# FORMOSA GROUP (CAYMAN) LIMITED

## FINANCIAL STATEMENTS

## December 31, 2017 and 2016
## (With Independent Auditors' Report Thereon)

## Independent Auditors' Report

To the Board of Directors
Formosa Group (Cayman) Limited

We have audited the accompanying statements of financial position of Formosa Group (Cayman) Limited as of December 31, 2017 and 2016, and the related statements of comprehensive (loss) income changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company' s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants, and auditing standards generally accepted in the Republic of China (ROC). Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Formosa Group (Cayman) Limited as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years ended December 31, 2017 and 2016, in conformity with the related financial accounting standards of the Business Entity Accounting Act and the Regulation on Handling Business Entity Accounting with respect to financial accounting standards, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations as endorsed by the ROC Financial Supervisory Commission.

KPMG

KPMG

Taipei, Taiwan (Republic of China)
March 15, 2018

**Note to Readers**

The accompanying financial statements are intended only to present the statement of financial position, financial performance and its cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

**FORMOSA GROUP (CAYMAN) LIMITED**

**STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31, 2017 AND 2016**

**(Expressed in U.S. Dollars)**

| | | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets:** | | | |
| Cash | $ | 235,491 | 236,042 |
| Other receivables — related parties (note 7(b)) | | 3,225,736,698 | 5,023,977,445 |
| **Total assets** | $ | **3,225,972,189** | **5,024,213,487** |
| **Liabilities and Equity** | | | |
| **Current liabilities:** | | | |
| Accrued expenses | $ | 11,709,917 | 13,374,648 |
| Other payables — related parties (note 7(b)) | | 575,129,995 | 996,417,440 |
| Current portion of long-term debts (notes 6(a) and 7(b)) | | 100,000,000 | 1,355,500,000 |
| **Total current liabilities** | | 686,839,912 | 2,365,292,088 |
| **Non-Current liabilities:** | | | |
| Long-term debts (notes 6(a) and 7(b)) | | 1,498,050,000 | 1,597,150,000 |
| Bonds payable (notes 6(b) and 7(b)) | | 994,427,889 | 993,665,389 |
| **Total non-current liabilities** | | 2,492,477,889 | 2,590,815,389 |
| **Total liabilities** | | 3,179,317,801 | 4,956,107,477 |
| **Equity:** | | | |
| Ordinary share (note 6(c)) | | 50,000 | 50,000 |
| Unappropriated retained earnings | | 46,604,388 | 68,056,010 |
| **Total equity** | | 46,654,388 | 68,106,010 |
| **Total liabilities and equity** | $ | **3,225,972,189** | **5,024,213,487** |

See accompanying notes to financial statements.

**FORMOSA GROUP (CAYMAN) LIMITED**

**STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**(Expressed in U.S. Dollars )**

| | | 2017 | 2016 |
|---|---|---|---|
| **Operating revenues:** | | | |
| Interest income | $ | 144,899,451 | 155,704,671 |
| **Operating costs:** | | | |
| Interest expenses | | 166,322,012 | 106,233,595 |
| **Gross (loss) profit from operations** | | (21,422,561) | 49,471,076 |
| **Operating expenses:** | | | |
| Administrative expenses (note 9) | | 29,061 | 9,130 |
| **(Loss) income before income tax** | | (21,451,622) | 49,461,946 |
| Less: income tax expense | | - | - |
| **Net (loss) income ／ Total comprehensive (loss) income** | $ | **(21,451,622)** | **49,461,946** |

See accompanying notes to financial statements.

# FORMOSA GROUP (CAYMAN) LIMITED
## STATEMENTS OF CHANGES IN EQUITY
## FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
**(Expressed in U.S. Dollars)**

| | | Ordinary shares | Unappropriated retained earnings | Total equity |
|---|---|---|---|---|
| **Balance at January 1, 2016** | $ | 50,000 | 18,594,064 | 18,644,064 |
| Profit / total comprehensive income for the year ended December 31, 2016 | | - | 49,461,946 | 49,461,946 |
| **Balance at December 31, 2016** | | 50,000 | 68,056,010 | 68,106,010 |
| Loss / total comprehensive loss for the year ended December 31, 2017 | | - | (21,451,622) | (21,451,622) |
| **Balance at December 31, 2017** | $ | **50,000** | **46,604,388** | **46,654,388** |

See accompanying notes to financial statements.

