

**FORMOSA PETROCHEMICAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2008 and 2009
With
Report of Independent Auditors**

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

English Translation of a Report Originally Issued in Chinese

Report of Independent Auditors

To the Board of Directors and Stockholders of
Formosa Petrochemical Corporation

We have audited the accompanying consolidated balance sheets of Formosa Petrochemical Corporation and its subsidiaries (the "Company") as of December 31, 2008 and 2009, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the Company's investees, Mai-Liao Power Corp., Simosa Oil Corp., Formosa Ha Tinh Steel Corporation and Neumin Oil & Gas LLC., etc. in all five companies which amounted to \$9,262,247 thousand and \$11,696,354 thousand of the Company's long-term equity investments, each representing 2.15% and 2.60% of the total consolidated assets as of December 31, 2008 and 2009, respectively. The related investment income under the equity method amounted to \$471,305 thousand and \$1,968,692 thousand, each representing 3.26% and 4.10% of the consolidated income before income tax for the years ended December 31, 2008 and 2009, respectively. Furthermore, we did not audit the financial statements of FPCC USA Inc., a wholly-owned subsidiary, which statements reflect total assets of \$277,240 thousand and 86,513 thousand, each representing 0.06% and 0.02% of the total consolidated assets as at December 31, 2008 and 2009, respectively. And the total net operating revenue both amounted to \$0, both representing 0% of the total consolidated net operating revenue for the years ended December 31, 2008 and 2009, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as they relate to the amounts included for Mai-Liao Power Corp., Simosa Oil Corp., Formosa Ha Tinh Steel Corporation, FPCC USA Inc. and Neumin Oil & Gas LLC., etc. are based on the reports of the other auditors.

We conducted our audits in accordance with "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. 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 audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion based our audits and the reports of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Formosa Petrochemical Corporation and its subsidiaries as of December 31, 2008 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and Accounting Principles Generally Accepted in the Republic of China.

As described in Note 3(1) to the financial statements, effective from January 1, 2009, the Company and its subsidiaries have adopted the amendment of R.O.C. Statement of Financial Accounting Statements No. 10, "Accounting for Inventories".

As described in Note 3(3) to the financial statements, effective from January 1, 2008, the Company changed its depreciation method of certain fixed assets such as the related machines, transportation and other equipment of Refinery and Oil products Division (excluding the Utilities Factory and Oil Factory), Petrochemical Olefins Division and Maintenance Center in Mailiao plant from the straight-line method to the fixed-percentage-on-declining-base method.

February 25, 2010
Taipei, Taiwan
Republic of China

Notice to Readers

The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China on Taiwan 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 on Taiwan.

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA PETROCHEMICAL CORPORATION

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2008 AND 2009

(Expressed in Thousands of Dollars)

ASSETS	Notes	2008	2009	
		NTD	NTD	USD
CURRENT ASSETS				
Cash and cash equivalents	2 & 4.1	\$1,852,507	\$5,257,110	\$164,131
Available-for-sale financial assets-current	2 & 4.2 & 10	10,500,457	19,269,159	601,597
Derivative financial assets for hedging-current	2 & 4.3 & 10	57,968	25,197	787
Notes receivable, net	2 & 4.5	93,147	165,879	5,179
Notes receivable from related parties, net	2 & 4.5 & 5	2,588,464	2,001,259	62,481
Accounts receivable, net	2 & 4.5	17,146,357	31,254,383	975,785
Accounts receivable from related parties, net	2 & 4.5 & 5	11,907,950	32,996,929	1,030,188
Other receivables	4.6	8,785,978	8,261,856	257,941
Other receivables from related parties	4.6 & 5	29,695,201	3,095,006	96,628
Other financial assets - current	6	2,904,970	4,790,199	149,554
Inventories	2.5 & 4.7	52,322,769	69,547,822	2,171,334
Prepayments	4.8	4,071,039	7,015,002	219,013
Non-current assets held for sale	3 & 4.9	109,449	-	-
Other current assets	4.25	3,238,397	2,174,160	67,879
Total current assets		<u>145,274,653</u>	<u>185,853,961</u>	<u>5,802,497</u>
FUND AND LONG-TERM INVESTMENTS				
Financial assets at fair value through profit or loss-non-current	2 & 4.4 & 10	537,994	225,227	7,032
Derivative financial assets for hedging-non-current	2 & 4.3 & 10	121,599	-	-
Assets carried at cost-non-current	2 & 4.10	1,186,113	3,036,414	94,799
Long-term equity investments-equity method	2 & 4.10	12,593,963	15,074,238	470,629
Other financial assets - non-current	6	67,074	106,290	3,318
Total fund and long-term investments		<u>14,506,743</u>	<u>18,442,169</u>	<u>575,778</u>
PROPERTY, PLANT AND EQUIPMENT				
	2 & 4.11			
Land		19,444,663	19,444,663	607,076
Buildings		38,799,108	39,614,859	1,236,805
Machinery and equipment		298,933,324	305,404,602	9,534,955
Transportation equipment		763,275	1,455,560	45,444
Other equipment		2,978,445	3,150,313	98,355
Leasehold Improvement		366,821	371,659	11,603
Total cost		361,285,636	369,441,656	11,534,238
Less: Accumulated depreciation		(116,500,350)	(148,697,722)	(4,642,452)
Construction in progress		10,866,690	8,462,035	264,191
Prepayments on purchase of equipment and land		4,216,801	3,531,743	110,264
Total property, plant and equipment, net		<u>259,868,777</u>	<u>232,737,712</u>	<u>7,266,241</u>
OTHER ASSETS				
Idle assets, net	2 & 4.12	405,542	481,289	15,026
Refundable deposits		503,348	490,248	15,306
Deferred expenses	2 & 4.13	6,801,343	5,917,067	184,735
Deferred income tax assets-non-current	2 & 4.25	4,033,207	4,978,950	155,446
Other miscellaneous assets	4.12	231,686	505,388	15,779
Total other assets		<u>11,975,126</u>	<u>12,372,942</u>	<u>386,292</u>
TOTAL ASSETS		<u><u>\$431,625,299</u></u>	<u><u>\$449,406,784</u></u>	<u><u>\$14,030,808</u></u>

The accompanying notes are an integral part of the financial statements.

(Forward)

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA PETROCHEMICAL CORPORATION

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2008 AND 2009

(Expressed in Thousands of Dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	Notes	2008	2009	
		NTD	NTD	USD
CURRENT LIABILITIES				
Short-term loans	4.14	\$32,876,064	\$31,091,029	\$970,684
Commercial paper payable	4.14	1,598,634	-	-
Financial liabilities at fair value through profit or loss-current		-	34,713	1,084
Derivative financial liabilities for hedging-current	2 & 4.3 & 10	1,990	68,141	2,127
Accounts payable		14,919,728	17,795,507	555,589
Accounts payable to related parties	5	1,137,866	3,299,823	103,023
Income tax payable	4.25	-	1,781,257	55,612
Accrued expenses	4.15	6,442,112	7,050,447	220,120
Other payables	4.16	1,774,750	991,157	30,945
Other payables to related parties	4.16 & 5	1,513,421	5,294,526	165,299
Revenues received in advance		35,375	32,084	1,002
Current portion of long-term debts	4.17 & 18	34,824,204	49,228,822	1,536,960
Other current liabilities		62,856	58,846	1,837
Total current liabilities		<u>95,187,000</u>	<u>116,726,352</u>	<u>3,644,282</u>
LONG-TERM LIABILITIES				
Financial liabilities at fair value through profit or loss-non-current	2 & 4.4 & 10	70,061	12,998	406
Derivative financial liabilities for hedging-non-current	2 & 4.3 & 10	875,547	405,329	12,655
Bonds payable	4.17	59,600,000	49,300,000	1,539,182
Long-term loans	4.18	71,351,048	45,959,204	1,434,880
Long-term notes payable	4.18	7,648,186	1,824,000	56,946
Total long-term liabilities		<u>139,544,842</u>	<u>97,501,531</u>	<u>3,044,069</u>
OTHER LIABILITIES				
Accrued pension liability	2 & 4.19	1,969,094	2,174,436	67,887
Guarantee deposits received		532,084	24,464	764
Other miscellaneous liabilities		356,658	127,977	3,996
Total other liabilities		<u>2,857,836</u>	<u>2,326,877</u>	<u>72,647</u>
Total Liabilities		<u>237,589,678</u>	<u>216,554,760</u>	<u>6,760,998</u>
STOCKHOLDERS' EQUITY				
Capital stock				
Common stock	4.20	92,485,045	95,259,597	2,974,074
Capital surplus	4.21			
Additional paid-in capital		24,864,000	24,864,000	776,272
Additional paid-in capital from conversion of bonds		6,379,284	6,379,284	199,166
Long-term investments		36	36	1
Retained earnings	4.22			
Legal reserve		26,532,982	28,052,314	875,814
Special reserve		3,033,792	3,880,577	121,154
Unappropriated earnings		41,545,814	64,499,286	2,013,715
Unrealized gain or loss on financial instruments	4.23	(846,793)	9,876,437	308,350
Cumulative translation adjustments		10,595	5,475	171
Total Stockholders' Equity of Parent Company		<u>194,004,755</u>	<u>232,817,006</u>	<u>7,268,717</u>
Minority Interests		30,866	35,018	1,093
Total Stockholders' Equity		<u>194,035,621</u>	<u>232,852,024</u>	<u>7,269,810</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		<u>\$431,625,299</u>	<u>\$449,406,784</u>	<u>\$14,030,808</u>

The accompanying notes are an integral part of the financial statements.

English Translation of Financial Statements Originally Issued in Chinese
FORMOSA PETROCHEMICAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2009
(Expressed in Thousands of Dollars, Except for Earnings per Share)

	Notes	2008	2009	
		NTD	NTD	USD
OPERATING REVENUES	2 & 4.24	\$877,150,630	\$635,598,278	\$19,843,842
OPERATING COSTS	2 & 4.27	850,508,167	580,215,991	18,114,767
GROSS PROFIT		26,642,463	55,382,287	1,729,075
OPERATING EXPENSES	2 & 4.27			
Selling and marketing		7,202,285	6,389,101	199,472
General and administrative		3,452,184	3,079,836	96,155
Research and development		1,686	2,184	68
Total operating expenses		10,656,155	9,471,121	295,695
OPERATING INCOME		15,986,308	45,911,166	1,433,380
NON-OPERATING INCOME				
Interest income		617,271	163,842	5,115
Investment income under the equity method	2 & 4.10	989,070	2,452,034	76,554
Dividend income		2,339,229	430,446	13,439
Gain on disposal of property, plant and equipment		202	3,300	103
Gain on disposal of investments		131,121	122,118	3,813
Foreign exchange gain		-	1,051,501	32,829
Rental income		1,235,394	1,235,870	38,585
Gain on valuation of financial assets	2	179,269	20,695	646
Others		2,179,480	1,483,825	46,326
Total non-operating income		7,671,036	6,963,631	217,410
NON-OPERATING EXPENSES				
Interest expense		5,732,606	3,825,071	119,422
Loss on disposal of property, plant and equipment		54,737	49	2
Foreign exchange loss		2,043,864	-	-
Financial expense		186,937	100,195	3,128
Impairment loss	2 & 4.10 & 4.12	24,830	24,000	749
Losses on valuation of financial liabilities	2	663,623	112,872	3,524
Others		490,370	738,646	23,061
Total non-operating expenses		9,196,967	4,800,833	149,886
CONTINUING OPERATING INCOME BEFORE TAX		14,460,377	48,073,964	1,500,904
INCOME TAX EXPENSE (GAIN)	2 & 4.25	(735,625)	4,142,560	129,334
CONTINUING OPERATING INCOME AFTER TAX		15,196,002	43,931,404	1,371,570
Cumulative effects of changes in accounting principles (net of NT\$1,578,301 after tax)		-	(4,734,906)	(147,827)
CONSOLIDATED NET INCOME		\$15,196,002	\$39,196,498	\$1,223,743
Of which				
Stockholders of the Parent Company		\$15,193,322	\$39,192,346	\$1,223,614
Minority Interests		2,680	4,152	129
		\$15,196,002	\$39,196,498	\$1,223,743
EARNINGS PER SHARE	2 & 4.26			
Basic earnings per share (in dollars)				
Consolidated earnings per share				
Of which				
Stockholders of the Parent Company		\$1.59	\$4.11	\$0.13
Minority Interests		-	-	-
		\$1.59	\$4.11	\$0.13

The accompanying notes are an integral part of the financial statements.

English Translation of Financial Statements Originally Issued in Chinese
FORMOSA PETROCHEMICAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2009
(Expressed in Thousands of Dollars)

New Taiwan Dollars	Common Stock	Capital Surplus	Retained Earnings			Unrealized gain or loss on financial instruments	Cumulative Translation Adjustments	Stockholders' Equity of Parent Company	Minority Interest	Total Stockholders' Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings					
Balance at January 1, 2008(NTD)	\$92,485,045	\$31,243,320	\$19,571,903	\$3,582,123	\$94,858,618	\$16,457,563	\$(8)	\$258,198,564	\$33,730	\$258,232,294
Appropriation of 2007 earnings:										
Legal reserve	-	-	6,961,079	-	(6,961,079)	-	-	-	-	-
Cash dividends	-	-	-	-	(61,964,980)	0	0	(61,964,980)	0	(61,964,980)
Remuneration paid to directors and supervisors	-	-	-	-	(15,800)	0	0	(15,800)	0	(15,800)
Employees' bonuses	-	-	-	-	(112,598)	0	0	(112,598)	0	(112,598)
Special reserve reclassified to retained earnings	-	-	-	(548,331)	548,331	0	0	0	0	0
Net income for 2008	-	-	-	-	15,193,322	0	0	15,193,322	0	15,193,322
Unrealized gain or loss on financial instruments	-	-	-	-	-	(17,304,356)	0	(17,304,356)	0	(17,304,356)
Cumulative translation adjustments	-	-	-	-	-	0	10,603	10,603	0	10,603
Changes in Minority Interest	-	-	-	-	-	0	0	0	(2,864)	(2,864)
Balance at December 31, 2008 (NTD)	92,485,045	31,243,320	26,532,982	3,033,792	41,545,814	(846,793)	10,595	194,004,755	30,866	194,035,621
Appropriation of 2008 earnings:										
Legal reserve	-	-	1,519,332	-	(1,519,332)	0	0	0	0	0
Special reserve	-	-	-	846,793	(846,793)	0	0	0	0	0
Cash dividends	-	-	-	-	(11,098,205)	0	0	(11,098,205)	0	(11,098,205)
Stock dividends	2,774,552	-	-	-	(2,774,552)	0	0	0	0	0
Special reserve reclassified to retained earnings	-	-	-	(8)	8	0	0	0	0	0
Net income for 2009	-	-	-	-	39,192,346	0	0	39,192,346	0	39,192,346
Unrealized gain or loss on financial instruments	-	-	-	-	-	10,723,230	0	10,723,230	0	10,723,230
Cumulative translation adjustments	-	-	-	-	-	0	(5,120)	(5,120)	0	(5,120)
Changes in Minority Interest	-	-	-	-	-	0	0	0	4,152	4,152
Balance at December 31, 2009 (NTD)	\$95,259,597	\$31,243,320	\$28,052,314	\$3,880,577	\$64,499,286	\$9,876,437	\$5,475	\$232,817,006	\$35,018	\$232,852,024
Balance at December 31, 2009 (USD)	\$2,974,074	\$975,439	\$875,814	\$121,154	\$2,013,715	\$308,350	\$171	\$7,268,717	\$1,093	\$7,269,810

The accompanying notes are an integral part of the financial statements.

English Translation of Financial Statements Originally Issued in Chinese

FORMOSA PETROCHEMICAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2009
(Expressed in Thousands of Dollars)

	2008	2009	
	NTD	NTD	USD
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$15,196,002	\$39,196,498	\$1,223,743
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effects of changes in accounting principles	-	6,313,207	197,103
Equity method investment (income) loss in excess of cash dividends received	429,627	(1,482,328)	(46,279)
Director remuneration over five years reclassified as other revenues	(18,950)	-	-
Loss on allowance for inventory valuation (gain from price recovery of inventory)	8,252,121	(8,075,257)	(252,115)
(Gain) loss on valuation of financial assets	(179,269)	(20,695)	(646)
(Gain) loss on valuation of financial liabilities	663,623	112,872	3,524
Gain on disposal of investment	(131,121)	(122,118)	(3,813)
Loss on disposal of property, plant and equipment and idle assets	54,737	49	1
Gain on disposal of property, plant and equipment and idle assets	(202)	(3,300)	(103)
Depreciation	35,533,420	32,376,896	1,010,830
Depreciation (including lease and idle assets)	15,791	15,302	478
Impairment loss	24,830	24,000	749
Loss on abandoned property, plant and equipment	2,960	3,935	123
Loss on Fire	-	300,909	9,395
Amortization	2,763,067	3,578,343	111,719
(Increase) decrease in notes receivable	885,990	514,473	16,062
(Increase) decrease in accounts receivable (including related parties)	46,106,313	(35,197,005)	(1,098,876)
(Increase) decrease in other receivables (including related parties)	(4,860,428)	2,706,508	84,499
(Increase) decrease in inventories	(7,825,639)	(15,463,003)	(482,766)
(Increase) decrease in prepayments	4,671,283	(2,943,963)	(91,913)
(Increase) decrease in other current assets	8,488	(3,646)	(114)
(Increase) decrease in other financial assets	-	(3,300)	(103)
Increase (decrease) in notes payable	(49,993)	-	-
Increase (decrease) in accounts payable (including related parties)	(5,374,145)	5,037,736	157,282
Increase (decrease) in income tax payable	(7,966,898)	1,781,257	55,612
Increase (decrease) in accrued expenses	(1,374,329)	608,335	18,993
Increase (decrease) in revenues received in advance	(36,525)	(3,291)	(103)
Increase in accrued pension liability	196,586	205,342	6,411
(Increase) decrease in deferred income tax assets / liabilities	(6,522,785)	37,109	1,159
Net cash provided by (used in) operating activities	<u>80,464,554</u>	<u>29,494,865</u>	<u>920,852</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase) decrease in available-for-sale financial asset-current	-	(764,143)	(23,857)
(Increase) decrease in other receivables-due from affiliates	(27,847,900)	24,417,809	762,342
Settlement of derivative financial instruments (net)	(494,972)	198,241	6,189
(Increase) decrease in financial assets carried at cost	(2,858)	(1,900,210)	(59,326)
Selling price on disposal of assets carried at cost	177,375	167,027	5,215
(Increase) decrease in long-term investment	(178,296)	(315,357)	(9,846)
Acquisition of property, plant and equipment	(12,989,747)	(5,566,711)	(173,797)
Proceeds from disposal of property, plant and equipment	6,640	4,227	132
(Increase) decrease in refundable deposits	3,135	13,100	409
(Increase) decrease in other miscellaneous assets	(24,147)	(273,701)	(8,545)
(Increase) decrease in deferred expenses	(5,554,554)	(2,694,067)	(84,111)
Net cash provided by (used in) investing activities	<u>(46,905,324)</u>	<u>13,286,215</u>	<u>414,805</u>

The accompanying notes are an integral part of the financial statements.

