FORMOSA GROUP (CAYMAN) LIMITED

Financial Statements

With Independent Auditors' Report
For the Years Ended December 31, 2018 and 2017

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Independent Auditors' Report

To the Board of Directors of FORMOSA GROUP (CAYMAN) LIMITED:

Opinion

We have audited the financial statements of FORMOSA GROUP (CAYMAN) LIMITED ("the Company"), which comprise the statement of financial position as of December 31, 2018 and 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2018 and 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the year ended in accordance with the related financial accounting standards of the Business Entity Accounting Act and of the Regulation on Business Entity Accounting Handling, and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation, as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partner on the audit resulting in this independent auditors' report is Kuo, Hsin-Yi.

KPMG

KPMG

Taipei, Taiwan (Republic of China)
March 8, 2019

Note to Readers

The accompanying financial statementsfinancial statements are intended only to present the financial statementsstatement 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 statementsfinancial statements are those generally accepted and applied in the Republic of China.

FORMOSA GROUP (CAYMAN) LIMITED
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017
(Expressed in US Dollars)

		December 31, 2018	December 31, 2017
Assets			
Current assets:			
Cash	$	454,571	235,491
Other receivables-related parties (note 7(b))		2,591,089,508	3,225,736,698
Prepaid expenses		136,335	-
Total assets	$	**2,591,680,414**	**3,225,972,189**
Liabilities and Equity			
Current liabilities:			
Accrued expenses	$	12,865,000	11,709,917
Other payables-related parties (note 7(b))		2,540,555	575,129,995
Current portion of long-term debts (notes 6(a) and 7(b))		-	100,000,000
Total current liabilities		15,405,555	686,839,912
Non-current liabilities:			
Long-term debts (notes 6(a) and 7(b))		1,498,950,000	1,498,050,000
Bonds payable (notes 6(b) and 7(b))		995,190,389	994,427,889
Total non-current liabilities		2,494,140,389	2,492,477,889
Total liabilities		2,509,545,944	3,179,317,801
Equity:			
Ordinary share (note 6(c))		50,000	50,000
Unappropriated retained earnings		82,084,470	46,604,388
Total equity		82,134,470	46,654,388
Total liabilities and equity	$	**2,591,680,414**	**3,225,972,189**

See accompanying notes to financial statements.

FORMOSA GROUP (CAYMAN) LIMITED
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in US Dollars)

	2018	2017
Operating revenues:		
Interest income	$ 148,634,012	144,899,451
Operating costs:		
Interest expenses	111,280,581	166,322,012
Gross profit (loss) from operations	37,353,431	(21,422,561)
Operating expenses:		
Administrative expenses (note 9)	1,873,349	29,061
Income (loss) before income tax	35,480,082	(21,451,622)
Less: income tax expense	-	-
Profit (loss)	35,480,082	(21,451,622)
Other comprehensive income, net	-	-
Total comprehensive income (loss)	$ 35,480,082	(21,451,622)

See accompanying notes to financial statements.

FORMOSA GROUP (CAYMAN) LIMITED

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2018 and 2017

(Expressed in US Dollars)

	Ordinary shares	Unappropriated retained earnings	Total equity
Balance at January 1, 2017	$ 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
Profit / total comprehensive profit for the year ended December 31, 2018	-	35,480,082	35,480,082
Balance at December 31, 2018	$ **50,000**	**82,084,470**	**82,134,470**

See accompanying notes to financial statements.

FORMOSA GROUP (CAYMAN) LIMITED

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in US Dollars)

	2018	2017
Cash flows from (used in) operating activities:		
Profit (loss) before tax	$ 35,480,082	(21,451,622)
Adjustments:		
Adjustments to reconcile profit (loss):		
Amortization expenses	762,500	762,500
Interest expenses	111,280,581	166,322,012
Interest income	(148,634,012)	(144,899,451)
Total adjustments to reconcile (loss) profit	(36,590,931)	22,185,061
Changes in operating assets and liabilities:		
Prepaid expenses	(136,335)	-
Accrued expenses	686,517	500,929
Other payable-related parties	(1,763,924)	(1,535,495)
Total changes in operating assets and liabilities	(1,213,742)	(1,034,566)
Total adjustments	(37,804,673)	21,150,495
Cash outflow generated from operations	(2,324,591)	(301,127)
Interest received	146,615,202	145,640,198
Interest paid	(110,812,015)	(168,487,673)
Net cash flows from (used in) operating activities	33,478,596	(23,148,602)
Cash flows from investing activities:		
Decrease in due from related parties	636,666,000	1,797,500,000
Net cash flows from investing activities	636,666,000	1,797,500,000
Cash flows used in financing activities:		
Repayments of long-term debt	(99,100,000)	(1,354,600,000)
Decrease in due to related parties	(570,825,516)	(419,751,949)
Net cash flows used in financing activities	(669,925,516)	(1,774,351,949)
Net increase (decrease) in cash and cash equivalents	219,080	(551)
Cash at beginning of period	235,491	236,042
Cash at end of period	$ **454,571**	**235,491**

See accompanying notes to financial statements.