# FORMOSA GROUP (CAYMAN) LIMITED
## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
**(Expressed in U.S. Dollars)**

| | 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| **(Loss) income before income tax** | $ (21,451,622) | 49,461,946 |
| **Adjustments:** | | |
| **Adjustments to reconcile profit (loss):** | | |
| Interest expenses | 166,322,012 | 106,233,595 |
| Interest income | (144,899,451) | (155,704,671) |
| Amortization of bond discount | 762,500 | 762,500 |
| **Total adjustments to reconcile profit (loss)** | 22,185,061 | (48,708,576) |
| **Changes in operating assets and liabilities:** | | |
| **Changes in operating liabilities:** | | |
| Accrued expenses | 500,929 | (1,186,347) |
| Other payables – related parties | (1,535,495) | 2,488,638 |
| **Total changes in operating assets and liabilities** | (1,034,566) | 1,302,291 |
| **Total adjustments** | 21,150,495 | (47,406,285) |
| Cash generated from operations | (301,127) | 2,055,661 |
| Interest received | 145,640,198 | 165,828,080 |
| Interest paid | (168,487,673) | (102,849,388) |
| **Net cash flows (used in) provided by operating activities** | (23,148,602) | 65,034,353 |
| **Cash flows from investing activities:** | | |
| Decrease (increase) in due from related parties | 1,797,500,000 | (136,034,542) |
| **Net cash flows provided by (used in) investing activities** | 1,797,500,000 | (136,034,542) |
| **Cash flows from financing activities:** | | |
| Proceeds from long-term debts | - | 323,900,000 |
| Repayments of long-term debts | (1,354,600,000) | (1,243,500,000) |
| (Decrease) increase in due to related parties | (419,751,949) | 990,577,465 |
| **Net cash flows (used in) provided by financing activities** | (1,774,351,949) | 70,977,465 |
| **Net decrease in cash** | (551) | (22,724) |
| **Cash at beginning of year** | 236,042 | 258,766 |
| **Cash at end of year** | $ **235,491** | **236,042** |

See accompanying notes to financial statements.

# FORMOSA GROUP (CAYMAN) LIMITED

## Notes to Financial Statements

## For the years ended December 31, 2017 and 2016

## (Expressed in U.S. Dollars, Unless Otherwise Specified)

### (1) Organization and Principal Activities

Formosa Group (Cayman) Limited (the "Company") was incorporated on March 28, 2013 and registered under the law of Cayman Islands with registered address at the offices of Offshore Incorporations (Cayman) Limited, Floor 4, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY1-1112, Cayman Islands. The registered business scope of the Company is mainly investment.

### (2) Approval Date and Procedures of the Financial Statements

The financial statements were approved and authorized for issue by the board of directors on March 15, 2018.

### (3) New and Revised Standards and Interpretations

(a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" | January 1, 2016 |
| Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" | January 1, 2016 |
| IFRS 14 "Regulatory Deferral Accounts" | January 1, 2016 |
| Amendment to IAS 1 " Presentation of Financial Statements-Disclosure Initiative | January 1, 2016 |
| Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization" | January 1, 2016 |
| Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants" | January 1, 2016 |
| Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions" | July 1, 2014 |
| Amendment to IAS 27 "Equity Method in Separate Financial Statements" | January 1, 2016 |
| Amendments to IAS 36 " Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets" | January 1, 2014 |
| Amendments to IAS 39 " Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting" | January 1, 2014 |
| Annual Improvements to IFRSs 2010 2012 Cycle and 2011 2013 Cycle | July 1, 2014 |
| Annual Improvements to IFRSs 2012 2014 Cycle | January 1, 2016 |
| IFRIC 21 "Levies" | January 1, 2014 |

(Continued)

The Company assessed that the initial application of the above IFRSs would not have any material impact on the financial statements.