(Forward)

English Translation of Financial Statements Originally Issued in Chinese

**FORMOSA PETROCHEMICAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2009
(Expressed in Thousands of Dollars)**

	2008	2009	
	NTD	NTD	USD
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in short-term loans	\$21,297,005	\$(1,785,035)	\$(55,730)
Increase (decrease) in commercial papers payable	999,653	(1,598,634)	(49,911)
Increase (decrease) in due to affiliates	(14,076,400)	3,836,850	119,789
Increase (decrease) in other payables (including related parties)	(2,223,745)	(838,924)	(26,192)
Increase in guarantee deposits received	(517,788)	(507,620)	(15,848)
Decrease in other miscellaneous liabilities	283,035	(228,681)	(7,140)
Increase in bonds payable	18,000,000	12,000,000	374,649
Increase in long-term loan	48,653,333	(4,423,057)	(138,091)
Repayment of current portion of long-term debts	(54,032,412)	(34,688,355)	(1,082,996)
Payment of cash dividends	(61,969,388)	(11,098,619)	(346,507)
Payment of director's and supervisors' remuneration and employees' bonuses	(127,748)	-	-
Net cash provided by (used in) financing activities	<u>(43,714,455)</u>	<u>(39,332,075)</u>	<u>(1,227,977)</u>
Effect of changes in exchange rates	-	(44,402)	(1,386)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(10,155,225)</u>	3,404,603	106,294
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>12,007,732</u>	<u>1,852,507</u>	<u>57,837</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$1,852,507</u>	<u>\$5,257,110</u>	<u>\$164,131</u>
SUPPLEMENTAL INFORMATION:			
Interest paid (excluding capitalized interest)	<u>\$5,440,616</u>	<u>\$4,124,261</u>	<u>\$128,763</u>
Income tax paid	<u>\$17,309,692</u>	<u>\$778,844</u>	<u>\$24,316</u>
INVESTING AND FINANCING ACTIVITIES NOT AFFECTING CASH FLOWS:			
Undistributed cash dividends	<u>\$1,136</u>	<u>\$1,106</u>	<u>\$35</u>
Reclassification of long-term notes payable due within one year to current liabilities	<u>\$3,022,853</u>	<u>\$2,912,093</u>	<u>\$90,918</u>
Reclassification of long-term bonds payable due within one year to current liabilities	<u>\$18,375,000</u>	<u>\$22,300,000</u>	<u>\$696,222</u>
Reclassification of long-term debts due within one year to current liabilities	<u>\$14,694,646</u>	<u>\$20,968,787</u>	<u>\$654,661</u>
Reclassification of idle assets to held-for-sale assets	<u>\$109,449</u>	<u>\$-</u>	<u>\$-</u>
Reclassification of held-for-sale assets to idle assets	<u>\$-</u>	<u>\$109,449</u>	<u>\$3,417</u>
Unrealized gains (loss) on available-for-sale financial assets	<u>\$(16,433,107)</u>	<u>\$9,924,347</u>	<u>\$309,845</u>
Unrealized loss on derivative financial instruments	<u>(460,817)</u>	<u>\$199,758</u>	<u>\$6,237</u>
Deferred income tax assets arising from unrealized loss on derivative financial instruments	<u>\$153,606</u>	<u>\$49,939</u>	<u>\$1,559</u>

The accompanying notes are an integral part of the financial statements.

Formosa Petrochemical Corporation
Notes to Consolidated Financial Statements
For the Years ended December 31, 2008 and 2009
(All amounts expressed in New Taiwan thousand dollars
Except for earnings per share information or unless otherwise stated)

1. ORGANIZATION AND OPERATIONS

Formosa Petrochemical Corporation (the "Company") was prepared for incorporation since March 1992, and was incorporated on April 6, 1992 and located in the No.6 Naphtha Cracker Complex in Mailiao of Yunlin County. The major stockholders of the Company are Formosa Plastics Corporation, Nan Ya Plastics Corporation and Formosa Chemicals & Fiber Corporation with equity interests of 29.31%, 23.84% and 24.90%, respectively, as of December 31, 2009.

The Company's shares were approved to be listed on the Taiwan Stock Exchange on November 12, 2003 and were traded publicly starting from December 26, 2003.

As of December 31, 2008 and 2009, the number of employees of the Company was 6,027 and 6,275, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements were prepared in accordance with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and Accounting Principles Generally Accepted in the Republic of China. Significant accounting policies are summarized as follows:

(1) Principles of consolidation

The consolidated financial statements were prepared in conformity with the R.O.C SFAS No.7; all intercompany accounts and transactions have been eliminated in the consolidated financial statements.

The Company consolidates investees into the consolidated financial statements if the Company holds more than 50% of investee's voting shares, including the Company and its subsidiaries who own currently exercisable or convertible potential voting shares. However, if the investees in which the Company holds less than 50% of voting shares but one of the following five conditions is met, the Company is considered

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having the control power over these investees and the parent-subsidary relationship is constructed, and therefore these investees are consolidated into the Company's consolidated financial statements.

- A. Under an agreement of other investor, the Company is able to control more than 50% of the investee's voting shares.
- B. Under regulations or contracts, the Company is able to control functions of finance, operation, and personnel resources of the investee.
- C. The Company has the right to assign more than 50% of seats of the investee's board of directors (or equivalent unit), which controls the business.
- D. The Company can dedicate more than 50% of voting right of the investee's board of directors (or equivalent unit), which controls the business.
- E. Other kind of controlling power.

(2) General Descriptions of Reporting Entities

- A. Investees in which the Company, directly or indirectly, holds more than 50% of voting rights or controls more than half of the members of board of directors, by whom the investee is controlled, are consolidated into the Company's financial statements in accordance with the R.O.C. Statement of Financial Accounting Standards ("SFAS")No. 7.

Subsidiaries included in the consolidated financial statements are as follows:

Investor	Subsidiaries	Business Nature	Percentage of ownership (%)	
			December 31, 2008	December 31, 2009
The Company	Formosa Oil (Asia Pacific) Corp.	Sales Retailer	100%	100%
The Company	Formosa Petrochemical Transportation Corp.	Transportation Service	88%	88%
The Company	Formosa Marketing & Consulting Corporation	Management & Consulting	100%	100%
The Company	FPCC USA, INC	Oil exploration & production	100%	100%
The Company	Formosa Dredging Corporation	Leasing on dredging ships	-	100%
Formosa Dredging Corporation	Formosa Petrochemical Marine Company Limited	Transportation	-	100%

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- B. Subsidiaries are excluded from the consolidated financial statements and the reason are as follows:

Investor	Subsidiaries	Business Nature	Percentage of ownership (%)		Reason
			December 31, 2008	December 31, 2009	
Formosa Oil (Asia Pacific) Corp.	Whale Home International Co.	Sales Retailer	49%	49%	Note1
Formosa Petrochemical Transportation Corp.	Whale Home International Co.	Sales Retailer	15.69%	15.69%	Note1

Note1 : The total percentage of ownership of Formosa Oil (Asia Pacific) Corporation and Formosa Petrochemical Transportation Corporation in Whale Home International Co., Ltd. was 64.69% as of December 31, 2008 and 2009, respectively. The Company does exercise the significant influence on Whale Home International Co., Ltd. However, because the total assets, liabilities and net income of Whale Home International Co., Ltd, accounted for only 0.11%, 0.07% and (0.09) % and 0.10%, 0.07% and 0.02% of the Company's corresponding accounts as of December 31, 2008 and 2009. Therefore, Whale Home International Co., Ltd was not included in the consolidated financial statement.

- C. The adjustments and arrangements for the different fiscal year between the subsidiaries and the parent company: not applicable
- D. The adjustments and arrangements for the different accounting policies between the subsidiaries and the parent company: not applicable
- E. The limitation under certain regulations and contracts to certain subsidiaries on appropriation of retained earnings: none

(2) Cash equivalents

Cash equivalents represent all highly liquid investments which are convertible into cash in a fixed amount at any time, due in near future, and have interest rate changes that cause insignificant impacts (if any) on its value. This also includes commercial paper payables with a maturity period of or less than three months.

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(3) Financial assets and financial liabilities

The company and subsidiaries, pursuant to Statement of Financial Accounting Standards (“SFAS”) No. 34 “Accounting for Financial Instruments” and Regulation Governing the Preparation of Financial Reports by Securities Issuers, classifies financial assets as either financial assets at fair value through profit or loss, held-to-maturity investments, derivative financial assets for hedging, bond portfolios with no active market, available-for-sale financial assets, or financial assets carried at cost, as appropriate. When financial assets are recognized initially, they are measured at fair value plus any transaction costs of acquisition or issuance. Financial liabilities are classified as either financial liabilities at fair value through profit or loss, derivative financial liabilities for hedging, or financial liabilities at amortized cost.

Purchases or sales of financial assets made through routine trading shall be recognized and derecognized using trade date accounting (for equity instruments) or settlement date accounting (for debt instruments, beneficial certificates and derivatives). Purchases or sales made through routine trading are purchases or sales of financial assets that require delivery of assets within the period generally established by convention in the marketplace or regulation.

A. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are subsequently measured at fair value and their changes in fair value are recognized in profit and loss. They are classified as either financial assets for trading or financial assets designated as at fair value through profit or loss.

For this type of financial assets, except for derivative financial instruments and financial instruments initially designated as at fair value through profit or loss which cannot be reclassified as other financial instruments, financial instruments no longer having a purpose of short-term sales which satisfy one of the following conditions can be reclassified:

- (A) Those which satisfy the definition of loans or receivables and which the company intends to and has the ability to hold on to until the foreseeable future or mature date are reclassified as other categories of financial assets.
- (B) Those which do not satisfy the definition of loans or receivables can only be reclassified as other category of financial assets under rare circumstances.

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For the forementioned reclassification, fair value as at the date of reclassification becomes the new cost or amortized cost of the asset (at the date of reclassification). Any profit or loss recognized prior to reclassification cannot be reversed.

Financial instruments that were not initially recognized as financial assets at fair value through profit or loss cannot be reclassified as so subsequently.

B. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity investments, bond portfolios with no active market and financial assets carried at cost. After initial recognition, available-for sale financial assets are measured at fair value with gains or losses being recognized as an adjustment to equity until the investment are derecognized except for impairment losses and exchange losses/gains for currency-natured financial assets. When available-for-sale financial assets are derecognized, their accumulated gains or losses will be reflected under profit or loss.

Those which satisfy the definition of loans or receivables and which the company intends to and has the ability to hold on to until the foreseeable future or mature date are reclassified as bond portfolios with no active market. Upon reclassification, fair value as at the date of reclassification becomes the new cost or amortized cost of the asset (at the date of reclassification). Related losses and profits originally recognized as adjustments to owners' equity are amortized periodically and reflected through profit and loss.

C. Derivatives designated as for hedging

Derivatives are designated as effective hedging instrument in accordance with hedge accounting. They are measured at fair value.

D. Financial assets carried at cost

If the fair values of equity instruments that are not quoted in an active market and derivatives which are linked to and must be settled by delivery of such unquoted equity instrument cannot be reliably measured, these instruments and derivatives shall be measured at cost.

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E. Subsequent measurement of financial liabilities

After initial recognition, the Company measures all financial liabilities at amortized cost, except for financial liabilities at fair value through profit or loss and derivative financial liabilities for hedging, which shall be measured at fair value.

The fair value of investments is determined by reference to the closing price at the balance sheet date for listed shares and depository receipts, and the net asset value (at the balance sheet date) for open-end funds.

(4) Allowances for doubtful accounts

The allowance for doubtful accounts is provided based on history of bad debts, aging report and evaluation of the collectability of notes and accounts receivable.

(5) Inventories

Before January 1, 2009, please refer to the previous accounting policy. Inventories are stated at the lower of cost or market value using the gross comparison method. Replacement cost is used to determine the market value. The company and Formosa Oil (Asia Pacific) Corp.'s costs of raw materials, finished goods and work in process are determined using the Last-in First-out method, while supplies are measured by the weighted-average method. The other subsidiaries' inventories are measured by the weighted-average method.

Effective January 1, 2009, inventories are valued at the lower of cost and net realizable value. The market values of raw materials are determined on the basis of replacement cost while the market values of work in process and finished goods are determined by net realizable values. Inventories are valued at the lower of cost and net realizable value item by item.

Cost incurred in bringing each product to its present location and condition is accounted for as follows:

- | | | |
|-------------------------------------|---|---|
| Raw materials | - | Purchase cost on a weighted average cost formula. |
| Work in progress and finished goods | - | Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity on a weighted average cost formula. |

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(6) Long-term equity investments-equity method

The difference between the acquisition cost of the investment and the Company's share of net assets is analyzed and accounted for in the manner of acquisition cost allocation as provided in SFAS No.25 "Business Combination-Accounting Treatment under Purchase Method," under which goodwill is not amortized.

Foreign-currency-denominated long-term investments which are accounted for by equity method shall be translated at each balance sheet date using the prevailing exchange rate. Any translation difference is recorded as "cumulative translation adjustment", which is a component of stockholders' equity.

When the Company holds other companies' common stocks which satisfy one of the following circumstances, the investments should be classified as long-term equity investment and are accounted for by the equity method:

- A. The Company exercises mastery over the operating and financial policies of the investee companies.
- B. The percentage of ownership exceeds 20%. Nevertheless, the investments where there are evidences reveal that the Company does not exercise significant influence on the operating and financial policies of the investee companies are excepted.
- C. The percentage of ownership is less than 20%, but the Company exercises significant influence on the operating and financial policies of the investee companies.

Gain or loss on disposal of long-term investments is based on the difference between selling price and book value of the investments sold. Stock dividends received are recognized only as an increase in the number of shares held and the cost of each stock is recomputed accordingly.

The unrealized profits and losses from intercompany transactions between an investor company and investee company during the current year shall be eliminated. If the transaction profits and losses come from depreciated, depleted, or amortized assets, the recognition of such profits and losses shall be spread over the useful lives of such assets; otherwise, such profit and loss shall be recognized in the year when profits or losses are realized.

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(7) Property, plant and equipment, Other assets – Property held for leasing and their Depreciation

Property, plant and equipment (“PP&E”) are stated at cost when acquired and could be revalued in accordance with the law. Outgoings on major additions, renewals and improvements are capitalized, while ordinary maintenances and repairs are expensed as incurred. Costs of PP&E, less salvage value, are depreciated on a straight-line basis over the estimated useful lives of the PP&E. From November 20, 2008, in accordance with Accounting Research and Development Foundation interpretation No.97-340, the costs of dismantling and removing an item of PP&E and storing the site on which it is located, when the obligation arises as a consequence of having used that item during a particular period for purposes other than to produce inventories during that period, must be capitalized as part of the cost of such item. Each part of an item of PP&E with a cost that is significant in relation to the total cost of the item is depreciated separately. The residual value, depreciation method and the useful life of a PP&E is reviewed at least at each financial year-end and, any change is accounted for as a change in an accounting estimate.

The estimated useful life of the property, plant and equipment is as follows:

Buildings: 25~55 years;

Machinery and equipment: 5~30 years;

Transportation equipment: 5~15 years;

Other equipment: 3~25 years

The related machines, transportation and other equipment of the Refinery and Oil products Division (excluding the Utilities factory and oil factory), Petrochemical Olefins Division and Maintenance Center in Mailiao plant, which the depreciation method of those assets has been changed from the straight-line method to the fixed-percentage-on-declining-base method from January 1, 2008. PP&E still in use after its service life are further depreciated over the newly estimated remaining useful lives. Interest expenses incurred in the period when such fixed assets are in construction or installation are capitalized and classified according to their related assets. The cost and accumulated depreciation are removed from the accounts when an item of property, plant and equipment is disposed of, and any gain or loss is credited or charged to non-operating income or expenses.

PP&E that is leased out for use on a long-term basis is reclassified into “other assets – property held for leasing” and its depreciation is classified as a non-operating expense.

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(8) Deferred expenses

A. Technology license fees

Technology license fees resulting from the technology transfer agreements entered into by the Company with the US', Korea's, Japan's and so on overseas companies are amortized on a straight-line basis over five years from the business commencement date of each plant.

B. Unamortized expenses

- (a) The catalyst for the operation of the equipment was amortized on a straight-line basis over the life of the catalyst.
- (b) The annual repair expense of the No.6 Naphtha Cracking Project District was amortized on a straight-line basis over its useful life.
- (c) The expenses incurred on the syndicated loan for the expansion of the No. 6 Naphtha Cracking Project were amortized on a straight-line basis over the loan's useful life.

C. Bonds issuance costs

The costs incurred on the issuance of convertible bonds are amortized on a straight-line basis over the period of issuance.

(9) Pensions

The Company and subsidiaries have established a pension plan for their employees, and a pension supervisory committee was set up by each company in accordance with the Labor Standards Law in January 1997. Under the plan, the Company and subsidiaries contribute a certain percentage of the total salaries and wages to the pension fund on a monthly basis. The pension funds are independent to the Company and subsidiaries and are administered by the Bank of Taiwan.