FORMOSA GROUP (CAYMAN) LIMITED

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in US 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 8, 2019.

(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, 2018.

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

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FORMOSA GROUP (CAYMAN) LIMITED
Notes to the Financial Statements

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 " Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

As a result of the adoption of IFRS 9, the Company adopted the consequential amendments to IAS 1 "Presentation of Financial Statements" which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Company' s approach was to include the impairment of trade receivables in administrative expenses. Additionally, the Company adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(d).

The adoption of IFRS 9 did not have any a significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with the 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4(d).

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FORMOSA GROUP (CAYMAN) LIMITED
Notes to the Financial Statements

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

·Comparative periods have been restated only for retrospective application of the cost of hedging approach for forward points. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

·The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

—The determination of the business model within which a financial asset is held.

— The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

—The designation of certain investments in equity instruments not held for trading as at FVOCI.

4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company' s financial assets as of January 1, 2018.

	IAS39		IFRS9	
Financial Assets	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Cash and equivalents	Loans and receivables	235,491	Amortized cost	235,491
Other receivables	Loans and receivables (note 1)	3,225,736,698	Amortized cost	3,225,736,698

Note1: Other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. The adoption of the IFRS 9 would not have any material impact on its 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, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 "Leases"	January 1, 2019
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 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019

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FORMOSA GROUP (CAYMAN) LIMITED

Notes to the Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

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 International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
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 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

The Company assessed that the above IFRSs may not be relevant to the Company.

(4) Summary of Significant Accounting Policies

The significant accounting policies presented in the financial statements are summarized below. The following accounting policies were applied consistently throughout the 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 with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards (" IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

(b) Basis of preparation

Basis of measurement

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

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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 one of the following criteria, and all other assets are classified as non-current.

(i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;

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

(iii) It is expected to be realized within twelve months after the reporting period; or

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

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non current.

An entity shall classify a liability as current when:

(i) It is expected to be settled in the normal operating cycle;

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

(iii) It is due to be settled within twelve months after the reporting period; or

(iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. 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 (policy applicable from January 1, 2018)

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

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FORMOSA GROUP (CAYMAN) LIMITED
Notes to the Financial Statements

The Company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL：

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivable, other receivable and other financial assets).

The Company measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL：

- debt securities that are determined to have low credit risk at the reporting date；and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

FORMOSA GROUP (CAYMAN) LIMITED
Notes to the Financial Statements

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company' s historical experience and informed credit assessment as well as forward-looking information.

When there is a breach of contract, the Consolidated Company will assume that the credit risk on a financial asset has increased significantly.

The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations in full. The Consolidated Company measures its loss allowances at an amount equal to lifetime expected credit loss.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is ' credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data：

- significant financial difficulty of the borrower or issuer；
- a breach of contract such as a default or being more than 90 days past due；
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider；
- it is probable that the borrower will enter bankruptcy or other financial reorganization；or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Company recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

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The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

3) Derecognition of financial assets

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

(ii) Financial instruments (policy applicable before January 1, 2018)

1) Financial assets

Financial assets are categorized into loans and receivables.

a) 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.

b) 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.

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.

FORMOSA GROUP (CAYMAN) LIMITED
Notes to the Financial Statements

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.

c) 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.

2) Financial liabilities

a) 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.

FORMOSA GROUP (CAYMAN) LIMITED
Notes to the Financial Statements

b) 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.

c) 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, 2018			
	Currency	**Interest rate**	**Expiration**	**Amount**
Secured long-term debts	USD	4.2000%	2020	$ **1,498,950,000**

	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**

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(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, 2018, 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 and 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 ratios are as follows:

a) Formosa Plastics Corporation, Nan Ya Plastics Corporation, and Formosa Chemicals and 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, 2018.

6) As of December 31, 2018, the credit line of $1,500,000,000 had been used.