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017:

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|---|
| Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions" | January 1, 2018 |
| Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" | January 1, 2018 |
| IFRS 9 "Financial Instruments" | January 1, 2018 |
| IFRS 15 "Revenue from Contracts with Customers" | January 1, 2018 |
| Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative" | January 1, 2017 |
| Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses" | January 1, 2017 |
| Amendments to IAS 40 "Transfers of Investment Property" | January 1, 2018 |
| Annual Improvements to IFRS Standards 2014–2016 Cycle: | |
| Amendments to IFRS 12 | January 1, 2017 |
| Amendments to IFRS 1 and Amendments to IAS 28 | January 1, 2018 |
| IFRIC 22 "Foreign Currency Transactions and Advance Consideration" | January 1, 2018 |

The Company assessed that the initial application of the above IFRSs would not have any material impact on the financial statements.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|---|
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture" | Effective date to be determined by IASB |
| IFRS 16 "Leases" | January 1, 2019 |
| IFRS 17 "Insurance Contracts" | January 1, 2021 |
| IFRIC 23 "Uncertainty over Income Tax Treatments" | January 1, 2019 |
| Amendments to IFRS 9 "Prepayment features with negative compensation" | January 1, 2019 |
| Amendments to IAS 28 "Long-term interests in associates and joint ventures" | January 1, 2019 |

(Continued)

**FORMOSA GROUP (CAYMAN) LIMITED**
**Notes to Financial Statements**

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|---|
| Annual Improvements to IFRS Standards 2015–2017 Cycle | January 1, 2019 |
| Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" | January 1, 2019 |

The Company is evaluating the impact on its financial position and financial performance upon the initial adoption of the abovementioned standards or interpretations. The results there of will be disclosed when the Company completes its evaluation.

## (4) Summary of Significant Accounting Policies

The following significant accounting policies are adopted in the accompanying financial statements. The significant accounting policies have been applied consistently to all the reporting periods presented in the financial statements.

(a) Statement of compliance

The accompanying financial statements have been prepared in accordance with the related financial accounting standards of the "Business Entity Accounting Act", and of the "Regulation on Business Entity Accounting Handling" , and International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee endorsed by the Financial Supervisory Commission, R.O.C. (hereinafter referred to IFRS as endorsed by the FSC).

(b) Basis of preparation

Basis of measurement

The financial statements have been prepared on a historical cost basis.

Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the Company operates. The financial statements are presented in U.S. Dollars, which is the Company's functional currency.

(c) Classification of current and non-current assets and liabilities

An asset is classified as current under any one of the following conditions. All other assets are classified as non-current.

(i) The asset is expected to be realized, or sold or consumed, during the Company' s normal operating cycle;

(ii) The asset is held primarily for the purpose of trading;

(iii) The asset is expected to be realized within twelve months after the balance sheet date; or

(iv) The asset is cash and cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date.

**FORMOSA GROUP (CAYMAN) LIMITED**
**Notes to Financial Statements**

A liability is classified as current under any one of the following conditions. All other liabilities are classified as non-current.

(i) The liability is expected to be settled during the Company's normal operating cycle;

(ii) The liability is held primarily for the purpose of trading;

(iii) The liability is due to be settled within twelve months after the balance sheet date; or

The Company does not have any unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(d) Financial instruments

Financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instruments.

(i) Financial assets

Financial assets are categorized into loans and receivables.

1) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market, which comprise other receivables. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest method, less any impairment losses, except for short-term receivables in which the effect of discounting is immaterial. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

Interest income from receivables is recognized in other income.

2) Impairment of financial asset

A financial asset is assessed for impairment at reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a ' loss event' ) that occurred subsequent to the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets that can be estimated reliably.

**FORMOSA GROUP (CAYMAN) LIMITED**
**Notes to Financial Statements**

Objective evidence that financial assets are impaired includes delinquency or default (such as unpaid or delayed payment of interest or principal) by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an available-for-sale investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortized cost is determined based on the excess of its carrying amount over the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

If, in a subsequent period, the amount of the impairment loss of a financial assets measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment losses and recoveries on receivables are recognized in profit or loss.

3) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash inflow from the asset are terminated, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income are recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

(ii) Financial liabilities

1) Other financial liabilities

Financial liabilities which comprise of long-term loans, and accounts and other payables, are measured at fair value, plus, any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in finance costs.