Pursuant to the Statement of Financial Accounting Standards ("SFAS") No. 18, "Accounting for Pensions", the net periodic pension costs are recognized on the basis of actuarial calculation, for a defined benefit pension plan. Pension costs normally include service cost for the current period, interest cost, expected return on plan assets, unrecognized net transitional obligations and amortization of pension benefits. Unrecognized net transitional obligations are amortized on a straight-line basis over 10 years. For defined contribution plans, the Company and subsidiaries record, on an accrual basis, the contributions in profit and loss.

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The Labor Pension Act of R.O.C. ("the Act"), which adopted a defined contribution scheme, became effective on July 1, 2005. In accordance with the Act, employees of the Company and subsidiaries may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Company and subsidiaries shall make monthly contributions to the employees' individual pension accounts on a basis no less than 6% of the employees' monthly wages.

(10) Income taxes

Inter-period and intra-period income taxes are allocated in accordance with the SFAS No.22, "Accounting for Income Taxes". Income tax effects arising from taxable temporary differences are recognized as deferred income tax liabilities. Income tax effects arising from deductible temporary differences, loss carry forwards and income tax credits are recognized as deferred income tax assets, and a valuation allowance is provided based on the expected realizability of the deferred income tax assets.

Income tax credits arising from acquisitions of equipment or technology, research and development, personnel training, and equity investments are recognized in the current year.

The additional 10% undistributed earnings tax is recorded in the year which the shareholders resolve the earnings shall be retained.

The R.O.C. government enacted the Alternative Minimum Tax Act ("AMT Act"), which became effective on January 1, 2006. The company calculates alternative minimum tax ("AMT") in accordance with this Act, and recognizes the higher of this amount and income tax payable calculated in accordance with the Income Tax Act as income tax expense. Also, the company considers the lowest of future income tax payables when valuing the realizability of deferred income tax assets.

(11) Derecognition of financial assets and liabilities

A. Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when the transferor surrenders control over those financial assets (or, where applicable, a part of a financial asset or part of a group of similar financial assets). A sale must be accounted for, an amount equal to the consideration received, when the company transfer all or part of a financial asset and surrenders control over it.

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If a transfer of financial assets in exchange for cash or other consideration (other than beneficial interests in the transferred assets) does not meet the criteria for a sale, the Company accounted for the transfer as a borrowing with collateral. The rights to the acquired assets are not derivative financial instruments.

B. Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

(12) Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. Financial assets measured differently have methods of impairment as follows:

A. Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity's financial instruments have been incurred, the company recognizes impairment loss. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Reversal for such loss is prohibited.

B. Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value or recoverable amount, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals in

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respect of equity instruments classified as available-for-sale are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

(13) Derivative financial instruments and hedging

The Company and subsidiaries use derivative financial instruments such as forward currency contracts, interest rate swaps and energy commodity swaps to hedge its risks associated with foreign currency, interest rate and petroleum prices fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

For the purpose of hedge accounting, hedges are classified as:

- A. Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability;
- B. Cash flow hedges when hedging exposure to variability in cash flows (which affect profit and loss) that is either attributable to a particular risk associated with a recognized asset or liability (eg. the entirety of a liability with a floating interest rate or part of a future interest payable) or a forecast transaction.

At the inception of a hedge relationship, the Company and subsidiaries formally designate and document hedge relationship to which the Company and subsidiaries wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

A. Fair value hedges

Fair value hedges are hedges of the Company's exposure to changes in the fair value of a recognized asset or liability or an unrecognized confirmed commitment, or an identified portion of such an asset, liability or firm commitment. Gains or losses arising from the hedging of these hedged items (ie. adjustments to the book values of these items) are recognized as profits or losses. For a fair value hedge, the derivative is remeasured at fair value and gains and losses generated by it are recognized as profit or loss.

For fair value hedges relating to items carried at amortized cost, the adjustments to carrying value (made in accordance with the paragraph above) is amortized using the effective interest method through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss. Amortization must begin either as soon as an adjustment is recognized or no later than the end of the period the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognized confirmed commitment is designated as a hedged item, its subsequent cumulative change in the fair value attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. Changes in the fair value of the hedging instrument are also recognized as profit or loss.

The Company discontinues fair value hedge accounting:

- (a) If the hedging instrument expires or is sold, terminated or executed.
- (b) The hedge no longer meets the criteria for hedge relationships.
- (c) The Company revokes the designation of an item as a hedge.

B. Cash flow hedges

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly as an adjustment to equity, while the ineffective portion is recognized in profit or loss.

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When a hedged forecasted transaction will lead to the recognition of a financial asset or financial liability, any related gain or loss originally directly recognized as an adjustment to equity is transferred into profit or loss, for the period in which the asset or liability affects profit or loss. When the hedging of a forecasted transaction will lead to the recognition of a non-financial asset or non-financial liability, any risk from a hedged instrument originally directly recognized as an adjustment to equity becomes an adjustment to the asset or liability's book value.

If the forecast transaction is no longer expected to occur, related accumulated gains or losses previously recognized as adjustments to equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or executed without replacement or rollover, or if its designation as a hedge is revoked, the accumulated amount previously recognized as an adjustment to equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is then transferred to profit or loss.

(14) Foreign currency transactions

The company and subsidiaries record foreign-currency denominated assets, liabilities, revenues, or expenses generated from foreign-currency transactions of non-derivative financial instruments using the spot exchange rate prevailing at the date each transaction occurred. Monetary assets and liabilities denominated in foreign currencies are retranslated at the balance sheet date at the spot exchange rate prevailing at that date. At each balance sheet date, non-monetary items denominated in foreign currencies that are measured at fair value shall be translated using the exchange rates at the date when the fair value was determined. If their changes in fair value are recognized directly in equity, their exchange differences recognized as adjustments to equity. If those changes are recognized in profit or loss, their exchange differences shall be recognized in profit or loss. Non-monetary, foreign currency denominated items that are not measured at fair value shall be measured using the historical exchange rate prevailing at the date of the transaction.

The Company and subsidiaries adopted the SFAS No.34 "Accounting for Financial Instruments" to account for foreign currency transactions (contracts) of derivative financial instruments.

(15) Earnings per share (EPS)

The Company and subsidiaries adopts the SFAS No.24, "Accounting for Earnings Per Share" to calculate EPS. Basic EPS should be calculated by dividing net income (or loss) for the reporting period attributable to common stockholders by the weighted-average number of common shares outstanding during that period.

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Where new shares are issued for cash injection, convertible bonds are converted into the Company's common shares, employees exercise their stock options or the Company buys back the treasury stock, the number of common shares outstanding during the period should be computed on a weighted-average basis according to the length of the circulation period of these common shares. Additionally, the basic earnings per share and diluted earnings per share should be adjusted retroactively when stock dividends are distributed.

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

Assets that are held mainly for the purpose of trading and are part of a routine business cycle, expected to be converted into cash within twelve months from the balance sheet date, or converted into cash, consumed or designated for sale during routine business processes are classified as current assets.

Liabilities that are to be paid off within twelve months from the balance sheet date or those generated from carrying on business that are expected to be paid off within routine business processes of the enterprise's business cycle are classified as current liabilities. Assets (liabilities) which do not fall into the above categories are classified as non-current assets (liabilities).

(17) Asset Impairment

Pursuant to the Statement of Financial Accounting Standards No. 35, "Accounting for Asset Impairment", the Company assesses indicators for impairment for all its assets within the scope of SFAS No. 35 at each balance sheet date. If indicators of impairment exist, the Company, in accordance with SFAS No. 35, performs impairment testing on individual assets or cash-generating units ("CGU"). If test results reveal that the carrying amount of an asset (or CGU) exceeds its recoverable amount, the former must be written down to the latter and the difference must be recognized as an impairment loss. Recoverable amount is defined as the higher of fair value less costs to sell and the value in use. For previously recognized losses, the Company shall assess, at each balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any such indication, the Company has to recalculate the recoverable amount of the asset. If the recoverable amount increases as a result of the increase in the estimated service potential of the assets, the Company shall reverse the impairment loss to the extent that the carrying amount after the reversal would not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

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(18) Revenue recognition

The Company and subsidiaries recognize revenue when persuasive evidence proves that a transaction exists, goods has been delivered with risks and benefits transferred, services has been rendered, the asset has been supplied or provided for another entity's usage, the selling price is fixed or determinable and its collectability is reasonably assured.

(19) Classification between capital expenditure and revenue expenditure

Quantitatively material expenditures providing/resulting in benefits for over two years are capitalized. Others are recognized as expenses or losses.

(20) Employees' bonuses and directors' and executives' remuneration

According to Article NO.52 "Accounting for Employees' Bonuses and Directors' and executives' Remuneration" prescribed by the R.O.C. Accounting Research and Development Foundation in March, 2007, the costs of employees' bonuses and directors' and executives' remuneration are treated as expenses and liabilities, instead of the appropriation of retained earnings.

(21) Convenience conversion into US dollars

The financial statements are stated in NT dollars. Conversion of the December 31, 2009 NT dollar amounts into US dollar amounts is provided solely for the convenience of the readers, using the average exchange rate of NT\$32.03 to US\$1.00 on December 31, 2009. The convenience conversion should not be construed as representation that the NT dollars amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

3. CHANGES IN ACCOUNTING PRINCIPLES

- (1) Effective January 1, 2009, the Company and subsidiaries adopted newly revised SFAS No.10, "Accounting for Inventories". The main revisions are (1) prohibiting the use of Last-in First-out method; (2) inventories are valued at the lower of cost and net realizable. value item by item except those on the basis of classified items; (3) unallocated overheads resulted from low production or idle plant are recognized as costs of sales in the period in which they are incurred; and (4) abnormal amounts of production costs of inventories, and loss for value decline (or gains from value recovery) are recognized as cost of sales.

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As a result of adopting the revised SFAS No.10, the Company and subsidiaries changed the cost formula of finished goods, work in progress and raw materials from Last-in First-out to weighted average. Consequently the beginning inventories were reduced by NT\$6,313,207 thousand, and the debit balance of cumulative effects of changes in accounting principles net of tax were increased by NT\$4,734,906 thousand. The net income and earnings per share for the year ended December 31, 2009, were NT\$4,734,906 thousand and NT\$0.49 lower, respectively. The non-operating income of NT\$346,130 thousand and the non-operating loss of NT\$8,252,120 thousand for the year ended December 31, 2008, were also reclassified to cost of goods sold.

- (2) According to the amendment of Income Tax Act, Effective from the year 2010, the corporate tax rate will be reduced from 25% to 20%. The net income and earnings per share for the year ended December 31, 2009, were NT\$1,068,743 thousand and NT\$0.11 lower, respectively.
- (3) From January 1, 2008, the depreciation method of certain fixed assets such as machinery, transportation and other equipment of Refinery and Oil products Division (excluding the Utilities Factory and Oil Factory), Petrochemical Olefins Division and Maintenance Center in Mailiao plant have been changed from the straight-line method to the fixed-percentage-on-declining-base method. This change in estimation method resulted in a decrease of net income after tax by approximately \$9,927,230 thousand and a decrease of earnings per share by approximately \$1.04 (the earnings per share had been retrospectively adjusted according to capital increase) for the year ended December 31, 2008.
- (4) From January 1, 2008, the Company adopted the Article NO.52 "Accounting for Employees' Bonuses and Directors' and Executives' Remuneration", prescribed by the R.O.C. Accounting Research and Development Foundation in 2007. The change resulted in no effect for the year ended December 31, 2008. Please refer to Note 4. (22).
- (5) From January 1, 2008, the Company adopted the SFAS No. 38 "Accounting for Non-current Assets Held for Sale and Discontinued Operations" and related articles of each communiqué. Please refer to Note 4. (9).

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4. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2008	December 31, 2009	
	NTD	NTD	USD
Cash on hand and petty cash	\$47,802	\$8,715	\$272
Cash in banks	1,548,543	4,350,274	135,819
Time deposits	48,000	48,000	1,499
Commercial paper	208,162	180,111	5,623
Repurchase Bonds	-	670,010	20,918
Total	\$1,852,507	\$5,257,110	\$164,131

A. The above cash and cash equivalents were not pledged as collateral or restricted uses.

B. Repurchased Bonds and commercial papers included highly liquid investments that are readily convertible to cash with an original maturity of three months or less when purchased.

(2) Available-for-sale financial asset-current

	December 31, 2008	December 31, 2009	
	NTD	NTD	USD
Listed securities	\$10,500,457	\$19,269,159	\$601,597

No securities listed above were pledged as collateral or restricted uses.

(3) Derivative financial assets (liabilities) for hedging-current or non-current

	December 31, 2008		December 31, 2009			
	Asset	Liability	Asset		Liability	
	NTD	NTD	NTD	USD	NTD	USD
Energy commodity swap contracts	\$57,968	\$(1,990)	\$-	\$-	\$-	\$-
Fair value of interest rate swap contracts for long-term syndicated loan for No. 6 Naphtha Cracking Project	-	(753,948)	-	-	(473,470)	(14,782)
Fair value of interest rate swap contracts for domestic unsecured unconvertible bonds	116,530	(5,069)	25,197	787	-	-
Fair value of derivatives embedded in unsecured unconvertible bonds	5,069	(116,530)	-	-	-	-
	179,567	(877,537)	25,197	787	(473,470)	(14,782)
Less: Derivative financial assets (liabilities) for hedging-current	(57,968)	(1,990)	25,197	787	(68,141)	(2,127)
Derivative financial assets (liabilities) for hedging-non-current	\$121,599	\$(875,547)	\$-	\$-	\$(405,329)	\$(12,655)

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The abovementioned interest rate swap contract for domestic unsecured unconvertible bonds and the derivative embedded in unsecured convertible bonds hedge to each other. The derivatives embedded in unsecured convertible bonds were due in August, 2009.

A. Energy commodity swap contracts

- a. As of December 31, 2008, there were 11 energy commodity swap contracts outstanding. As of December 31, 2009, all the energy commodity swap contracts are settled up. The Company used these contracts (highly relevant derivative financial instruments) to hedge the fluctuations of international crude oil and petroleum product prices. The swap contracts entered into by the Company are highly correlated with the price movement of the hedged items and periodic reviews are conducted on the swap contracts undertaken. All energy commodity swap contracts currently held by the company are held for non-trading purposes. The Company has not entered into any swap contracts for purposes other than hedging. Please refer to Note 10 for details of the company's financial risk management objectives and policies, hedging strategies and activities.
- b. For hedging fluctuations of international crude oil and petroleum product prices, the outstanding energy commodity swap contracts were as follows:

Type of Transaction	Pricing Period	Quantity	December 31, 2008	
			Book Value	
			Asset NTD	Liability NTD
Singapore Jet fuel/Dubai Crack Swap	Oct. 1.2008~Mar.31, 2009	350 (1,000 bbls)	\$36,169	\$(1,208)
Singapore gasoil/Dubai Crack Swap	Oct. 1.2008~Dec. 31,2008	170 (1,000 bbls)	21,799	(782)
Subtotal			57,968	(1,990)
Less: Derivative financial assets (liabilities) for hedging-current			(57,968)	(1,990)
Derivative financial assets (liabilities) for hedging-non-current			\$-	\$-

B. Interest rate swap contracts

- a. In order to hedge the cash flow interest rate risk arising from long-term syndicated loan for No. 6 Naphtha Cracking Project and domestic unsecured unconvertible bonds, the company has entered into interest rate swap (IRS) contracts with several (domestic, foreign) financial institutions to swap its interest liability calculated on a floating rate with one calculated on a fixed rate. Please refer to Note 10 for details of financial risk management objectives and policies, hedging strategies and activities.

