

FORMOSA GROUP (CAYMAN) LIMITED

Financial Statements

**With Independent Auditor's Report
For the Years Ended December 31, 2019 and 2018**



安侯建業聯合會計師事務所

KPMG

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Independent Auditor's 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 balance sheets as of December 31, 2019 and 2018, the statement of comprehensive income, changes in equity and cash flows for the years then ended, 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, 2019 and 2018, and its financial performance and its cash flows for the years 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 Auditor's 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the related financial accounting standards of the Business Entity Accounting Act and of the Regulation on Business Entity Accounting Handling and IFRSs, IASs, IFRC, SIC endorsed and issued into effect 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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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 auditor's report is Hsin-Yi Kuo.

A handwritten signature of the KPMG firm, written in a stylized, cursive font.

KPMG

Taipei, Taiwan (Republic of China)
March 9, 2020

Notes to Readers

The accompanying financial statements are intended only to present the financial position, financial performance and 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, 2019 AND 2018
(Expressed in US Dollars)

	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash	\$ 322,770	454,571
Other receivables-related parties (note 7(b))	1,090,442,985	2,591,089,508
Prepaid expenses	<u>88,778</u>	<u>136,335</u>
Total assets	<u>\$ 1,090,854,533</u>	<u>2,591,680,414</u>
Liabilities and Equity		
Current liabilities:		
Accrued expenses	\$ 6,565,000	12,865,000
Other payables-related parties (note 7(b))	<u>1,500,000</u>	<u>2,540,555</u>
Total current liabilities	<u>8,065,000</u>	<u>15,405,555</u>
Non-current liabilities:		
Long-term debts (notes 6(a) and 7(b))	-	1,498,950,000
Bonds payable (notes 6(b) and 7(b))	<u>995,952,889</u>	<u>995,190,389</u>
Total non-current liabilities	<u>995,952,889</u>	<u>2,494,140,389</u>
Total liabilities	<u>1,004,017,889</u>	<u>2,509,545,944</u>
Equity:		
Ordinary share (note 6(c))	50,000	50,000
Unappropriated retained earnings	<u>86,786,644</u>	<u>82,084,470</u>
Total equity	<u>86,836,644</u>	<u>82,134,470</u>
Total liabilities and equity	<u>\$ 1,090,854,533</u>	<u>2,591,680,414</u>

See accompanying notes to financial statements.

FORMOSA GROUP (CAYMAN) LIMITED
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in US Dollars)

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Interest income	\$ 64,195,936	148,634,012
Operating costs:		
Interest expense	<u>56,981,808</u>	<u>111,280,581</u>
Gross profit from operations	7,214,128	37,353,431
Operating expenses:		
Administrative expenses (note 9)	<u>2,511,954</u>	<u>1,873,349</u>
Income before income tax	4,702,174	35,480,082
Less: Income tax expenses	<u>-</u>	<u>-</u>
Profit	4,702,174	35,480,082
Other comprehensive income, net	<u>-</u>	<u>-</u>
Net income/Total comprehensive income	<u><u>\$ 4,702,174</u></u>	<u><u>35,480,082</u></u>

See accompanying notes to financial statements.

FORMOSA GROUP (CAYMAN) LIMITED
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2019 and 2018
(Expressed in US Dollars)

	Ordinary shares	Unappropriated retained earnings	Total equity
Balance at January 1, 2018	\$ <u>50,000</u>	<u>46,604,388</u>	<u>46,654,388</u>
Profit / total comprehensive profit for the year ended December 31, 2018	<u>-</u>	<u>35,480,082</u>	<u>35,480,082</u>
Balance at December 31, 2018	50,000	82,084,470	82,134,470
Profit / total comprehensive profit for the year ended December 31, 2019	<u>-</u>	<u>4,702,174</u>	<u>4,702,174</u>
Balance at December 31, 2019	<u>\$ 50,000</u>	<u>86,786,644</u>	<u>86,836,644</u>

See accompanying notes to financial statements.