2) Derecognition of financial liabilities

A financial liability is derecognized when the contractual obligation thereon has been discharged or cancelled or expires. The difference between the carrying amount of a financial liability derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

3) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when the Company has legally enforceable rights to offset, and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(e) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

**(5) Critical Accounting Judgments and key sources of Estimation Uncertainly**

The financial statements are prepared in conformity with the IFRSs as endorsed by the FSC, under which, management make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in the future periods.

**(6) Significant Account Disclosures**

(a) Long-term debts

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | **Currency** | **Interest rate** | **Expiration** | **Amount** |
| Unsecured long-term debts | USD | 2.6626% | 2018 | $ 100,000,000 |
| Secured long-term debts | USD | 3.0700% | 2020 | 1,498,050,000 |
| Less: current portion | | | | (100,000,000) |
| Total | | | | $ **1,498,050,000** |

**FORMOSA GROUP (CAYMAN) LIMITED**
**Notes to Financial Statements**

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | **Currency** | **Interest rate** | **Expiration** | **Amount** |
| Unsecured long-term debts | USD | 1.8801%~2.2112% | 2017~2018 | $ 1,455,500,000 |
| Secured long-term debts | USD | 2.4800% | 2020 | 1,497,150,000 |
| Less: current portion | | | | (1,355,500,000) |
| Total | | | | $ 1,597,150,000 |

(i) On February 11, 2015, the Company signed a syndicated loan agreement with Bank of Taiwan (the lead bank) and 12 other banks. As of December 31, 2017, the details of the loan agreement are as follows:

1) Credit line: $1,500,000,000.

2) Interest rate: 1.35% per annum, plus, the reference rate.

3) Period: 5 years.

4) Guarantor: Formosa Plastics Corporation, Nan Ya Plastics Corporation, Formosa Chemicals & Fibre Corporation, and Formosa Petrochemical Corporation.

5) The financial covenants under the loan agreement include the requirement to maintain certain financial ratios based on the audited consolidated financial reports. If the Guarantor breaches any of these financial covenants, the syndicated banks may deem the unpaid principal, interest, fees and other sums payable by the Company under the loan agreement as due and payable. The financial ratio is as follows:

a) Formosa Plastics Corporation, Nan Ya Plastics Corporation, and Formosa Chemicals & Fibre Corporation:

i) Current Ratio (current assets, divide, current liabilities): not lower than 100%.

ii) Debt/Equity Ratio (total liabilities, divide, total equity): not higher than 150%.

b) Formosa Petrochemical Corporation:

i) Current Ratio (current assets, divide, current liabilities): not lower than 100%.

ii) Debt/Equity Ratio (total liabilities, divide, total equity): not higher than 195%.

The Guarantor did not breach any of the above mentioned financial covenants in respect of its financial statements as of December 31, 2017.

6) As of December 31, 2017, the credit line of $1,500,000,000 had been used.

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# FORMOSA GROUP (CAYMAN) LIMITED
## Notes to Financial Statements

(b) Bonds Payable

| | | 2017 | 2016 |
|---|---|---|---|
| Overseas unsecured nonconvertible corporate bonds | $ | 994,427,889 | 993,665,389 |
| Less: current portion | | - | - |
| Total | $ | 994,427,889 | 993,665,389 |
| Expiry | | 2025 | 2025 |

The major terms of overseas unsecured bonds are as follows:

| Total Amount | Coupon Rate | Repayment and Interest Payment | Guaranteed by |
|---|---|---|---|
| $ 1,000,000,000 | 3.375 % | Bullet repayment; interest payable semi-annually | Formosa Plastics Corporation, Nan Ya Plastics Corporation, Formosa Chemicals & Fibre Corporation and Formosa Petrochemical Corporation |

(c) Equity

As of December 31, 2017 and 2016, the Company's total authorized and issued capital stock both amounted to $50,000, with $ 1 par value per share.