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- b. For long-term syndicated loan for No. 6 Naphtha Cracking Project, the details of the outstanding IRS were as follows:

		December 31, 2008		
		Book Value		
Bank	Settlement date	Principal	Asset NTD	Liability NTD
BNP Paribas	Sep.8, 2013	NT1,000,000	\$-	\$(54,716)
Citibank	Sep.5, 2013	2,000,000	-	(111,884)
Fortis Bank	Sep. 2, 2013~Sep.17,2013	7,100,000	-	(384,670)
Yuanta Bank	Sep.9, 2013	1,000,000	-	(53,824)
Changhwa Bank	Sep. 2, 2013	1,000,000	-	(56,161)
Subtotal		NT12,100,000	-	(661,255)
ABN-AMRO Bank	Jul.14, 2010	US20,000	-	(16,874)
Calyon Corporate and Investment Bank	Jul.19, 2010	17,420	-	(14,925)
Taipei Fubon Bank	Aug.16,2010	20,000	-	(20,836)
Deutsche Bank	Aug.26,2010	10,000	-	(10,307)
DBS Bank	Aug.23, 2010~Sep.9, 2010	30,000	-	(29,751)
Subtotal		US97,420	-	(92,693)
Total			-	(753,948)
Less: Derivative financial assets (liabilities) for hedging-current			-	-
Derivative financial assets (liabilities) for hedging-non-current			\$-	\$(753,948)

		December 31, 2009				
		Book Value				
Bank	Settlement date	Principal	Asset		Liability	
			NTD	USD	NTD	USD
BNP Paribas	Sep.8, 2013	NT1,000,000	\$-	\$-	\$(34,428)	\$(1,075)
Citibank	Sep.5, 2013	2,000,000	-	-	(68,638)	(2,143)
Fortis Bank	Sep. 2, 2013~Sep.17,2013	7,100,000	-	-	(234,398)	(7,318)
Yuanta Bank	Sep.9, 2013	1,000,000	-	-	(32,605)	(1,018)
Changhwa Bank	Sep. 2, 2013	1,000,000	-	-	(35,260)	(1,101)
Subtotal		NT12,100,000	-	-	(405,329)	(12,655)
ABN-AMRO Bank	Jul.14, 2010	US20,000	-	-	(14,411)	(450)
Calyon Corporate and Investment Bank	Jul.19, 2010	17,420	-	-	(12,591)	(393)
Taipei Fubon Bank	Aug.16,2010	20,000	-	-	(14,183)	(443)
Deutsche Bank	Aug.26,2010	10,000	-	-	(6,891)	(215)
DBS Bank	Aug 23, 2010~Sep.9, 2010	30,000	-	-	(20,065)	(626)
Subtotal		US97,420	-	-	(68,141)	(2,127)
Total			-	-	(473,470)	(14,782)
Less: Derivative financial assets (liabilities) for hedging-current			-	-	(68,141)	(2,127)
Derivative financial assets (liabilities) for hedging-non-current			\$-	\$-	\$(405,329)	\$(12,655)

- c. For unsecured unconvertible bonds, the details of the outstanding IRS were as follows:

		December 31, 2008		
		Book Value		
Bank	Settlement date	Principal	Asset NTD	Liability NTD
ABN-AMRO Bank	Aug. 27, 2009-Aug. 30, 2009	\$1,000,000	\$5,717	\$(1,310)
HSBC	May 20, 2009-Aug. 25, 2009	1,500,000	10,346	-
Bank of America	May 19, 2009	1,000,000	-	(266)
BNP Paribas	Aug. 11, 2010	6,000,000	86,020	-

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		December 31, 2008		
		Book Value		
Bank	Settlement date	Principal	Asset NTD	Liability NTD
Taishin International Bank	May 3, 2009-May 14, 2009	2,500,000	1,442	(1,368)
Chinatrust Commercial Bank	May 19, 2009-May 20, 2009	3,000,000	11,820	-
E.Sua Bank	May. 5, 2009-Aug. 25, 2009	550,000	1,185	(2,125)
Total		<u>\$15,550,000</u>	116,530	(5,069)
Less: Derivative financial assets (liabilities) for hedging-current			-	-
Derivative financial assets (liabilities) for hedging-non-current			<u>\$116,530</u>	<u>\$(5,069)</u>
Fair value of derivatives embedded in unsecured unconvertible bonds			<u>\$5,069</u>	<u>\$(116,530)</u>

		December 31, 2009				
		Book Value				
Bank	Settlement date	Principal	Asset		Liability	
			NTD	USD	NTD	USD
BNP Paribas	Aug. 11, 2010	<u>\$6,000,000</u>	\$25,197	\$787	\$-	\$-
Less: Derivative financial assets (liabilities) for hedging-current			25,197	787	-	-
Derivative financial assets (liabilities) for hedging-non-current			<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>

(4) Financial assets (liabilities) at fair value through profit or loss-current and non-current

	December 31, 2008		December 31, 2009			
	Asset	Liability	Asset		Liability	
	NTD	NTD	NTD	USD	NTD	USD
Forward foreign exchange contract	\$537,994	\$-	\$225,227	\$7,032	\$-	\$-
Interest rate swap contracts	-	(70,061)	-	-	(47,711)	(1,490)
Subtotal	537,994	(70,061)	225,227	7,032	(47,711)	(1,490)
Less : financial assets (liabilities) at fair value through profit or loss-current	-	-	-	-	(34,713)	(1,084)
Financial assets (liabilities) at fair value through profit or loss-non-current	<u>\$537,994</u>	<u>\$(70,061)</u>	<u>\$225,227</u>	<u>\$7,032</u>	<u>\$(12,998)</u>	<u>\$(406)</u>

A. Long-term forward contracts

- a. In order to hedge the exchange rate risk arising from USD long-term syndicated loan for No. 6 Naphtha Cracking Project, the Company has signed long-term forward contracts with (domestic, foreign) financial institutions. However, hedge accounting was not applied to these contracts as they failed the strict hedge criteria. Accordingly, these contracts were treated as for trading. Please refer to Note 10 for details of financial risk management objectives and policies, hedging strategies and activities.

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b. The details of the outstanding long-term forward contracts were as follows:

		December 31, 2008				
Bank	Period	Principal (Thousands of dollars)	Book Value			
			Asset NTD	Liability NTD		
ABN-AMRO Bank	Aug. 2003 – Jun. 2011	US58,333	\$68,425		\$-	
Deutsche Bank	Oct. 2003 – Jun. 2011	50,000	129,925		-	
HSBC	Apr. 2004 – Jun. 2011	33,000	108,302		-	
Chinatrust Commercial Bank	Apr. 2004 – Jun. 2011	40,000	45,992		-	
Mega International Commercial Bank	Apr. 2004 – Jun. 2011	20,000	58,310		-	
BNP Paribas	Nov. 2004 – Jun. 2011	35,000	54,009		-	
Barclays Bank	Nov. 2004 – Jun. 2011	20,000	32,005		-	
Citybank	Mar. 2005 – Jun. 2011	10,000	41,026		-	
Financial assets (liabilities) at fair value through profit or loss-non-current		<u>US266,333</u>	<u>\$537,994</u>		<u>\$-</u>	

		December 31, 2009				
Bank	Period	Principal (Thousands of dollars)	Asset		Liability	
			NTD	USD	NTD	USD
ABN-AMRO Bank	Aug. 2003 – Jun. 2011	US35,000	\$29,143	\$910	\$-	\$-
Deutsche Bank	Oct. 2003 – Jun. 2011	30,000	50,277	1,570	-	-
HSBC	Apr. 2004 – Jun. 2011	20,000	58,867	1,838	-	-
Chinatrust Commercial Bank	Apr. 2004 – Jun. 2011	24,000	19,824	619	-	-
Mega International Commercial Bank	Apr. 2004 – Jun. 2011	12,000	34,915	1,090	-	-
BNP Paribas	Nov. 2004 – Jun. 2011	21,000	7,558	236	-	-
Barclays Bank	Nov. 2004 – Jun. 2011	12,000	1,865	58	-	-
Citybank	Mar. 2005 – Jun. 2011	6,000	22,778	711	-	-
Financial assets (liabilities) at fair value through profit or loss-non-current		<u>US160,000</u>	<u>\$225,227</u>	<u>\$7,032</u>	<u>\$-</u>	<u>\$-</u>

B. Interest rate swap contracts

a. In order to hedge the cash flow interest rate risk arising from long-term syndicated loan for No. 6 Naphtha Cracking Project, the company has entered into interest rate swap (IRS) contracts with several (domestic, foreign) financial institutions. However, the company revokes the designation as a result of the repayment of partial syndicated loan effective from April 1, 2006. Accordingly, these contracts were treated as for trading. Those previously recognized as derivative financial assets (liability) for hedging-non-current shall be reclassified under financial assets (liability) at fair value through profit or loss-non-current and the changes in the fair value of the hedging instrument previously recognized as adjustments to unrealized profit/loss in equity are transferred to profit or loss. Please refer to Note 10 for details of financial risk management objectives and policies, strategy and activities.

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b. The details of the outstanding IRS were as follows:

		December 31, 2008		
		Book Value		
Bank	Settlement date	Principal	Asset NTD	Liability NTD
First Bank	Sep.17, 2013	NT500,000	\$-	\$(23,789)
Taipei Fubon Bank	Sep.17, 2010	US20,000	-	(15,860)
DBS Bank	Sep.17, 2010	20,000	-	(16,301)
HSBC	Sep.17, 2010	20,000	-	(14,111)
Subtotal		US60,000	-	(46,272)
Financial assets (liabilities) at fair value through profit or loss-non-current			\$-	\$(70,061)

		December 31, 2009				
		Book Value				
		Asset		Liability		
Bank	Settlement date	Principal	NTD	USD	NTD	USD
First Bank	Sep.17, 2013	NT500,000	\$-	\$-	\$(12,998)	\$(406)
Taipei Fubon Bank	Sep.17, 2010	US20,000	-	-	(11,596)	(362)
DBS Bank	Sep.17, 2010	20,000	-	-	(11,571)	(361)
HSBC	Sep.17, 2010	20,000	-	-	(11,546)	(361)
Sub total		US60,000	-	-	(34,713)	(1,084)
Total			-	-	(47,711)	(1,490)
Less : financial assets (liabilities) at fair value through profit or loss-current			-	-	(34,713)	(1,084)
Financial assets (liabilities) at fair value through profit or loss-non-current			\$-	\$-	\$(12,998)	\$(406)

(5) Notes and accounts receivable

	December 31, 2008	December 31, 2009	
	NTD	NTD	USD
A. Notes receivable	\$120,183	\$187,752	\$5,862
Less: Allowance for doubtful accounts	(27,036)	(21,873)	(683)
Notes receivable, net	\$93,147	\$165,879	\$5,179
B. Notes receivable-related parties	\$2,588,464	\$2,001,259	\$62,481
Less: Allowance for doubtful accounts	-	-	-
Notes receivable-related parties, net	\$2,588,464	\$2,001,259	\$62,481
C. Accounts receivable	\$17,440,800	\$31,905,886	\$996,125
Less: Allowance for doubtful accounts	(294,443)	(651,503)	(20,340)
Accounts receivable, net	\$17,146,357	\$31,254,383	\$975,785
D. Accounts receivable-related parties	\$11,907,950	\$32,996,929	\$1,030,188
Less: Allowance for doubtful accounts	-	-	-
Accounts receivable, related parties, net	\$11,907,950	\$32,996,929	\$1,030,188

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(6) Other receivables

A. Other receivables - non-related parties

	December 31,	December 31, 2009	
	2008	NTD	USD
	NTD	NTD	USD
Due from affiliates	\$562,809	\$2,645,000	\$82,579
Income tax refund receivable	3,556,964	3,575,924	111,643
Business tax refund receivable	3,843,674	1,259,709	39,329
Receivable from Energy Funds	500,572	417,428	13,032
Rental receivable	264,444	229,100	7,153
Others	57,515	134,695	4,205
Total	\$8,785,978	\$8,261,856	\$257,941

Details of due from affiliates were as follows:

	December 31,	December 31, 2009	
	2008	NTD	USD
	NTD	NTD	USD
Liberia Formosa Marine Corporation	\$558,909	\$2,562,400	\$80,000
Formosa Ocean Group Marine Investment Corporation	-	19,500	609
Pei Jen Corp.	-	58,900	1,839
Formosa gas station-gia fu	3,900	4,200	131
Total	\$562,809	\$2,645,000	\$82,579

B. Other receivables - related parties

	December 31,	December 31, 2009	
	2008	NTD	USD
	NTD	NTD	USD
Due from affiliates	\$29,573,700	\$3,073,700	\$95,963
Rental receivable	11,648	2,059	64
Receivables from sales of supplies	66,853	10,759	336
Interest receivables	37,082	3,348	105
Others	5,918	5,140	160
Total	\$29,695,201	\$3,095,006	\$96,628

Please refer to Note 5. (2) E (a) for details of related party transactions.

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(7) Inventories

	December 31, 2008	December 31, 2009	
	NTD	NTD	USD
Raw materials	\$21,188,880	\$25,862,421	\$807,444
Supplies	7,414,428	7,641,466	238,572
Work in process	6,481,545	9,577,448	299,015
Finished goods	20,661,996	21,560,525	673,135
Goods in transit	4,521,418	4,698,759	146,699
By-product	306,615	384,066	11,991
Less: Allowance for inventory valuation	(8,252,120)	(176,863)	(5,522)
Total	<u>\$52,322,769</u>	<u>\$69,547,822</u>	<u>\$2,171,334</u>

A. Certain inventories (crude oil and petroleum product) have been pledged as collaterals (in accordance with contractual terms and upon consideration the price calculated with respect to the international market's condition) for the USD 400 million medium-term syndicated loan provided by China Trust Commercial Bank since the third quarter of 2004. Please see Note 6 for details.

B. The details of expenses of inventories were as follows :

	December 31, 2008	December 31, 2009	
	NTD	NTD	USD
Loss on inventory valuation / gains from price recovery of inventory	\$8,252,120	\$(8,075,257)	\$(252,116)
Gains on physical inventory	(346,130)	(422,291)	(13,184)
Unallocated overhead	-	4,492,483	140,259
Total	<u>\$7,905,990</u>	<u>\$(4,005,065)</u>	<u>\$(125,041)</u>

Gain from price recovery of inventory resulted in the recovery of the net realizable value effect the petroleum prices fluctuations for the year ended on December 31, 2009.

(8) Prepayments

	December 31, 2008	December 31, 2009	
	NTD	NTD	USD
Prepayments for purchases	\$578,690	\$2,444,145	\$76,308
Prepaid maintenance fees	2,435,895	4,089,594	127,680
Prepaid rent	506,758	287,654	8,981
Prepaid insurance premium	78,376	73,154	2,284
Prepaid taxes	45,912	59,875	1,869
Other prepaid expenses	425,408	60,580	1,891
Total	<u>\$4,071,039</u>	<u>\$7,015,002</u>	<u>\$219,013</u>

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(9) Non-current assets held-for-sale

	December 31, 2008	December 31, 2009	
	NTD	NTD	USD
Held-for-sale land	\$80,522	\$-	\$-
Held-for-sale buildings (net)	28,927	-	-
Total	<u>\$109,449</u>	<u>\$-</u>	<u>\$-</u>

For promoting the efficiency of operating capital and cash flow, the company has sold the land and building of YaKwan in 2008, the total price amounted to \$109,499 thousand and the down payment, \$10,264, was received as of December 31, 2009. However, the buyer no longer willing to continue with this transaction in 2009 and it will be reclassified from non-current asset held-for-sale to idle assets.

(10) Fund and long-term investments

A. Assets carried at cost-non-current

Investee	December 31, 2008		December 31, 2009		
	NTD	Percentage of Ownership (%)	NTD	USD	Percentage of Ownership (%)
Nanya Technology Corporation	\$-	-	\$1,900,210	\$59,326	4.57%
Asia Pacific Investment Corporation	117,500	2.11%	117,500	3,669	2.11%
Formosa Network Technology Corporation	13,331	12.50%	13,331	416	12.50%
Formosa Heavy Industries Corporation	116,955	1.26%	116,955	3,651	1.26%
Formosa Ocean Group Marine Investment Corporation	856,948	19.00%	856,948	26,755	19.00%
Rui Hui Corporation	44,909	6.25%	-	-	6.25%
Pu hwa corporation	5,000	4.99%	5,000	156	4.99%
Amtrust Capital 1 Corporation	50,000	3.91%	50,000	1,561	3.91%
Subtotal	<u>1,204,643</u>		<u>3,059,944</u>	<u>95,534</u>	
Less: Accumulated impairment	<u>(18,530)</u>		<u>(2,530)</u>	<u>(735)</u>	
Total	<u>\$1,186,113</u>		<u>\$3,036,414</u>	<u>\$94,799</u>	

(a) The Company participated in the private placement of Nan Ya Technology Corporation and has acquired \$1,900,210 thousand worth of securities in June, 2009 to obtain a stake of 6.04% in the ownership of Nan Ya Technology Corporation after its capital increase. Besides, according to regulations, the Company is not allowed to trade acquired equity in the centralized market within the lock up period of three years (until September 2012). Therefore such the financial instrument is without quote in the market and is therefore accounted for as the financial asset carried at cost.

(b) In order to reorganize the enterprise, facilitate the specialized labor divisions and attract new investors, Gala Television Corporation decided to spin off its real estate department and established Rui Hui Corporation (sister company)

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during 2008. The aim was to enhance the overall operating performance and market competitiveness. The shareholders of Gala Television Corporation received shares issued by Rui Hui Corporation as considerations for this transaction. Rui Hui Corporation issued common shares of 164,765 thousand shares to acquire the spin off operation, valued at \$1,647,645 thousand, from Gala Television Corporation. At that time, the Company still owned 6.25% of its equity. The Company subsequently disposed of all the shares and made a gain of \$131,121 thousand. Rui Hui Corporation had resolved to liquidate its operation in 2009 and reduced its issued capital to \$500 thousand prior to the liquidation. The amount of capital deducted by returning cash \$167,027 thousand and recognized a gain on disposal of investments \$122,118 thousand.

- (c) As of December 31, 2009, the total amounts of impairment loss are \$5,000 and \$18,530 thousand are recognized by Pu Hwa Corporation and Amtrust Capital 1 Corporation, respectively.

B. Long-term equity investments-equity method

Investee	December 31, 2008		December 31, 2009		
	NTD	Percentage of Ownership (%)	NTD	USD	Percentage of Ownership (%)
Mai-Liao Power Corporation	\$9,122,584	24.94%	\$11,324,046	\$353,545	24.94
Yi-Chi Construction Corporation	85,358	40.55%	85,747	2,677	40.55
Mailiao Harbor Administratino Corporation	2,243,068	44.96%	2,168,851	67,713	44.96
Formosa Development Corporation	339,401	45.99%	550,663	17,192	45.99
Formosa Marine Corpoation	17,296	20.00%	53,456	1,669	20.00
Simosa Oil corporation	139,663	20.00%	170,740	5,330	20.00
Formosa Environmental Technology Corporation	84,507	24.34%	56,683	1,770	24.34
Caltex Taiwan Corporation	69,000	50.00%	61,714	1,927	50.00
Formosa Ha tinh Steel Corporation	3,616	22.50%	93,293	2,913	22.50
Formosa Plastics Synthetic Rubber	-	-	199,532	6,230	33.33
Whale Home International Corp.	196,045	64.69%	201,238	6,283	64.69
TMS Corp.	16,711	49.00%	22,210	693	49.00
Neumin Oil and Gas, LLC.	276,714	50.00%	86,065	2,687	50.00
Subtotal	<u>\$12,593,963</u>		<u>\$15,074,238</u>	<u>\$470,629</u>	

- (a) For the years ended December 31, 2008 and 2009, the investment income under the equity method amounted to \$989,070 thousand and \$2,452,034 thousand, respectively. The financial statements of Mai-Liao Power Corporation, Simosa Oil Corporation, Formosa Ha tinh Steel Corporation and Neumin Oil and Gas, LLC. were audited by the other auditor.

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(b) For those investees accounted for under the equity method, the unrealized intercompany loss and profit for the year ended December 31, 2008 and 2009 amounted to \$39,700 thousand and \$0 thousand, respectively.

(c) Long-term equity investments does not pledged as collaterals for bank loans as of December 31, 2008 and 2009.