FORMOSA GROUP (CAYMAN) LIMITED
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in US Dollars)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Profit before tax	\$ <u>4,702,174</u>	<u>35,480,082</u>
Adjustments:		
Adjustments to reconcile loss:		
Amortization expenses	762,500	762,500
Interest expenses	56,831,808	111,280,581
Interest income	<u>(64,195,936)</u>	<u>(148,634,012)</u>
Total adjustments to reconcile loss	<u>(6,601,628)</u>	<u>(36,590,931)</u>
Changes in operating assets and liabilities:		
Prepaid expenses	47,557	(136,335)
Accrued expenses	-	686,517
Other payable-related parties	<u>(1,040,555)</u>	<u>(1,763,924)</u>
Total changes in operating assets and liabilities	<u>(992,998)</u>	<u>(1,213,742)</u>
Total adjustments	<u>(7,594,626)</u>	<u>(37,804,673)</u>
Cash outflow generated from operations	(2,892,452)	(2,324,591)
Interest received	68,208,459	146,615,202
Interest paid	<u>(63,131,808)</u>	<u>(110,812,015)</u>
Net cash flows from operating activities	<u>2,184,199</u>	<u>33,478,596</u>
Cash flows from investing activities:		
Decrease in due from related parties	<u>1,496,634,000</u>	<u>636,666,000</u>
Net cash flows from investing activities	<u>1,496,634,000</u>	<u>636,666,000</u>
Cash flows used in financing activities:		
Repayments of long-term debt	(1,498,950,000)	(99,100,000)
Decrease in due to related parties	<u>-</u>	<u>(570,825,516)</u>
Net cash flows used in financing activities	<u>(1,498,950,000)</u>	<u>(669,925,516)</u>
Net (decrease) increase in cash and cash equivalents	(131,801)	219,080
Cash at beginning of period	<u>454,571</u>	<u>235,491</u>
Cash at end of period	<u><u>\$ 322,770</u></u>	<u><u>454,571</u></u>

See accompanying notes to financial statements.

FORMOSA GROUP (CAYMAN) LIMITED
Notes to the Financial Statements
For the years ended December 31, 2019 and 2018
(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 Vistra (Cayman) Limited, P O Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, 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 9, 2020.

(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, 2019.

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
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 believes that the adoption 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, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

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 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

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FORMOSA GROUP (CAYMAN) LIMITED
Notes to the Financial Statements

The Company assesses that the adoption of the abovementioned standards would not have any material impact on its 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 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 “Classification of Liabilities as Current or Non-current”	January 1, 2022

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

(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 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”) Interpretations 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.

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.

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FORMOSA GROUP (CAYMAN) LIMITED
Notes to the Financial Statements

(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) The asset is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent (as defined in IAS 7) 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) The Company 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

Financial assets are classified as measured at amortized cost; fair value through other comprehensive income (FVOCI)-equity investment; or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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FORMOSA GROUP (CAYMAN) LIMITED
Notes to the Financial Statements

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.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gain and loss, as well as impairment, 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 (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and trade receivable, other receivable and other financial assets).

The Company measures loss allowances at an amount equal to lifetime 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.

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.

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 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

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FORMOSA GROUP (CAYMAN) LIMITED

Notes to the Financial Statements

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

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 charging to profit or loss ,and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

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 it transfers the rights to receive the contractual cash flow in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred.

(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.

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FORMOSA GROUP (CAYMAN) LIMITED
Notes to the Financial Statements

(5) Critical Accounting Judgments and key sources of Estimation Uncertainty

The financial statements are prepared in conformity with the IFRSs as endorsed by the FSC requires management to 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			
	<u>Currency</u>	<u>Interest rate</u>	<u>Expiration</u>	<u>Amount</u>
Secured long-term debts	USD	4.2000%	2020	<u>\$ 1,498,950,000</u>

- (i) The Company repaid secured debts amounting to \$500,000,000 and \$1,000,000,000 on February 26, 2019 and May 28, 2019, respectively.
- (ii) There are no unpaid secured debts as of December 31, 2019.
- (iii) 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%.

(Continued)

FORMOSA GROUP (CAYMAN) LIMITED
Notes to the Financial Statements

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.

(b) Bonds payable

	2019	2018
Overseas unsecured nonconvertible corporate bonds	\$ 995,952,889	995,190,389
Less: current portion	-	-
Total	<u><u>\$ 995,952,889</u></u>	<u><u>995,190,389</u></u>
Expiry	<u><u>2025</u></u>	<u><u>2025</u></u>

The major terms of overseas unsecured bonds are as follows:

<u>Total Amount</u>	<u>Coupon Rate</u>	<u>Repayment and Interest Payment</u>	<u>Guaranteed by</u>
\$ 1,000,000,000	3.375 %	Bullet repayment; interest payable semi-annually	Formosa Plastics Corporation, Nan Ya Plastics Corporation, Formosa Chemicals and Fiber Corporation and Formosa Petrochemical Corporation

(c) Equity

As of December 31, 2019 and 2018, 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.