(d) Financial instruments

(i) Liquidity risk

The following are the remaining contractual maturities at the end of the reporting period of financial liabilities, including estimated interest payments but excluding the impact of netting agreements:

| | Carrying amount | Contractual cash flow | Within 6 months | 6-12months | 1-2years | 2-5years | Over 5 years |
|---|---|---|---|---|---|---|---|
| **December 31, 2017** | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Long-term debts | $ 1,598,050,000 | 1,737,351,705 | 101,331,300 | - | - | 1,636,020,405 | - |
| Bonds payable | 994,427,889 | 1,262,923,419 | - | - | - | - | 1,262,923,419 |
| Other payables-related parties | 575,129,995 | 579,154,315 | 579,154,315 | - | - | - | - |
| Accrued expenses | 11,709,917 | 11,709,917 | 11,709,917 | - | - | - | - |
| | $ 3,179,317,801 | 3,591,139,356 | 692,195,532 | - | - | 1,636,020,405 | 1,262,923,419 |
| **December 31, 2016** | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Long-term debts | $ 2,952,650,000 | 3,132,687,936 | 262,874,560 | 1,119,723,696 | 104,422,400 | 1,645,667,280 | - |
| Bonds payable | 993,665,389 | 1,261,955,044 | - | - | - | - | 1,261,955,044 |
| Other payables-related parties | 995,229,993 | 1,003,401,011 | 1,003,401,011 | - | - | - | - |
| Accrued expenses | 13,374,648 | 13,374,648 | 13,374,648 | - | - | - | - |
| | $ 4,954,920,030 | 5,411,418,639 | 1,279,650,219 | 1,119,723,696 | 104,422,400 | 1,645,667,280 | 1,261,955,044 |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

# FORMOSA GROUP (CAYMAN) LIMITED
## Notes to Financial Statements

(ii) Interest rate analysis

The Company' s exposure to interest rate risk arising from financial assets and liabilities is described in Note 6(e).

The following sensitivity analysis is based on the risk exposure to interest rates of the derivative and non-derivative financial instruments on the reporting date. For variable rate instruments, the sensitivity analysis assumes the liabilities bearing variable interest rates are outstanding for the whole year. A 1% increase or decrease in interest rate is assessed by management to be a reasonably possible change in interest rate.

An increase of 1% in interest rates mainly from loans with floating interest rates at the reporting date would have increased net loss after tax and decreased net income after tax by $21,688,755 and 39,432,275 for the years ended December 31, 2017 and 2016, respectively.

(iii) Fair value

1) Fair value and carrying amount

The Company considers the carrying amounts of other receivables – related parties, accrued expenses and other payables–related parties as a reasonable approximation of fair value because the maturity dates of these short-term financial instruments are within one year from the balance sheet date.

Fair value of bonds payable is estimated using the present value of future cash flows discounted by the interest rates the Company may obtain for similar bonds.

The discount rate used in determining the fair value of long-term debt is equal to the rate of return on financial instruments with the same characteristics and transaction terms.

2) Valuation techniques and assumptions used in fair value determination

The fair value of financial assets and liabilities reported at fair value through profit or loss. When quoted prices are unavailable, the fair value is determined by certain valuation techniques, using estimation and assumptions under existing market conditions which are obtainable by the Company.

(e) Financial risk management

(i) Framework of risk management

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework, and is responsible for developing and monitoring the Company's risk management policies.

The risk management policies are established to identify and analyze the Company's exposure to risks, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company' s activities. The Company, through training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

**FORMOSA GROUP (CAYMAN) LIMITED**

**Notes to Financial Statements**

The Board of Directors oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Board of Directors is assisted in its oversight role by the Internal Audit Department. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

(ii) Market risk

Market risk is the risk of changes in market prices including those of financial instruments. As the Company does not have such financial instruments, management believes that the Company is not exposed to significant market risk.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient current funds, such as cash and cash equivalent and sufficient credit line from banks, to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation.

(f) Capital management

The Company's policy is to maintain adequate financial resources and operating plan to meet future operating capital, capital expenditure, research and development expenditure, loans reimbursement, and dividend distribution.