(11) Property, plant and equipment

	December 31, 2008	December 31, 2009	
	<u>NTD</u>	<u>NTD</u>	<u>USD</u>
Cost			
Land	\$19,444,663	\$19,444,663	\$607,076
Buildings	38,799,108	39,614,859	1,236,805
Machinery and equipment	298,933,324	305,404,602	9,534,955
Transportation equipment	763,275	1,455,560	45,444
Other equipment	2,978,445	3,150,313	98,355
Leasehold Improvement	366,821	371,659	11,603
Construction in progress	10,866,690	8,462,035	264,191
Prepayment for purchase of equipment	1,741,966	669,708	20,909
Prepayment for purchase of land	2,474,835	2,862,035	89,355
Subtotal	<u>376,369,127</u>	<u>\$381,435,434</u>	<u>\$11,908,693</u>
Accumulated depreciation			
Buildings	\$(9,163,237)	\$(10,755,252)	\$(335,787)
Machinery and equipment	(104,854,007)	(135,111,222)	(4,218,271)
Transportation equipment	(609,061)	(648,726)	(20,254)
Other equipment	(1,733,323)	(2,009,071)	(62,725)
Leasehold Improvement	(140,722)	(173,451)	(5,415)
Subtotal	<u>(116,500,350)</u>	<u>(148,697,722)</u>	<u>(4,642,452)</u>
Property, plant and equipment, net	<u>\$259,868,777</u>	<u>\$232,737,712</u>	<u>\$7,266,241</u>

A. From January 1, 2008, the company changed the depreciation method of certain fixed assets such as machinery, transportation and other equipment of Refinery and Oil products Division (excluding the Utilities Factory and Oil Factory), Petrochemical Olefins Division and Maintenance Center in Mailiao plant from the straight-line method to the fixed-percentage-on-declining-base method. In order to reflect the reasonable economic service lives of property, plant, and equipment, the company accelerates depreciation for relevant production equipments, for they have been utilized more frequently as a result of the petroleum products and petrification industry prospering in the recent two years. The above change in depreciation method for property, plant and equipment was approved by the Securities and Futures Bureau of Financial Supervisory Commission, Executive Yuan, on January 2, 2008.

B. Please refer to Note 6 for details of the property, plant and equipment pledged as collaterals.

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- C. Interest expenses before capitalization for the year ended December 31, 2008 and 2009 were \$5,919,683 thousand and \$3,852,913 thousand, respectively. Interest expenses capitalized amounted to \$187,077 thousand and \$27,842 thousand, respectively. The capitalized interest rates were in the range of 2.54% ~ 3.41% and 1.71%~2.53%, respectively.
- D. Prepayment for land mainly represents the amount paid for the land situated in the industry section of Mailiao section and Haifong section in the offshore industrial zones in Yunlin County. Prepayments for those of which land ownership certificates have been acquired were reclassified as account of "land".
- E. Please refer to Note 5(2) D for details of assets purchased from and sold to related parties.

(12) Property held for idle assets and other assets-prepayment for land

A. Idle assets

	December 31, 2008	December 31, 2009	
	NTD	NTD	USD
Land	\$1,038,078	\$1,118,600	\$34,923
Buildings	-	40,080	1,251
Machinery and equipment	94,625	94,953	2,965
Transportation equipment	4,851	-	-
Other equipment	850	850	27
Subtotal	1,138,404	1,254,483	39,166
Less: Accumulated depreciation	(53,882)	(75,214)	(2,348)
Less: Accumulated impairment	(678,980)	(697,980)	(21,792)
Idle assets, net	<u>\$405,542</u>	<u>\$481,289</u>	<u>\$15,026</u>

Idle assets of the Company as of December 31, 2008 and 2009 were \$1,138,404 thousand and \$1,254,483 thousand, respectively. After appraising, the Company recognized impairment loss of \$6,300 thousand and \$19,000 thousand respectively for the above idle assets for the year ended December 31, 2008 and 2009.

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B. Other miscellaneous assets - land

	December 31,	
	2008	December 31, 2009
	NTD	NTD USD
Prepayment for land	\$70,791	\$70,791 \$2,210

As of December 31, 2008 and 2009, the above land was registered under a third party's name (temporarily) and to protect the interest of the Company, the land has been mortgaged to the Company through the Land Administration Bureau of Government. As of December 31, 2008 and 2009, the cost of above land and registered amount of the mortgage were both \$90,360 thousand.

(13) Deferred expenses

	December 31,	
	2008	December 31, 2009
	NTD	NTD USD
Technology license fee	\$110,983	\$53,924 \$1,683
Unamortized expenses	6,594,767	5,773,467 180,252
Bonds issuance costs	95,593	89,676 2,800
Total	\$6,801,343	\$5,917,067 \$184,735

(14) Short-term loans

A. Short-term loans

	December 31, 2008		December 31, 2009		
	Interest Rate	NTD	Interest Rate	NTD	USD
Purchase loans	Floating rate	\$31,143,578	Floating rate	\$23,630,471	\$737,760
Credit loans	Floating rate	1,588,909	Floating rate	7,436,000	232,157
Others	2.28%~2.66%	143,577	0.92%-0.95%	24,558	767
Total		\$32,876,064		\$31,091,029	\$970,684

B. Commercial paper payable

	December 31,	
	2008	December 31, 2009
	NTD	NTD USD
Commercial paper payable	\$1,600,000	\$- \$-
Less: Discount	(1,366)	- -
Total	\$1,598,634	\$- \$-

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(15) Accrued expenses

	December 31, 2008	December 31, 2009	
	NTD	NTD	USD
Accrued commodity tax	\$1,477,965	\$2,127,724	\$66,429
Accrued payrolls and bonuses	1,248,095	1,488,773	46,480
Accrued interest expenses	1,306,251	1,027,846	32,090
Accrued freight expenses	655,979	124,263	3,880
Accrued sales discounts	357,954	592,948	18,512
Accrued usage fare for facilities	104,201	146,891	4,586
Accrued marketing expense	154,468	92,956	2,902
Accrued pollution prevention expenses	106,113	139,638	4,360
Accrued loading/discharging expense (harbor)	132,711	51,658	1,613
Accrued utility expenses	4,915	116,965	3,652
Other accrued expense	893,460	1,140,785	35,616
Total	\$6,442,112	\$7,050,447	\$220,120

(16) Other payables

	December 31, 2008	December 31, 2009	
	NTD	NTD	USD
Payable for purchase of machinery	228,376	\$829,695	\$25,904
Payable for purchase of equipment - open account	1,528,876	146,171	4,564
Others	17,498	15,291	477
Subtotal	1,774,750	\$991,157	30,945
Construction materials payable to related parties	\$200,121	144,976	4,526
Due to affiliates (related parties)	1,313,300	5,149,550	160,773
Subtotal	1,513,421	\$5,294,526	165,299
Total	\$3,288,171	\$6,285,683	\$196,244

(17) Bonds payable

	December 31, 2008	December 31, 2009	
	NTD	NTD	USD
Domestic secured unconvertible bonds	\$5,400,000	\$3,600,000	\$112,394
Domestic unsecured unconvertible bonds	72,575,000	68,000,000	2,123,010
Less: current portion	(18,375,000)	(22,300,000)	(696,222)
Long-term bonds payable	\$59,600,000	\$49,300,000	\$1,539,182

As of December 31, 2009, the terms of the domestic bonds were as follows:

A. Domestic secured unconvertible bonds

Item	Secured Bonds No.5
Issue date	May 29 – Jun 12, 2001
Principal amount	NTD7.2 billion
Outstanding amount	NTD3.6 billion

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Item	Secured Bonds No.5
Face value of each unit	NTD1 million
Issue price	At par value
Maturity	10 years
Coupon rate	4.46%
Interest payment	Annually
Repayment	Repay 25% of the principal at the end of the 7 th , 8 th , 9 th and 10 th year
Guarantor	Mega International Commercial Bank and other participating banks
Conversion, exchange or stock warrants	Not applicable
Callable or redeemable provision	None

The above domestic secured unconvertible bonds were issued to finance the constructions of the plants and buildings under the No.6 Naphtha Cracking Project and a pledge is provided with respect to the insured proportions by Mega International Commercial Bank and other banks which provide syndicated loans. Please refer to Note 4.(18). B (b)

B. Domestic unsecured unconvertible bonds

Item	Unsecured Bonds No.9	Unsecured Bonds No.13	Unsecured Bonds No.14	Unsecured Bonds No.15	Unsecured Bonds No.16	Unsecured Bonds No.17	Unsecured Bonds No.18	Unsecured Bonds No.19	Unsecured Bonds No.20	Unsecured Bonds No.21	Unsecured Bonds No.22	Unsecured Bonds No.23
Issue date	Aug. 11-21, 2003	Jul. 21-28, 2005	Apr. 28, 2006	May 26, 2006	Aug. 11, 2006	Oct. 20, 2006	Nov. 2, 2006	Jul. 2, 2008	Sep. 18, 2008	Oct. 8, 2008	Jan. 19, 2008	Jul. 15, 2009
Principal amount	NTD6 billion	NTD6 billion	NTD6 billion	NTD6 billion	NTD5 billion	NTD6 billion	NTD6 billion	NTD6 billion	NTD6 billion	NTD6 billion	NTD6 billion	NTD6 billion
Ending balance	NTD6 billion	NTD3billion	NTD6 billion	NTD6 billion	NTD5 billion	NTD6 billion	NTD6 billion	NTD6 billion	NTD6 billion	NTD6 billion	NTD 6 billion	NTD 6 billion
Face value	NTD5 millions	NTD1 million	NTD1 million	NTD1 million	NTD1 million	NTD1 million	NTD1 million	NTD1 million	NTD1 million	NTD1 million	NTD1 million	NTD1 million
Issue price	Par value	Par value	Par value	Par value	Par value	Par value	Par value	Par value	Par value	Par value	Par value	Par value
Maturity	7 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years
Coupon rate	Floating rate (1.58% on average)	Fixed rate of 1.8415%-1.85%	Fixed rate of 1.93%	Fixed rate of 1.91%	Fixed rate of 2.35%	Fixed rate of 2.09%	Fixed rate of 2.12%	Fixed rate of 2.85%	Fixed rate of 2.84%	Fixed rate of 2.82%	Fixed rate of 2.02%	Fixed rate of 1.81%
Interest payment	Semi-annually	Annually	Annually	Annually	Annually	Annually	Annually	Annually	Annually	Annually	Annually	Annually
Repayment	Payable at maturity	Repay 50% of the principal at the end of the 4 th and 5 th year	Repay 50% of the principal at the end of the 4 th and 5 th year	Repay 50% of the principal at the end of the 4 th and 5 th year	Repay 50% of the principal at the end of the 4 th and 5 th year	Repay 50% of the principal at the end of the 4 th and 5 th year	Payable at maturity	Repay 50% of the principal at the end of the 4 th and 5 th year	Repay 50% of the principal at the end of the 4 th and 5 th year	Repay 50% of the principal at the end of the 4 th and 5 th year	Repay 50% of the principal at the end of the 4 th and 5 th year	Repay 50% of the principal at the end of the 4 th and 5 th year
Conversion, exchange or stock warrants	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

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(18) Long-term loans

A. Long-term loans

Banks	Types	December 31, 2008	December 31, 2009	
		NTD	NTD	USD
Mega International Commercial Bank and the other 31 banks	Syndicated loan	\$18,805,392	\$11,522,347	\$359,736
Mega International Commercial Bank and the other 34 banks	Expansion syndicated loan	9,969,286	5,325,458	166,264
Mega International Commercial Bank and the other 25 banks	Expansion syndicated loan	34,690,000	32,829,972	1,024,976
ChinaTrust Commercial Bank and the other 12 banks	Credit syndicated loan	10,383,760	8,808,250	275,000
Taipei Fubon Bank	Medium-term mortgage loan	2,500,000	2,500,000	78,052
Shanghai Commercial & Savings Bank, Ltd.	Medium-term credit loan	1,000,000	1,000,000	31,221
ChinaTrust Commercial Bank	Medium-term credit loan	3,000,000	-	-
Taiwan Corporative Bank	Medium-term mortgage loan	7,200,000	6,000,000	187,324
Bank of Taiwan	Medium-term mortgage loan	1,000,000	1,000,000	31,221
Land Bank of Taiwan	Medium-term mortgage loan	6,900,000	5,300,000	165,470
Bank Sino Pac	Medium-term mortgage loan	-	425,999	13,300
		95,448,438	74,712,026	2,332,564
Less: Current portion reclassified to current liability		(10,403,498)	(21,104,636)	(658,902)
Less: Current portion reclassified to notes payable		(6,045,706)	(5,824,186)	(181,835)
Less: Long-term loans reclassified to notes payable		(7,648,186)	(1,824,000)	(56,947)
Long-term loans - due after one year		<u>\$71,351,048</u>	<u>\$45,959,204</u>	<u>\$1,434,880</u>

The details of long-term loans were as follows:

- (a) Syndicated loan with Mega International Commercial Bank and other participating banks for the No.6 Naphtha Cracking Project

In order to finance the construction of the No.6 Naphtha Cracking Project, the Company signed a syndicated loan contract with Mega International Commercial Bank and 34 other banks on April 28, 1994. On April 21, 1999, the contract was amended and the number of participating banks was reduced to

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32 (due to the withdrawal of Tokai Bank and Sanwa Bank). The details of the latest terms of the amended contract were as follows:

(In millions of dollars)

Item	Pledged Assets	Total Credit Line Amount	Outstanding Loans as of December 31, 2008	Outstanding Loans as of December 31, 2009	Repayment Method
(A)	Land	8,440	577.94	-	The first installment of \$0.462 billion was paid on December 30, 1999. The remaining principal was to be repaid semi-annually in 20 installments. During Jun. 30, 2000 and Dec. 31, 2007, the repaid amount was 0.446 billion per each installment. During Jun. 30, 2007 and 2009, the repaid amount will be \$0.289014 billion per each installment. On Dec. 31, 2009 the repayment will amount to 0.28893 billion.
(B)	Plants	9,880	3,346.14	2,509.57	The first installment of \$0.545 billion was paid on July 15, 2002. The remaining principal was to be repaid semi-annually in 20 installments. During Jan. 15, 2003 and 2007, the repaid amount to \$0.526 billion for each installment. During July 15, 2007 and January 15, 2012 the repaid amount to 0.41815 billion for each installment. On Jan. 15, 2012, the repaid amount to .4815 billion.
(C)	Domestically manufactured automatic equipment	19,160	5,472 (Fully repaid by notes)	3,648 (Fully repaid by notes)	The first installment of \$0.92 billion was paid on December 3, 2001. The remaining principal was to be repaid semi-annually in 20 installments of \$0.912 billion each.
(D)	Imported automatic equipment	USD\$1,162	9,085.79 (US\$276.5)	5,313.78 (US\$165.9)	The first installment of USD56 million was paid on June 10, 2001. The remaining principal was to be repaid semi-annually in 20 installments of USD55.3 million each.
(E)	Pollution prevention equipment	510	102 (Fully repaid by notes)	51 (Fully repaid by notes)	From January 15, 2001, the principal was repaid quarterly in 40 installments of \$12.75 million each.
(F)-1	Domestically manufactured non-automatic equipment	1,883	221.52 (Fully repaid by notes)	- (Fully repaid by notes)	The first installment of \$0.11084 billion was paid on August 30, 2001. The remaining principal was to be repaid semi-annually in 16 installments of \$0.11076 billion each.

(i) Each collateral is set up after ownership has been transferred or after acceptance tests have been finalized. The details of collaterals are as follows:

Item	Collaterals
(A)	Land in Mailiao and Haifong acquired using the proceeds of the loan
(B)	The factory and accessory equipment in Mailiao and Haifong acquired using the proceeds of the loan
(C)	The equipment acquired using the proceeds of the loan
(D)	The equipment acquired using the proceeds of the loan
(E)	The equipment acquired using the proceeds of the loan
(F)-1	The equipment acquired using the proceeds of the loan

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(ii) The syndicated loan agreement for the No.6 Naphtha Cracking Project includes the terms requiring the Company to maintain a debt ratio (total liabilities/net assets) under 200% and a current ratio (current assets/current liabilities) above 100% at each year-end, for the period of the loan. As of December 31 2009, the Company was in compliance with the covenants.

(b) Syndicated loan with Mega International Commercial Bank and the other participating banks for the expansion of the No.6 Naphtha Cracker Complex

In order to finance the expansion of the No.6 Naphtha Cracker Complex located in the industry section of Mailiao section in the offshore industrial zones in Yunlin County, the Company entered into a syndicated loan agreement with Mega International Commercial Bank and the other 34 banks on December 6, 2000. The terms and related amounts of the agreement are set forth below:

(In millions of dollars)

Item	Pledged Assets	Total Credit Line Amount	Outstanding Loans as of December 31, 2008	Outstanding Loans as of December 31, 2009	Repayment Method
(A)	Plants and accessory equipment	5,433	2,006.41	1,337.57	The first installment of \$0.416 billion was paid on July 31, 2004. The remaining principal was to be repaid semi-annually in 14 installments. During Jan. 31, 2005 and Jan. 31, 2007, the repaid amount was \$0.403 billion per each installment. During July 31, 2007 and Jan. 31, 2011, the repaid amount will be \$0.334421 billion per each installment. On July 31, 2011, the repayment will amount to \$0.334309 billion.
(B)	Domestically manufactured and imported equipment	29,619	7,898.37 (Fully repaid by notes)	3,949.19 (Fully repaid by notes)	The first installment of \$1.983 billion was paid on December 26, 2003. The remaining principal was to be repaid semi-annually in 14 installments of \$1.974 billion each.
		14,896	5,400 (Recorded under bonds payable)	3,600 (Recorded under bonds payable)	Repay 25% of the principal at the end of the 7th, 8th, 9th and 10th year.
(C)	Long-term pollution prevention equipment	350	64.5	38.7	The first installment of \$0.0384 billion was paid on Mar. 30, 2004. The remaining principal was to be repaid semi-annually in 14 installments. During Sep. 30, 2004 and Oct. 1, 2006, the repaid amount was \$0.0389 billion per each installment. During Mar. 30, 2007 and Mar. 30, 2011, the repaid amount will be \$0.0129 billion per each installment.

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(i) The above item (b) is a credit facility used to finance the purchase of domestically manufactured and imported machinery and equipment. The Company utilized the facility by issuing secured corporate bonds. Please refer to Note 4. (17).