	<u>Carrying amount</u>	<u>Contractual cash flow</u>	<u>Within 6 months</u>	<u>6-12months</u>	<u>1-2years</u>	<u>2-5years</u>	<u>Over 5 years</u>
December 31, 2019							
Non-derivative financial liabilities							
Bonds payable	\$ 995,952,889	1,185,625,000	16,875,000	16,875,000	33,750,000	101,250,000	1,016,875,000
Other payables-related parties	1,500,000	1,500,000	1,500,000	-	-	-	-
Accrued expenses	6,565,000	6,565,000	6,565,000	-	-	-	-
	<u><u>\$ 1,004,017,889</u></u>	<u><u>1,193,690,000</u></u>	<u><u>24,940,000</u></u>	<u><u>16,875,000</u></u>	<u><u>33,750,000</u></u>	<u><u>101,250,000</u></u>	<u><u>1,016,875,000</u></u>

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FORMOSA GROUP (CAYMAN) LIMITED
Notes to the Financial Statements

	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	-	-	-	-
	<u>\$ 2,509,545,944</u>	<u>2,822,980,555</u>	<u>32,280,555</u>	<u>79,875,000</u>	<u>1,558,950,000</u>	<u>101,250,000</u>	<u>1,050,625,000</u>

The Company does not expect 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).

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 \$0 and \$14,989,500 for the years ended December 31, 2019 and 2018, respectively.

(iii) Fair value of financial instruments

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.

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FORMOSA GROUP (CAYMAN) LIMITED
Notes to the Financial Statements

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.

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.

(Continued)

FORMOSA GROUP (CAYMAN) LIMITED
Notes to the Financial Statements

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, 2019	December 31, 2018
Total liabilities	\$ 1,004,017,889	2,509,545,944
Less: cash	(322,770)	(454,571)
Net liabilities	<u>\$ 1,003,695,119</u>	<u>2,509,091,373</u>
Total equity	<u>\$ 86,836,644</u>	<u>82,134,470</u>
Debt to capital ratio	<u>1,155.84 %</u>	<u>3,054.86 %</u>

(7) Related-party transactions

(a) Name of related parties

<u>Name of related party</u>	<u>Relationship with the Company</u>
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,	
	2019	2018
Other related parties – Formosa Ha Tinh Steel Corporation	\$ 1,000,000,000	1,533,334,000
Other related parties – Formosa Ha Tinh (Cayman) Limited	88,200,000	1,051,500,000
	<u>\$ 1,088,200,000</u>	<u>2,584,834,000</u>

(Continued)

FORMOSA GROUP (CAYMAN) LIMITED
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As of December 31, 2019 and 2018, the interest income from the abovementioned transactions which was recognized as other receivables—related parties were as follows:

	December 31,	
	2019	2018
Other related parties—Formosa Ha Tinh Steel Corporation	\$ 1,686,778	2,688,505
Other related parties—Formosa Ha Tinh (Cayman) Limited	556,207	3,567,003
	\$ 2,242,985	6,255,508

(ii) Endorsements and guarantees

As of December 31, 2019 and 2018, the Company's related parties, including Formosa Plastics Corporation, Nan Ya Plastics Corporation, Formosa Chemicals and Fiber Corporation and Formosa Petrochemical Corporation, provided a guarantee worth both \$2,500,000,000, respectively, for the Company's long-term loan and bonds payable. As of December 31, 2019 and 2018, the guarantee fee payable to the guarantors amounted to \$1,500,000 and \$2,540,555, 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, 2019 and 2018, Formosa Ha Tinh (Cayman) Limited's borrowing from the Company amounted to \$88,200,000 and \$1,051,500,000, respectively.

(9) Other

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

	For the years ended December 31,	
	2019	2018
Professional fees	\$ 5,100	5,000
Foreign contractor tax	2,499,095	1,864,620
Others	7,759	3,729
Total	\$ 2,511,954	1,873,349