and incurred net loss of \$1,044,301 arising from the acquisition for the period ended June 30, 2018.