(ii) Each collateral is set up after ownership has been transferred or after acceptance tests have been finalized. The details of collaterals are as follows:

Item	Collaterals
(A)	The plant in Mailiao and its accessory equipment acquired using the proceeds of the loan
(B)	The equipment acquired using the proceeds of the loan
(C)	The equipment acquired using the proceeds of the loan

(iii) The syndicated loan agreement includes the terms requiring the company to maintain a debt ratio (total liabilities/net assets) under 200% and a current ratio (current assets/ current liabilities) above 100% at each year-end, for the period of the loan. As of December 31, 2009, the Company was in compliance with the covenants.

(c) In order to finance the Construction of Phase IV of the No.6 Naphtha Cracking Project, the Company signed a syndicated loan contract with Mega International Commercial Bank and 25 other banks on December 30, 2004. The details of the latest terms and related amounts of the contract were as follows:

(In millions of dollars)

Item	Pledged Assets	Total Credit Line Amount	Outstanding Loans as of December 31, 2008	Outstanding Loans as of December 31, 2009	Repayment Method
(A)	Plants and accessory equipment	7,553	6,790	6,790	The principal will be repaid semi-annually in 15 installments, each in equal amount. The first installment will be paid at the date three years after July 16, 2007.
(B)	Domestically manufactured and imported equipment	29,602	26,640	24,863.97	For the first phase of the loan amounted 14.4 billions, the principle will be repaid semi-annually in 15 installments, each in equal amount, and the first installment will be repaid at the date three years after August 28 2006. For the second phase of the loan amounted 12.24 billions, the principle will be repaid semi-annually in 15 installments, each in equal amount, and the first installment will be repaid at the date three years after July 16 2007.
(C)	Domestically manufactured automatic	400	360	336	The principal will be repaid semi-annually in 15 installments, each in equal amount. The first installment

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Item	Pledged Assets	Total Credit Line Amount	Outstanding Loans as of December 31, 2008	Outstanding Loans as of December 31, 2009	Repayment Method
	equipment				will be paid at the date three years after August 28, 2006.
(D)	Long-term pollution prevention equipment	1,000	900	840	For the first phase of the loan amounted 0.24 billions, the principle will be repaid semi-annually in 15 installments, each in equal amount, and the first installment will be repaid at the date three years after August 28 2006. For the second phase of the loan amounted 0.66 billions, the principle will be repaid semi-annually in 15 installments, each in equal amount, and the first installment will be repaid at the date three years after July 16 2007.

- (i) Each collateral is set up after ownership has been transferred or after acceptance tests have been finalized. The details of collaterals are as follows:

Item	Collaterals
(A)	The plant in Mailiao acquired using the proceeds of the loan
(B)	The equipment acquired using the proceeds of the loan
(C)	The equipment acquired using the proceeds of the loan
(D)	The equipment acquired using the proceeds of the loan

- (ii) The syndicated loan agreement includes the terms requiring the Company to maintain a debt ratio (total liabilities/net assets) under 195% and a current ratio (current assets/ current liabilities) above 100% at each year-end, for the period of the loan. As of December 31, 2009, the Company was in compliance with the covenants.

- (d) Credit syndicated loan with China trust Commercial Bank and 12 other participating banks

Pursuant to the first amendment of the syndicated loan made on June 26, 2008, the total credit limit of this medium-long-term syndicated loan is USD800 million and is divided into two categories (A and B). Under Category A consisting of a credit limit of USD 400 million, the Company can utilize the facility for issuance of stand-by letters of credit for purchase of oil products. Under Category B consisting of a credit limit of USD 400 million (or NTD equivalent), the Company can borrow medium-term working capital within the credit limit, and advance cash borrowing (in USD or NTD) is allowed. The loan period is from June 17, 2004 to June 17, 2010.

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Interest is paid monthly. The interest rate on USD denominated loans is based on London Inter Bank Offered Rate (LIBOR) and the interest rate on NTD denominated loans is based on Commercial Paper Rate (CP) plus 0.25% (annual interest).

(e) Medium-long-term mortgage loan with Taipei Fubon Bank

The total credit limit of this medium-long-term credit loan is \$2,500 million NT dollars. During the period of the loan (thirty six months commencing with July 11 2008), limit for the financed amount can be recycled, the amount can be used and clean up depend on the Company's discretion. Interest is payable monthly and the interest rate is based on secondary market's 90 days Commercial Paper Rate (CP) plus 0.55%.

(f) Medium-long-term credit loan with Shanghai Commercial & Savings Bank

The total credit limit for this medium-long-term credit loan is \$1,000 million NT dollars. The period of the loan is from July 24, 2008 to July 24, 2011. The principal is repaid quarterly in 4 installments of \$250 million each from the third year of duration. Interest is payable monthly and the interest rate is based on secondary market's 90 days Commercial Paper Rate (CP) plus 0.55%, then divided by 0.95.

(g) Medium-long-term credit loan with Chinatrust Commercial Bank

The total credit limit for this medium-long-term credit loan is \$3,000 million NT dollars (the total credit limit is \$6,000 million NT dollars when combined with three other loans of Formosa Plastics Corporation, Nan Ya Plastics Corporation and Formosa Chemicals & Fiber Corporation). The period of the loan is from July 30, 2008 to July 30, 2010. The principal is repaid as a lump-sum on the expiration of the term. Interest is payable monthly and the interest rate is based on nominal interest rate. The principle of \$3,000 million has been repaid during 2009 and the loan balance is \$0 as of December 31, 2009.

(h) Medium-long-term mortgage loan with Taiwan Corporative Banks

The total credit limit of this secured medium-long-term loan is \$7,200 million NT dollars. It can be used in batches. The collaterals are 586 items of equipment using the proceeds of the loan in Mailiao plant. The period of the loan is from

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July 15, 2008 to July 15, 2011. The principle will be repaid in July 2009 (one year after the drawing date of the loan) in \$1,200 million NT dollars, in July 2010 (two years after the drawing date of the loan) in \$1,200 million NT dollars, and in July 2011 (the expiration date of the loan) in \$4,800 million NT dollars. In March 2009, the principle has been repaid \$ 1,200 million NT dollars. Interest is payable monthly and the interest rate is based on the secondary market's 90 days Commercial Paper Rate (CP) publicly announced by Reuters plus annual interest rate of 0.55%. The interest rate is adjusted every three months.

(i) Medium-long-term mortgage loan with Bank of Taiwan

The credit limit for this secured medium-long-term loan is \$13,400 million NT dollars. The collaterals are oil-refining machinery and equipments using the proceeds of the loan in Mailiao plant. The period of the loan is from July 30, 2008 to July 30, 2011. The principal is repaid in a lump-sum payment on the expiration of the term. Interest is payable monthly and the interest rate is based on the Bank of Taiwan's announced interest rate for 2-year time deposits plus annual interest rate of 0.25%. As of December 31, 2009, the Company has loaned \$10,000 million.

(j) Medium-long-term mortgage loan with Land Bank of Taiwan

The original credit limit of this secured medium-long-term loan was \$8,000 million NT dollars (advance cash borrowing is not allowed) which was changed to \$6,900 million NT dollars in November 2008. The period of the loan is from July 31, 2008 to July 31, 2011. The collaterals are 880 items of equipment and others acquired using the proceeds of the loan in Mailiao plant. From January 31, 2009, the principal will be repaid semi-annually in 6 installments, in \$800 million NT dollars each for the first to fifth installment in \$2,900 million NT dollars for the sixth installment. Interest is payable monthly and the interest rate is based on three-month secondary market Commercial Paper Rate (CP2) plus annual interest rate of 0.51% then divided by 0.95. Interest rate is adjusted every three months.

(k) Medium-long-term mortgage loan with Bank Sino Pac

The credit limit for this secured medium-long-term loan is \$13.3 million NT dollars. The collaterals are dredging ship. The period of the loan is from May 21, 2009 to May 21, 2014. The principal is repaid quarterly in 12 installments from 2012. The interest rate is based on the secondary market's 90 days

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Commercial Paper Rate (CP) publicly announced by Reuters plus annual interest rate of 0.75%. The interest rate is adjusted every three months.

B. The details of long-term loans (including long-term notes payable) as of December 31, 2009 were as follows:

<u>Period</u>	<u>NT</u>
2010.1.1~2010.12.31	\$26,928,822
2011.1.1~2011.12.31	19,988,787
2012.1.1~2012.12.31	8,103,977
2013.1.1~2013.12.31	4,767,543
2014.1.1 and thereafter	14,922,897
	<u>\$74,712,026</u>

(19) Pensions

A. The Company completed actuarial calculations on December 31, 2008 and 2009 (designated measurement dates) and adopted the SFAS No.18, "Accounting for Pensions" to account for its deferred pension costs and accrued pension liability. As of December 31, 2008 and 2009, accrued pension liabilities were \$1,969,094 thousand and \$2,174,436 thousand, respectively.

B. As of December 31, 2008 and 2009, reconciliation of the funded status to the carrying amount of accrued pension liability was as follows:

(a) Net pension costs

	<u>2008</u>	<u>2009</u>	
	<u>NTD</u>	<u>NTD</u>	<u>USD</u>
(1) Service cost	\$218,387	\$198,971	\$6,212
(2) Interest cost	67,427	71,526	2,233
(3) Expected return on plan assets	(11,064)	(13,266)	(414)
(4) Amortization of pension losses	1,538	422	13
(5) Net transitional obligations/amortization of net assets	1,404	1,107	35
Net pension costs (1+2-3+4+5)	<u>\$277,692</u>	<u>\$258,760</u>	<u>\$8,079</u>

(b) Actuarial assumptions

	<u>Dec. 31, 2008</u>	<u>Dec. 31, 2009</u>
Discount rates	2.75%	2.75%
Rates of increase in future salary level	2.75%	2.75%
Expected long-term rates of return on plan assets	2.75%	2.75%

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(c) Reconciliation of the funded status to accrued pension liability is as follows:

	Dec. 31, 2008	Dec. 31, 2009	
	NTD	NTD	USD
Benefit obligations:			
Vested benefit obligation	\$365,287	\$404,217	\$12,620
Non-vested benefit obligation	1,010,660	1,022,329	31,918
Accumulated benefit obligation	1,375,947	1,426,546	44,538
Effects of future salary increments	1,218,395	1,175,715	36,706
Projected benefit obligation	2,594,342	2,602,261	81,244
Fair value of plan assets	449,843	492,537	15,377
Funded status	2,144,499	2,109,724	65,867
Unrecognized transitional obligations	39,695	37,909	1,184
Unrecognized prior service costs	(13,737)	(11,447)	(357)
Unrecognized pension (gain) Loss	149,447	(91,174)	(2,847)
Additional provision for accrued pension liability	-	-	-
Accrued pension liability	<u>\$1,969,094</u>	<u>\$2,174,436</u>	<u>\$67,887</u>

C. As of December 31, 2008 and 2009, the company and subsidiaries vested benefit was \$400,498 thousand and \$430,975 thousand, respectively.

D. As of December 31, 2008 and 2009, the company and subsidiaries pension fund deposited in the Bank of Taiwan, excluding the interest accrued for the second half of the year, was \$436,765 thousand and \$485,623 thousand, respectively; the pension reserve not yet deposited in the Bank of Taiwan was \$4,033 thousand and \$4,069 thousand, respectively, which was recorded as accrued expenses.

(20) Capital stock

As of December 31, 2008 and 2009, the Company's issued capital amounted to \$92,485,045 thousand and \$95,259,597 thousand, respectively, and consisted of 9,248,505 thousand and 9,525,960 thousand shares at \$10 par value each.

As resolved during the shareholders' meeting on June 4, 2009, the Company issued 277,455 thousand new shares at par value each from capitalization of inappropriate earnings that amounted to \$2,774,552 thousand. The effective date of capital increase was on July 13, 2009, and the issuance process had been approved by the authority and completed.

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(21) Capital surplus

	<u>Additional paid-in capital</u>	<u>Additional paid-in capital from conversion of bonds</u>	<u>Reserve for gain on long-term investments</u>	<u>Total</u>
Balance at December 31, 2009	\$24,864,000	\$6,379,284	\$36	\$31,243,320
Balance at December 31, 2009	<u>US\$776,272</u>	<u>US\$199,166</u>	<u>US\$1</u>	<u>US\$975,439</u>

As regulated by laws, capital surplus can only be used to offset accumulated deficits. However, if no deficit occurs, the stockholders pass a resolution through shareholders' meeting to capitalize part or the entirety of a capital surplus. Capitalization of capital surplus is limited to share issuing premiums and donations.

(22) Retained earnings

A. Dividend policy

The company's business is in its maturity stage. The dividend policy as set forth in the Articles of Incorporation provides that the Company may distribute earnings in the form of cash dividends, stock dividends or a combination of both. After making provisions for the legal reserve and special reserve, the earnings shall be first used to distribute cash dividends. The annual total amount of earnings distributed should be at least 50% of the earnings available for distribution, provided that the total amount of earnings and capital surplus capitalized do not exceed 50% of the total dividends distributed in the current year.

B. Appropriation of earnings

Pursuant to the Company's Articles of Incorporation, current year's earnings, if any, shall be appropriated in the following order:

- (a) Payments of all taxes, if any
- (b) To offset prior year's deficit, if any
- (c) To set aside 10% of the remaining amount as legal reserve after deducting items (a) and (b)
- (d) To set aside special reserve, if required
- (e) To set aside an amount for dividends
- (f) To distribute no more than 1% of the remaining amount as directors' and supervisors' remuneration and 0.1% ~ 0.5% as employees' bonuses.

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- (g) The remaining amount, in combination with prior year's accumulated inappropriate earnings, is appropriated by the ordinary stockholders' meeting based on the appropriation of stockholders' bonuses plan drafted by the board of directors.

The special reserve mentioned above includes:

- (a) Reserve set aside for special purposes
- (b) Investment gains recognized under equity method
- (c) Net valuation gains recognized due to transactions of financial instruments (when the accumulated amount is reduced, special reserve must be reduced by the same decrement, and the decrement cannot exceed the recognized amount)
- (d) Other special reserve set aside in accordance with legal requirements

From January 1, 2008, pursuant to "Accounting for Employees' Bonuses and Directors' and Executives' Remuneration", the company amended partial Articles of Incorporation regarding to the appropriation of earnings into the following order:

- (a) Payments of all taxes, if any
- (b) To offset prior year's deficit, if any
- (c) To set aside 10% of the remaining amount as legal reserve after (a) and (b)
- (d) To set aside special reserve, if required
- (e) To set aside an amount for dividends
- (f) The remaining amount, if any (later referred to as after dividend earnings to be appropriated), in combination with prior year's accumulated unappropriated earnings, is appropriated by the ordinary stockholders' meeting based on the appropriation of stockholders' bonuses plan drafted by the board of directors
- (g) To set aside 0.1%~0.5% of after dividend earnings to be appropriated as employees' bonuses, and to recognize this amount as an expense.

C. The appropriation of earnings in 2008, \$1.2 cash dividend and 0.3 stock dividend per share, was resolved by the stockholders' meeting on June 4, 2009. The appropriation was consistent with that stated in the board of directors' resolution date March 13, 2009. The standard ex-dividend date was set as July 13, 2009.

D. The appropriation of earnings in 2007, \$6.7 cash dividend per share, was resolved by the stockholders' meeting on May 30, 2008. The appropriation was consistent with that stated in the board of directors' resolution dated March 13, 2008. The standard ex-dividend date was set as June 24, 2008.

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E. Employees' bonus, and directors' and supervisors' remuneration

- (a) As of December 31, 2009, the estimated employees' bonus is \$65,000 thousand and recognized as an operating expense. (to set aside 0.4% of the period's after dividend earnings to be appropriated) The estimation is defined by the Company's Articles of Incorporation. If there is a difference between the estimation amount and actual paid amount, it will be debited to 2009's income statement.
- (b) As of December 31, 2008, the estimated employees' bonus is \$0 thousand. (to set aside 0.1% of the period's after dividend earnings to be appropriated) The estimation is defined by the Company's Articles of Incorporation. Due to global economic recession, the profit did not fulfill the initial expectation and the retained earnings are unavailable to pay dividend, and therefore no further issues Employees' bonuses.
- (c) The stockholders' meeting has resolved the company's 2008 plan on the appropriation of earnings on June 4, 2009. Information on the appropriation of the Company's earnings can be found on Taiwan Stock Exchange's Market Observation Post System website: <http://newmops.tse.com.tw/>.
- (d) The company has not issued the employees' bonus and directors' and supervisors' remuneration for 2008. Information of the employees' bonus and directors' and supervisors' remuneration for 2007 was as follows:

	2007			
	Actual Amounts	Proposed Amounts	Difference	Reason
1. Appropriation				
(1) Employees' cash bonus	\$112,598	\$112,598	-	
(2) Employees' stock bonus	-	-	-	
(3) Directors' and supervisors' remuneration	\$15,800	\$15,800	-	
2. Info of EPS				
(1) Actual EPS	\$7.53	\$7.53	-	
(2) Estimated EPS(Note)	\$7.51	\$7.51	-	

Note: Estimated EPS is calculated based on net income after tax minus employees' cash and share bonuses and directors' and supervisors' remuneration, then divided by weighted average outstanding shares.