The Company uses debt to capital ratio to manage its capital. The Company's debt to capital ratio at the end of the reporting period was as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Total liabilities | $ 3,179,317,801 | 4,956,107,477 |
| Less: cash | (235,491) | (236,042) |
| Net liabilities | **3,179,082,310** | **4,955,871,435** |
| Total equity | $ **46,654,388** | **68,106,010** |
| Debt to capital ratio | **6,814.11** % | **7,276.70** % |

(Continued)

**FORMOSA GROUP (CAYMAN) LIMITED**
**Notes to Financial Statements**

## (7) Related-party transactions

(a) Name of related parties

| Name of related party | Relationship with the Company |
|---|---|
| Formosa Ha Tinh Steel Corporation | Other related parties |
| Formosa Ha Tinh (Cayman) Limited | 〃 |
| Formosa Plastics Corporation | Associates |
| Nan Ya Plastics Corporation | 〃 |
| Formosa Chemicals and Fiber Corporation | 〃 |
| Formosa Petrochemical Corporation | 〃 |

(b) Significant related-party transactions

(i) Financing transactions

Financing transactions with related parties were as follows:

| | Due from related parties (recognized as other receivables –related parties) | |
|---|---|---|
| | December 31, | |
| | 2017 | 2016 |
| Other related parties－Formosa Ha Tinh Steel Corporation | $ 2,300,000,000 | 2,300,000,000 |
| Other related parties－Formosa Ha Tinh (Cayman) Limited | 921,500,000 | 2,719,000,000 |
| | $ 3,221,500,000 | 5,019,000,000 |

As of December 31, 2017 and 2016, the interest income from the abovementioned transactions which was recognized as other receivables－related parties were as follow:

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Other related parties－Formosa Ha Tinh Steel Corporation | $ 3,985,367 | 4,074,803 |
| Other related parties－Formosa Ha Tinh (Cayman) Limited | 251,331 | 902,642 |
| | $ 4,236,698 | 4,977,445 |

**FORMOSA GROUP (CAYMAN) LIMITED**
**Notes to Financial Statements**

| | | Due to related parties (recognized as other payables –related parties) | |
|---|---|---|---|
| | | December 31, | |
| | | 2017 | 2016 |
| Associates—Formosa Plastics Corporation | | 142,706,379 | 249,132,563 |
| Associates—Nan Ya Plastics Corporation | | 142,706,379 | 246,702,190 |
| Associates—Formosa Chemicals and Fiber Corporation | | 142,706,379 | 248,040,522 |
| Associates—Formosa Petrochemical Corporation | | 142,706,379 | 246,702,190 |
| | $ | 570,825,516 | 990,577,465 |

As of December 31, 2017 and 2016, the interest expense from the abovementioned transactions which was recognized as other payables—related parties were as follows:

| | | December 31, | |
|---|---|---|---|
| | | 2017 | 2016 |
| Associates—Formosa Plastics Corporation | $ | 171,630 | 298,646 |
| Associates—Nan Ya Plastics Corporation | | 171,629 | 295,732 |
| Associates—Formosa Chemicals and Fiber Corporation | | 171,629 | 297,337 |
| Associates—Formosa Petrochemical Corporation | | 171,629 | 295,732 |
| | $ | 686,517 | 1,187,447 |

(ii) Endorsements and guarantees

As of December 31, 2017 and 2016, the Company's related parties, including Formosa Plastics Corporation, Nan Ya Plastics Corporation, Formosa Chemicals & Fibre Corporation and Formosa Petrochemical Corporation, provided a guarantee worth $2,900,000,000 and $4,120,000,000, respectively, for the Company' s long-term loan and bonds payable. As of December 31, 2017 and 2016, the guarantee fee payable to the guarantors amounted to $3,617,962 and $4,652,528, respectively, which was recognized under other payables–related parties.

**(8) Commitments and contingencies**

On April 2, 2015, the Company signed a loan agreement with Formosa Ha Tinh (Cayman) Limited. Under this loan agreement, the Company granted a loan facility to Formosa Ha Tinh (Cayman) Limited with an aggregate principal amount not to exceed $3,120,000,000 with expected drawdown schedule in the second quarter of 2015. As of December 31, 2017 and 2016, Formosa Ha Tinh (Cayman) Limited' s borrowing from the Company amounted to $921,500,000 and $2,719,000,000, respectively.

**(9) Other**

The nature of the Company's expenses were as follows:

| | | For the years ended December 31, | |
|---|---|---|---|
| | | 2017 | 2016 |
| Professional fees | $ | 25,864 | 8,600 |
| Others | | 3,197 | 530 |
| Total | $ | 29,061 | 9,130 |