(b) Bonds payable

	2018	2017
Overseas unsecured nonconvertible corporate bonds	$ 995,190,389	994,427,889
Less: current portion	-	-
Total	$ **995,190,389**	**994,427,889**
Expiry	**2025**	**2025**

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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 and Fibre Corporation and Formosa Petrochemical Corporation

(c) Equity

As of December 31, 2018 and 2017, 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 table shows the contractual maturities of financial liabilities, including estimated interest payments and 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, 2018							
Non-derivative financial liabilities							
Long-term debts	$ 1,498,950,000	1,588,200,000	-	63,000,000	1,525,200,000	-	-
Bonds payable	995,190,389	1,219,375,000	16,875,000	16,875,000	33,750,000	101,250,000	1,050,625,000
Other payables-related parties	2,540,555	2,540,555	2,540,555	-	-	-	-
Accrued expenses	12,865,000	12,865,000	12,865,000	-	-	-	-
	$ 2,509,545,944	**2,822,980,555**	**32,280,555**	**79,875,000**	**1,558,950,000**	**101,250,000**	**1,050,625,000**
December 31, 2017							
Non-derivative financial liabilities							
Long-term debts	$ 1,598,050,000	1,711,854,947	101,334,947	46,050,000	46,050,000	1,518,420,000	-
Bonds payable	994,427,889	1,253,125,000	16,875,000	16,875,000	33,750,000	101,250,000	1,084,375,000
Other payables-related parties	575,129,995	575,129,995	575,129,995	-	-	-	-
Accrued expenses	11,709,917	11,709,917	11,709,917	-	-	-	-
	$ 3,179,317,801	**3,551,819,859**	**705,049,859**	**62,925,000**	**79,800,000**	**1,619,670,000**	**1,084,375,000**

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

(ii) Interest rate analysis

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

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The following sensitivity analysis is based on the exposure to the interest rate risk of derivative and non derivative financial instruments on the reporting date. Regarding liabilities with variable interest rates, the analysis is based on the assumption that the amount of liabilities outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 1% when reporting to management internally, which also represents the Company management's assessment of the reasonably possible interest rate change.

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 $14,989,500 and 21,688,755 for the years ended December 31, 2018 and 2017, 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.

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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, 2018	December 31, 2017
Total liabilities	$ 2,509,545,944	3,179,317,801
Less: cash	(454,571)	(235,491)
Net liabilities	**2,509,091,373**	**3,179,082,310**
Total equity	$ **82,134,470**	**46,654,388**
Debt to capital ratio	**3,054.86** %	**6,814.11** %

(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	〃

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Name of related party	Relationship with the Company
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, 2018	2017
Other related parties—Formosa Ha Tinh Steel Corporation	$ 1,533,334,000	2,300,000,000
Other related parties—Formosa Ha Tinh (Cayman) Limited	1,051,500,000	921,500,000
	$ 2,584,834,000	3,221,500,000

As of December 31, 2018 and 2017, the interest income from the abovementioned transactions which was recognized as other receivables—related parties were as follows:

	December 31, 2018	2017
Other related parties—Formosa Ha Tinh Steel Corporation	$ 2,688,505	3,985,367
Other related parties—Formosa Ha Tinh (Cayman) Limited	3,567,003	251,331
	$ 6,255,508	4,236,698

	Due to related parties (recognized as other payables –related parties) December 31, 2018	2017
Associates—Formosa Plastics Corporation	-	142,706,379
Associates—Nan Ya Plastics Corporation	-	142,706,379
Associates—Formosa Chemicals and Fiber Corporation	-	142,706,379
Associates—Formosa Petrochemical Corporation	-	142,706,379
	$ -	570,825,516

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As of December 31, 2018 and 2017, the interest expense from the abovementioned transactions which was recognized as other payables—related parties were as follows:

	December 31, 2018	December 31, 2017
Associates—Formosa Plastics Corporation	$ -	171,630
Associates—Nan Ya Plastics Corporation	-	171,629
Associates—Formosa Chemicals and Fiber Corporation	-	171,629
Associates—Formosa Petrochemical Corporation	-	171,629
	$ -	686,517

(ii) Endorsements and guarantees

As of December 31, 2018 and 2017, the Company's related parties, including Formosa Plastics Corporation, Nan Ya Plastics Corporation, Formosa Chemicals and Fibre Corporation and Formosa Petrochemical Corporation, provided a guarantee worth $2,500,000,000 and $2,900,000,000, respectively, for the Company's long-term loan and bonds payable. As of December 31, 2018 and 2017, the guarantee fee payable to the guarantors amounted to $2,540,555 and $3,617,962, 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, 2018 and 2017, Formosa Ha Tinh (Cayman) Limited's borrowing from the Company amounted to $1,051,500,000 and $921,500,000, respectively.

(9) Other

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

	For the years ended December 31, 2018	For the years ended December 31, 2017
Professional fees	$ 5,000	25,864
Foreign contractor tax	1,864,620	-
Others	3,729	3,197
Total	$ 1,873,349	29,061