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(23) Unrealized gain or loss on financial instruments

	December 31, 2008	December 31, 2009	
	NTD	NTD	USD
Available-for-sale financial asset-current	\$ (19,397)	\$7,885,791	\$246,200
Other financial assets-current	(285,732)	1,690,185	52,769
Other financial assets-non-current	(6,443)	36,799	1,149
Unrealized gain on financial instruments recognized on long-term investments in proportion to their equity interests in the investees	(69,009)	561,197	17,521
Unrealized gains (losses) on available-for-sale financial assets	(380,581)	10,173,972	317,639
Net derivative financial assets for hedging- current and non-current	43,476	-	-
Net derivative financial liabilities for hedging- current and non-current	(509,688)	(297,535)	(9,289)
Unrealized gains (losses) cash flow for hedging	(466,212)	(297,535)	(9,289)
Unrealized gains (losses) on financial instruments	\$ (846,793)	\$9,876,437	\$308,350

(24) Operating revenues

	2008	2009	
	NTD	NTD	USD
Net sales			
Gasoline	\$136,230,594	\$113,858,958	\$3,554,760
Petrochemical products (ethylene and propylene, etc.)	246,336,565	179,662,223	5,609,186
Diesel oil	241,629,092	157,244,708	4,909,295
Jet fuel	66,137,265	39,836,520	1,243,725
Others	148,876,092	101,414,333	3,166,229
Subtotal	839,209,608	592,016,742	18,483,195
Service revenues	2,180,875	1,316,935	41,115
Other operating revenues, net			
Electricity	21,478,107	28,284,154	883,052
Steam	12,707,146	12,381,485	386,559
Others	1,574,894	1,598,962	49,921
Subtotal	35,760,147	42,264,601	1,319,532
Total	\$877,150,630	\$635,598,278	\$19,843,842

(25) Income taxes

- A. According to the amendment of Income Tax Act on May 27, 2009, Effective from the year 2010, the corporate tax rate will be reduced from 25% to 20%.

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B. Reconciliation of pre-tax income to provision for income tax was as follows:

	2008	2009	
	NTD	NTD	USD
Accounting income before income tax of the company	\$14,462,928	\$47,975,391	\$1,497,827
Less: Cumulative effects of changes in accounting principles	-	(6,235,662)	(194,682)
Permanent differences			
Equity-accounted investment income	(855,258)	(2,460,575)	(76,821)
Non-taxable dividends income	(2,339,114)	(430,374)	(13,437)
Director and supervisor remuneration over five years reclassified as other revenues	(18,950)	-	-
Gain on disposal of investment	-	(122,118)	(3,813)
Gain on disposal of stock	(131,121)	-	-
Impairment loss from financial assets carried at cost	18,530	5,000	156
Impairment loss on land	6,300	19,000	593
Others	4,543	8,720	272
Temporary differences			
Realized gain from downstream transaction	(27,802)	-	-
unrealized exchange losses (gains) accounted for under SFAS No. 14 (short-term)	1,191,662	(1,124,250)	(35,100)
Reversal of realized exchange (losses) gains accounted for under SFAS No. 14 (short-term)	71,765	(1,191,661)	(37,204)
Unrealized exchange losses (gains) accounted for under SFAS No. 14 (long-term)	874,482	75,074	2,344
Reversal of realized exchange (losses) gains accounted for under SFAS No. 14 (long-term)	(210,015)	(874,482)	(27,302)
Accrued pension liability not yet contributed	193,502	195,442	6,102
Unrealized allowance for doubtful account	(2,111)	-	-
Sales discounts are eliminated in the current year and will be recognized while supporting documents are received in next year	442,437	737,308	23,019
Reversal of sale discount eliminated in the previous year	(714,488)	(442,437)	(13,813)
Loss (gain) on valuation of financial assets and liabilities	(86,972)	290,417	9,067
Provision of investment loss from foreign investment	(54,991)	(23,839)	(744)
Difference in the changes of depreciation methods of fixed assets	13,236,306	9,250,128	288,796
Unrealized loss on inventory valuation	8,179,000	-	-
Gains from price recovery of inventory	-	(8,179,000)	(255,354)
Other	72,118	(35,177)	(1,098)
Income for the year	34,312,751	37,436,905	1,168,808
Less: Tax-exempt income in compliance with reward policies	(11,416,683)	(12,108,440)	(378,035)
Taxable income	22,896,068	25,328,465	790,773
Taxable Income payable	5,724,007	6,332,106	197,693
10% corporate tax on unappropriated earnings	55,711	-	-
Less: Investment tax credits	(10,508)	(3,799,460)	(118,622)
Less: Withholding tax	(53,539)	(2,837)	(89)

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	2008	2009	
	NTD	NTD	USD
Provisional income tax	(9,274,092)	(751,051)	(23,448)
Income tax (receivable) payable	\$(3,558,421)	\$1,778,758	\$55,534
Income tax (receivable) payable for subsidiaries	1,457	2,499	78
Consolidated Income tax (receivable) payable	<u>\$(3,556,964)</u>	<u>\$1,781,257</u>	<u>\$55,612</u>

	2008	2009	
	NTD	NTD	USD
Taxable income of the company	\$22,896,068	\$25,328,465	\$790,773
Gain on disposal of stock exchange was duty-free	131,121	-	-
5 year income tax exemption	-	-	-
Basic taxable income	23,027,189	25,328,465	790,773
less: basic tax decline	(2,000)	(2,000)	(62)
Basal tariff	10%	10%	10%
AMT tax payable of the company	\$2,302,519	\$2,532,646	\$79,071
AMT tax payable of subsidiaries	3,386	4,579	143
Total (less than income tax payable)	<u>\$2,305,905</u>	<u>\$2,537,225</u>	<u>\$79,214</u>

C. Reconciliation of provision for tax to current income tax is as follows:

	2008	2009	
	NTD	NTD	USD
Income tax payable for continuing operations	\$5,769,210	\$2,532,646	\$79,071
Deferred income tax expense (benefit) arising from realized or unrealized exchange gains / losses accounted for under SFAS No.14	(481,974)	702,123	21,921
Deferred income tax expense (benefit) arising from gain from price recovery of inventory or loss on inventory valuation	(2,044,750)	2,044,750	63,839
Deferred tax expense (benefit) arising from other temporary differences	(692,832)	(95,235)	(2,973)
Deferred tax expense (benefit) arising from the change of depreciation methods of fixed assets	(3,309,077)	(2,109,956)	(65,874)
Deferred income tax expense (benefit) arising from unrealized or realized gain / loss of financial assets / liabilities	21,743	(62,796)	(1,961)
Deferred tax benefit arising from investment tax credits	-	1,500,442)	(46,845)
Income tax expense from cumulative effects of changes in accounting principles	-	1,558,915	48,670
Income tax expense from effects of changes in corporate tax rate	-	1,053,794	32,900
Difference arising from reconciliation	7,286	(17,501)	(546)
Income tax expense of Formosa Oil Asia Pacific Corp.	(15,584)	23,684	740
Income tax expense of Formosa Petrochemical Transportation Corp.	9,254	12,535	391
Income tax expense of Formosa Marketing & Consulting Corporation	216	43	1
Income tax expense of FPCC USA, INC.	883	-	-
Income tax expense of continuing operations, net	<u>\$(735,625)</u>	<u>\$4,142,560</u>	<u>\$129,334</u>

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D. Significant components of deferred income tax assets and liabilities are follows:

	December 31, 2008		December 31, 2009			
	Amount	cumulative effect of income taxes	Amount		cumulative effect of income taxes	
	NTD	NTD	NTD	USD	NTD	USD
Deferred income tax assets						
Current						
Unrealized sale discounts	\$442,437	\$110,609	\$737,308	\$23,019	\$147,462	\$4,604
Short-term unrealized exchange loss	1,191,662	297,916	-	-	-	-
Unrealized loss of price decline of inventory	8,252,120	2,063,030	-	-	-	-
Investment tax credits	-	779,049	-	-	2,260,568	70,577
Other	168,572	42,143	89,869	2,806	17,974	561
Subtotal		3,292,747			2,426,004	75,742
Less : valuation allowance for deferred income tax assets-current		(58,848)			(39,926)	(1,247)
Total		\$3,233,899			\$2,386,078	\$74,495
Non-current						
Unrealized valuation loss on derivative financial instruments	\$70,062	\$17,515	\$47,711	\$1,490	\$9,542	\$298
Long-term unrealized exchange loss	874,482	218,621	75,074	2,344	15,015	469
Unrealized gain from downstream transactions	28,069	7,017	-	-	-	-
Excess of accrued pension liability recognized according to actuarial report over contribution	1,859,067	464,767	2,057,246	64,229	411,449	12,846
Change of depreciation methods	13,236,306	3,309,076	22,486,434	702,043	4,497,287	140,408
Loss carryforward	99,911	24,978	551,106	17,206	152,353	4,757
Investment tax credits	-	120	-	-	1,331	42
Other	118,496	29,624	44,419	1,387	8,883	277
Derivative financial instruments for hedge		169,399			74,384	2,322
Subtotal		\$4,241,117			\$5,170,244	\$161,419
Less : valuation allowance for deferred income tax asset-non current		(31,177)			(124,378)	(3,883)
Total		\$4,209,940			\$5,045,866	\$157,536
Deferred income tax liabilities						
Current						
Realized sale discounts	\$36,757	\$9,189	\$71,932	\$2,246	\$14,386	\$449
Short-term unrealized exchange gain	-	-	1,124,250	35,100	224,850	7,020
Derivative financial instruments for hedge	-	13,995	-	-	-	-
Total		\$23,184			\$239,236	\$7,469
Non-current						
Unrealized valuation gain of derivative financial instruments	\$537,994	\$134,498	\$225,227	\$7,032	\$45,045	\$1,406
Unrealized investment loss of foreign investment	76,535	19,134	100,374	3,134	20,075	627
Others	92,404	23,101	8,980	280	1,796	56
Total		\$176,733			\$66,916	\$2,089

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E. Deferred income tax assets(liabilities)

	December 31, 2008	December 31, 2009	
	NTD	NTD	USD
Current			
Deferred income tax assets	\$3,292,747	\$2,426,004	\$75,742
Less: Deferred income tax liabilities	(23,184)	(239,236)	(7,469)
Valuation allowance for deferred income tax assets	(58,848)	(39,926)	(1,247)
Net current deferred income tax assets	<u>\$3,210,715</u>	<u>\$2,146,842</u>	<u>\$67,026</u>
Non-current			
Deferred income tax assets	\$4,241,117	\$5,170,244	\$161,419
Less: Deferred income tax liabilities	(176,733)	(66,916)	(2,089)
Valuation allowance for deferred income tax liabilities	(31,177)	(124,378)	(3,883)
Net non-current deferred income tax assets	<u>\$4,033,207</u>	<u>\$4,978,950</u>	<u>\$155,447</u>
Total deferred income tax assets	<u>\$7,533,864</u>	<u>\$7,596,248</u>	<u>\$237,161</u>
Total deferred income tax liabilities	<u>\$199,917</u>	<u>\$306,152</u>	<u>\$9,558</u>
Valuation allowance for deferred income tax assets	<u>\$90,025</u>	<u>\$164,304</u>	<u>\$5,130</u>

F. The Company and subsidiaries earn investment tax credits for the amount invested in production equipment, research and development, employee training, and investment in the specific area and industry. As of December 31, 2009, the Company's unused investment tax credit was as follows :

Items	Unused Amounts	Expiration Year
The statute for upgrading industries article 6	\$7,978	2010
	10,666	2011
	21,994	2012
	619	2013
The statute for upgrading industries article 7	2,220,642	2013
	<u>\$2,261,899</u>	

G. As of December 31, 2009, the unutilized accumulated losses for the subsidiaries of Formosa Oil (Asia Pacific) Corporation and FPCC USA, INC. were as follows:

Year Occurred	Accumulated loss	Unutilized accumulated loss	Expiration Year
Formosa Oil (Asia Pacific) Corporation			
97(filed)	\$100,349	100,349	2010
98(filed)	169,733	169,733	2011
FPCC USA, INC.			
98(filed)	9,049	9,049	2027
	63,856	63,856	2028
	208,119	208,119	2029
	<u>\$551,106</u>	<u>\$551,106</u>	

H. If the difference between the company's and the subsidiaries' accrued income tax and actual income tax paid/verified is an estimation error, the difference will be

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adjusted through profit and loss of year/period tax was actually paid/verified. If the difference is a calculation error, it will be adjusted against prior year net income/loss.

- I. The tax authorities have assessed the company's and the subsidiaries'-Formosa Oil Asia Pacific Corp., Formosa Petrochemical Transportation Corp. and Formosa Marketing & Consulting Corp. (up to year 2007's) income tax returns.
- J. As of December 31, 2008 and 2009, the account balances of imputation tax credit are \$8,829,443 thousand and \$6,782,194 thousand, respectively.
- K. As of December 31, 2008 and 2009, the end-of-period accumulated retained earnings were \$41,545,814 thousand and \$64,499,286 thousand, respectively, of which \$70,699 thousand was generated prior to 1997. The remaining was generated after 1998.
- L. The actual tax credit rate for individual stockholders of the company for 2008 was 23.49%. The estimated tax credit rate for individual stockholders for 2009 was 13.29%.

(26) Earnings per share

	For the year ended December 31,2008	For the year ended December 31,2009	
	NTD	NTD	USD
Continuing operation income before tax	\$14,460,377	\$48,073,964	\$1,500,904
Less: income tax (expense) gain	735,625	(4,142,560)	(129,334)
Counting operation income after tax	15,196,002	43,931,404	1,371,570
Less: cumulative effects of changes in accounting principles	-	(4,734,906)	(147,827)
Consolidated net income (A)	<u>\$15,196,002</u>	<u>\$39,196,498</u>	<u>\$1,223,743</u>
Consolidated net income of which			
Stockholders of parent company	\$15,193,322	\$39,192,346	\$1,223,614
Minority interest	2,680	4,152	129
Consolidated net income	<u>\$15,196,002</u>	<u>\$39,196,498</u>	<u>\$1,223,743</u>
Beginning balance	9,248,505	9,248,505	9,248,505
Increase in capital through 2008 retained earnings	277,455	277,455	277,455
Weighted-average number of common shares outstanding(B)(Unit : thousand share)	<u>\$9,525,960</u>	<u>\$9,525,960</u>	<u>\$9,525,960</u>

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	For the year ended December 31,2008	For the year ended December 31,2009	
	NTD	NTD	USD
Earnings per share (Unit: dollar)			
Income from continuing operations before tax	\$1.52	\$5.04	\$0.15
Less: income tax expense	0.07	(0.43)	(0.01)
Income from continuing operations after tax	1.59	4.61	0.14
Less: cumulative effects of changes in accounting principles	-	(0.50)	(0.01)
Net income (A) / (B)	\$1.59	\$4.11	\$0.13
Earnings per share of which			
Stockholders of parent company	\$1.59	\$4.11	\$0.13
Minority interest	-	-	-
Consolidated net income	\$1.59	\$4.11	\$0.13

(27) Expenses relating to employment, depreciation and amortization summarized by function were as follows:

5.

Description	Function	For the year Ended December 31, 2008		
		Operating Cost (NTD)	Operating Expense (NTD)	Total (NTD)
Employment				
Salaries and wages		\$2,870,211	\$1,791,356	\$4,661,567
Labor and health insurance		175,970	118,775	294,745
Pension		252,141	133,995	386,136
Others		100,000	46,199	146,199
Subtotal		\$3,398,322	\$2,090,325	\$5,488,647
Depreciation		\$34,441,898	\$1,091,522	\$35,533,420
Amortization		\$2,528,935	\$136,607	\$2,665,542

Description	Function	For the year Ended December 31, 2009			
		Operating Cost (NTD)	Operating Expense (NTD)	Total (NTD)	Total (USD)
Employment					
Salaries and wages		\$2,985,791	\$1,808,434	\$4,794,405	\$149,685
Labor and health insurance		186,852	120,274	307,126	9,588
Pension		247,575	125,159	372,734	11,637
Others		98,453	47,823	146,276	4,567
Subtotal		\$3,518,851	\$2,101,690	\$5,620,541	\$175,477
Depreciation		\$31,192,088	\$1,184,808	\$32,376,896	\$1,010,830
Amortization		\$3,407,310	\$125,644	\$3,532,954	\$110,301

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6. RELATED PARTY TRANSACTIONS

(1) Names of the related parties and their relationship with the Company

Related Parties	Relationship
Formosa Plastics Corporation	Stockholder of the Company
Nan Ya Plastics Corporation	Stockholder of the Company
Formosa Chemicals & Fiber Corporation	Stockholder of the Company
Formosa Heavy Industries Corporation	Investee of stockholder of the Company
Yi-Jin Development Corporation	Investee accounted for by the equity method
Mai-Liao Power Corporation	Investee accounted for by the equity method
Mai-Liao Harbor Administration Corporation	Investee accounted for by the equity method
Formosa Marine Corporation	Investee accounted for by the equity method
Formosa Development Corporation	Investee accounted for by the equity method
Simosa Oil Corporation	Investee accounted for by the equity method
Formosa Environmental Technology Corporation	Investee accounted for by the equity method
Caltex Taiwan Corporation	Investee accounted for by the equity method
Formosa Ha Tinh Steel Corporation	Investee accounted for by the equity method
Formosa Plastics Synthetic Rubber	Investee accounted for by the equity method
Whale Home International Co., Ltd.	Indirect subsidiary of the Company
Nan Ya Printed circuit Board Corporation	Subsidiary of the Nan Ya Plastics Corporation
Nan Ya Photonics Inc.	Subsidiary of the Nan Ya Plastics Corporation
Nan Chung Petrochemical Corp.	Subsidiary of the Nan Ya Plastics Corporation
Wen Fun Industrial Co., Ltd.	Subsidiary of the Nan Ya Plastics Corporation
Formosa FCFC Carpet Corp.	Subsidiary of the Formosa Chemicals & Fiber Corporation
Formosa Idemitsu petrochemical corporation	Subsidiary of the Formosa Chemicals & Fiber Corporation
Formosa ABS Plastics (Ningbo) Limited Company	Subsidiary of the Formosa Chemicals & Fiber Corporation
Formosa Biomedical technology Corp.	Subsidiary of the Formosa Chemicals & Fiber Corporation
Tah Shin Spinning Corporation	Subsidiary of the Formosa Chemicals & Fiber Corporation
Formosa BP Chemicals Corp.	Subsidiary of the Formosa Chemicals & Fiber Corporation
Hong Jing Resources Co., Ltd.	Subsidiary of the Formosa Chemicals & Fiber Corporation
Hwa Ya Power Corporation	Subsidiary of the Formosa Heavy Industries Corporation
Formosa Plastics Marine Corporation	The chairman of this company is also the Company's chairman
Formosa Plastics Transport Corp.	The subsidiary's chairman is also the chairman of this company
Plastics-Chemical Transport Corporation	The subsidiary's chairman is also the chairman of this company
Asia Pacific Investment Co.	The Company is the managing director of this Company
National Petroleum Co., Ltd.	The Company is the managing director of this Company
Yue Chi development Corporation	The Chairman of this company is a first-degree relative of the Company's Chairman

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Related Parties	Relationship
Formosa Taffeta Co., Ltd	The Chairman of this company is a second-degree relative of the Company's Chairman
Chang Gung Memorial Hospital	The Company's inspector
Neumin Oil & Gas LLC	Subsidiary of the FPCC USA INC.
Wen-Chao Wang etc. in all 15 people	The Company's chairman
Wen-Hua Gong etc. in all 3 people	The Company's inspector
Qi-Yi Su etc. in all 2 people	The Company's supervisor above senior vice president

(2) Significant transactions with related parties

A. Sales and accounts receivable

(a) Sales

Related Parties	2008		2009		
	Amount	% of Total Net Sales	Amount		% of Total Net Sales
	NTD		NTD	USD	
Formosa Chemicals & Fiber Corporation	\$156,607,822	17.85	\$117,807,989	\$3,678,051	18.53
Formosa Plastics Corporation	102,634,659	11.71	87,259,499	2,724,305	13.73
Nan Ya Plastics Corporation	58,824,055	6.71	45,316,868	1,414,826	7.13
National Petroleum Co., Ltd.	15,986,001	1.82	19,549,030	610,335	3.08
Formosa Taffeta Corporation	8,753,659	1.00	9,881,329	308,502	1.55
Caltex Taiwan Corporation	7,569,124	0.86	3,927,778	122,628	0.62
Nan Chung Petrochemical Corp.	8,796,915	1.00	2,819,664	88,032	0.44
Formosa BP Chemicals Corp.	2,981,383	0.34	2,074,515	64,768	0.33
Simosa Oil Corporation	2,190,026	0.25	1,698,900	53,041	0.27
Whale Home International Co., Ltd.	832,340	0.09	991,948	30,970	0.16
Formosa ABS Plastics (Ningbo) Limited Company	946,397	0.11	808,935	25,256	0.13
Mai-Liao Harbor Administration Corporation	43,832	-	448,079	13,989	0.07
Mai-Liao Power Corporation	159,814	0.02	124,407	3,884	0.02
Other related parties	333,426	0.04	228,562	7,136	0.03
Total	\$366,659,453	41.80	\$292,937,503	\$9,145,723	46.09

The terms and conditions of sales (including prices) to related parties are similar to those with non-related parties. The credit term is 30 days from the day the related party confirms the sale.

(b) Notes receivable

Related Parties	December 31, 2008		December 31, 2009		
	Amount	%	Amount		%
	NTD		NTD	USD	
National Petroleum Co., Ltd.	\$2,588,464	95.56	\$2,001,259	\$62,481	91.42

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(c) Accounts receivable

Related Parties	December 31, 2008		December 31, 2009		
	Amount	%	Amount		%
	NTD		NTD	USD	
Formosa Chemicals & Fiber Corporation	\$3,590,812	12.24	\$13,160,559	\$410,882	20.28
Formosa Plastics Corporation	4,257,324	14.51	10,426,055	325,509	16.06
Nan Ya Plastics Corporation	1,894,591	6.46	5,373,476	167,764	8.28
National Petroleum Co., Ltd.	1,237,091	4.22	2,374,284	74,127	3.66
Formosa Taffeta Corporation	326,331	1.11	710,609	22,186	1.09
Caltex Taiwan Corporation	351,658	1.20	409,245	12,777	0.63
Simosa Oil Corporation	177,114	0.61	115,854	3,617	0.18
Formosa BP Chemicals Corp.	4,295	0.01	253,268	7,907	0.39
Formosa ABS Plastics (Ningbo) Limited Company	-	-	73,138	2,283	0.11
Whale Home International Co., Ltd.	29,790	0.10	62,873	1,963	0.10
Mai-Liao Power Corporation	11,279	0.04	3,078	96	0.01
Other related parties	27,665	0.09	34,490	1,077	0.05
Total	\$11,907,950	40.59	\$32,996,929	\$1,030,188	50.84

B. Purchases and accounts payable

(a) Purchases

Related Parties	2008		2009		
	Amount	%	Amount		%
	NTD		NTD	USD	
Formosa Chemicals & Fiber Corporation	\$24,466,768	2.92	\$19,478,115	\$608,121	3.48
Formosa Plastics Corporation	11,083,970	1.33	7,950,010	248,205	1.42
Nan Ya Plastics Corporation	1,947,249	0.23	1,023,624	31,958	0.18
Formosa BP Chemicals Corp.	1,101,659	0.13	704,695	22,001	0.13
Formosa Plastics Transport Corp.	53,569	0.01	46,525	1,453	0.01
Whale Home International Co., Ltd.	26,020	-	9,759	305	-
Others	17,226	-	15,024	469	-
Total	\$38,696,461	4.62	\$29,227,752	\$912,512	5.22

The Company and subsidiaries did not receive special discounts when purchasing from the related parties, payment term is 30 days after receiving the goods.

(b) Accounts payable

Related Parties	December 31, 2008		December 31, 2009		
	Amount	%	Amount		%
	NTD		NTD	USD	
Formosa Chemicals & Fiber Corporation	\$416,031	2.60	\$1,972,101	\$61,570	9.35
Formosa Plastics Corporation	351,513	2.19	981,141	30,632	4.65
Nan Ya Plastics Corporation	74,318	0.46	129,356	4,039	0.61
Formosa BP Chemicals Corp.	-	-	105,167	3,283	0.50
Formosa Heavy Industries Corporation	292,550	1.82	-	-	-
Formosa Plastics Transport Corp.	3,454	0.02	3,477	109	0.02
Others	-	-	108,581	3,390	0.51
Total	\$1,137,866	7.09	\$3,299,823	\$103,023	15.64

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C. The information of salaries and rewards for main Supervisors:

Item	For the year ended December 31, 2008	For the year ended December 31, 2009	
	NTD	NTD	USD
salaries, cash awards, special expenditures, business performance expenses and bonus	\$30,578	\$42,302	\$1,321

(a) The company mainly managements include chairman, inspector and the supervisor above senior vice president.

(b) Please refer to annual report of shareholders' meeting to acquire details for abovementioned information.

D. Fixed Assets

(a) Commissioned construction

The Company has contracted its related parties and subsidiaries to construct the expansion of its facilities and the maintenance of them. The amounts for the year ended December 31, 2008 and 2009 are as stated below:

Related Parties	2008	2009	
	NTD	NTD	USD
Formosa Heavy Industries Corporation - expansion of facilities	\$796,615	\$666,605	\$20,812
Formosa Heavy Industries Corporation - maintenance	166,257	151,397	4,727
Nan Ya Plastics Corporation - expansion of facilities	121,372	91,702	2,863
Nan Ya Plastics Corporation - maintenance	33,753	30,630	956
Total	<u>\$1,117,997</u>	<u>\$940,334</u>	<u>\$29,358</u>

The Company followed the general procedures to commission Formosa Heavy Industries Corporation and Nan Ya Plastics Corporation the construction for expansion of its facilities and the maintenance of them. The payment period is one month after the construction was verified as complete.

(b) The Company purchases the transportation equipment from Formosa Marine Corporation amounted to \$21,783 thousands for the year ended December 31, 2009.

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E. Financing

(a) Other receivables - due from affiliates

2008					
Related Parties	Highest Balance (NTD)	Date of Highest Balance	Ending Balance (NTD)	Interest Rate	Interest Received for the Period NTD
Formosa Plastics Corporation	\$9,015,700	5/15	\$-	1.907%~2.800%	\$6,242
Formosa Chemicals & Fiber Corporation	22,000,000	5/15	17,997,200	1.907%~2.800%	315,489
Nan Ya Plastics Corporation	5,516,100	5/15	-	1.907%~2.800%	2,510
Formosa Marine Corporation	300,000	1/1	240,000	1.907%~2.800%	2,934
Formosa Biomedical technology Corp.	15,600	2/27	-	1.907%~2.800%	6
Hong Jing Resources Co., Ltd.	150,000	3/7	150,000	1.907%~2.800%	3,268
Yui Chi Development Corporation	8,400	12/4	-	1.907%~2.800%	15
Formosa Idemitsu Petrochemical Corporation	158,700	6/16	-	1.907%~2.800%	154
Mai-Liao Power Corporation	14,831,300	6/16	8,388,300	1.907%~2.800%	61,723
Asia Pacific Investment Co.	2,850,200	6/24	2,098,000	1.907~2.800	39,358
Hwa Ya Power Corporation	812,600	12/12	669,800	1.907~2.800	6,506
Whale Home International Co., Ltd.	35,000	12/30	30,400	1.907~2.800	75,095
Total			<u>\$29,573,700</u>		<u>\$513,300</u>

2009							
Related Parties	Highest Balance (NTD)	Date of Highest Balance	Ending Balance		Interest Rate	Interest Received for the Year	
			NTD	USD		NTD	USD
Formosa Chemicals & Fiber Corporation	\$17,997,200	1/1	\$-	\$-	0.781~1.306	\$58,009	\$1,811
Nan Ya Plastics Corporation	3,230,800	8/17	-	-	0.781~1.306	109	3
Formosa Marine Corporation	240,000	1/1	240,000	7,493	0.781~1.306	2,490	78
Formosa Biomedical technology Corp.	50,000	4/13	-	-	0.781~1.306	138	4
Hong Jing Resources Co., Ltd.	150,000	1/1	-	-	0.781~1.306	1,081	34
Yui Chi Development Corporation	15,600	10/28	-	-	0.781~1.306	5	-
Formosa Environmental Technology Corporation	480,000	12/28	480,000	14,986	0.781~1.306	52	2
Wen Fun Industrial Co., Ltd.	8,200	5/15	-	-	0.781~1.306	1	-
Mai-Liao Power Corporation	13,061,500	4/15	-	-	0.781~1.306	29,865	933
Asia Pacific Investment Co.	3,159,900	8/5	2,346,100	73,247	0.781~1.306	24,116	753
Hwa Ya Power Corporation	1,968,300	10/20	-	-	0.781~1.306	4,479	140
Whale Home International Co., Ltd.	50,000	8/4	7,600	237	0.781~1.306	117	3
Total			<u>\$3,073,700</u>	<u>\$95,963</u>		<u>\$120,462</u>	<u>\$3,761</u>

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(b) Due to affiliates

2008

Related Parties	Highest Balance (NTD)	Date of Highest Balance	Ending Balance (NTD)	Interest Rate	Interest paid for the Period
					NTD
Formosa Plastics Corporation	\$17,701,000	7/24	\$-	1.907~2.800	\$29,133
Nan Ya Plastics Corporation	15,601,900	8/14	600	1.907~2.800	66,633
Formosa Chemicals & Fiber Corporation	194,900	3/11	-	1.907~2.800	37
Nan Ya Printed circuit Board Corporation	2,278,900	1/1	756,100	1.907~2.800	13,546
Mai-Liao Harbor Administration Corporation	1,200,000	5/14	306,100	1.907~2.800	18,038
Formosa Heavy Industries Corporation	800,000	1/1	250,500	1.907~2.800	11,671
Mai-Liao Power Corporation	848,400	7/29	-	1.907~2.800	132
Total			<u>\$1,313,300</u>		<u>\$139,190</u>

2009

Related Parties	Highest Balance (NTD)	Date of Highest Balance	Ending Balance		Interest Rate	Interest Received for the Year	
			NTD	USD		NTD	USD
Formosa Plastics Corporation	\$9,690,400	9/14	\$2,228,600	\$69,579	0.781~1.306	\$10,485	\$327
Nan Ya Plastics Corporation	7,994,900	10/14	1,141,700	35,645	0.781~1.306	9,844	307
Nan Ya Printed circuit Board Corporation	1,000,000	2/10	935,900	29,219	0.781~1.306	3,046	95
Mai-Liao Harbor Administration Corporation	873,700	5/26	-	-	0.781~1.306	2,849	89
Formosa Heavy Industries Corporation	800,000	6/22	800,000	24,977	0.781~1.306	4,854	152
Neumin Oil & Gas LLC	43,350	12/31	43,350	1,353	0.781~1.306	-	-
Total			<u>\$5,149,550</u>	<u>\$160,773</u>		<u>\$31,078</u>	<u>\$970</u>

F. Other receivables, other payables and revenues received in advance

Receivables from / payables to related parties bear no interest.

(a) Other receivables - sale of raw materials

Related Parties	December 31, 2008		December 31, 2009		
	Amount	%	Amount		%
	NTD		NTD	USD	
Formosa Plastics Corporation	\$8,002	0.02	\$2,045	\$64	0.02
Nan Ya Plastics Corporation	6,129	0.02	1,458	46	0.01
Formosa Chemicals & Fiber Corporation	25,833	0.07	9,950	311	0.09
Mai-Liao Power Corporation	36,855	0.09	2,182	68	0.02

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Related Parties	December 31, 2008		December 31, 2009		
	Amount		Amount		
	NTD	%	NTD	USD	%
Simosa Oil Corporation	2,112	0.01	2,121	66	0.02
Caltex Taiwan Corporation	4,355	0.01	79	2	-
Asia Pacific Investment Co.	3,382	0.01	1,795	56	0.02
Hong Jing Resources Co., Ltd.	32,368	0.09	35	1	-
Other related parties	2,465	-	1,641	51	0.01
Total	\$121,501	0.32	\$21,306	\$665	0.19

The receive term for selling raw materials is 30 days under confirmation with the counterparty.

(b) Other payables

Related Parties	December 31, 2008		December 31, 2009		
	Amount		Amount		
	NTD	%	NTD	USD	%
Nan Ya Plastics Corporation	\$28,853	0.86	\$-	\$-	-
Formosa Plastics Corporation	2,265	0.07	-	-	-
Formosa Heavy Industries Corporation	168,065	5.02	64,112	2,002	1.02
Formosa Chemicals & Fiber Corporation	889	0.03	66,892	2,088	1.07
Other related parties	49	-	13,972	436	0.22
Total	\$200,121	5.98	\$144,976	\$4,526	2.31

Other payables are from purchasing raw materials for construction. The payment term is 30 days after checking and accepting the materials.

H. Other related party transactions

(a) The details of usage of the related parties' labor force for the year ended December 31, 2008 and 2009 were as follows:

Related Parties	Items	2008	2009	
		NTD	NTD	USD
Mai-Liao Harbor Administration Corporation	Harbor Labor force	\$1,584,300	\$1,602,179	\$50,021
Formosa Marine Corporation	Labor force	61,767	82,830	2,586
Caltex Taiwan Corporation	Labor force	34,342	38,292	1,196
Formosa Plastics Marine Corporation	Labor force	1,539	1,899	59
Formosa Plastics Transport Corp.	Labor force	39,842	42,770	1,335
Total		\$1,721,790	\$1,767,970	\$55,197

The payment of above labor usage including harbor usage, towage, and fuel delivery for previous month is made in the following month under the agreement between two parties.

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(b) Sale of materials

The details of sales of materials to related parties for the year ended December 31, 2008 were as follows:

Related Parties	Cost	Selling Price	Gains (Losses) on Sale
	NTD	NTD	NTD
Formosa Plastics Corporation	\$51,459	\$48,946	\$(2,513)
Formosa Chemicals & Fiber Corporation	57,492	53,242	(4,250)
Nan Ya Plastics Corporation	39,705	38,738	(967)
Mai-Liao Power Corporation	115,325	112,739	(2,586)
Formosa Heavy Industries Corporation	30,841	30,843	2
Mailiao Harbor Administration Corporation	133	131	(2)
Formosa Plastics Transport Corp.	10,198	10,357	159
Other related parties	4,560	4,460	(100)
Total	\$309,713	\$299,456	\$(10,257)

The details of sales of materials to related parties for the year ended December 31, 2009 were as follows:

Related Parties	Cost		Selling Price		Gains (Losses) on Sale	
	NTD	USD	NTD	USD	NTD	USD
	Formosa Plastics Corporation	\$57,040	\$1,781	\$52,784	\$1,648	\$(4,256)
Formosa Chemicals & Fiber Corporation	59,154	1,847	56,290	1,757	(2,864)	(89)
Nan Ya Plastics Corporation	28,434	888	27,050	845	(1,384)	(43)
Mai-Liao Power Corporation	176,788	5,519	174,516	5,448	(2,272)	(71)
Formosa Heavy Industries Corporation	3,513	110	3,556	111	43	1
Chang Gung Memorial Hospital.	14,343	448	14,226	444	(117)	(3)
Formosa BP Chemicals Corp.	922	29	863	27	(59)	(2)
Nan Chung Petrochemical Corp.	547	17	504	16	(43)	(1)
Mailiao Harbor Administration Corporation	558	17	571	18	13	-
Nan Ya Printed circuit Board Corporation	178	6	121	4	(57)	(2)
Formosa Plastics Transport Corp.	11,106	347	11,050	345	(56)	(2)
Other related parties	40,283	1,257	18,607	581	(21,676)	(677)
Total	\$392,866	\$12,266	\$360,138	\$11,244	\$(32,728)	\$(1,022)

(c) Rental expenses

Details of the office premises leased from related parties for the year ended December 31, 2008 and 2009 were as follows:

Related Parties	2008		2009		
	Amount	%	Amount		%
	NTD		NTD	USD	
Formosa Plastics Corporation	\$16,047	0.90	\$16,055	\$501	1.28
Nan Ya Plastics Corporation	16,047	0.90	16,055	501	1.28
Formosa Chemicals & Fibre Corporation	19,595	1.11	19,603	612	1.56
Formosa Plastics Transport Corp.	4,549	0.26	4,463	139	0.36
Total	\$56,238	3.17	\$56,176	\$1,753	4.48

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Rents on the office premises leased from related parties are based on the local standard, and are payable semi-annually.

(d) Bill endorsements and guarantees

Related Parties	December 31, 2008	December 31, 2009	
	NTD	NTD	USD
Simosa Oil Corporation	\$99,000	\$99,000	\$3,091
Formosa Oil (Asia Pacific) Corporation	40,000	40,000	1,248
Whale Home International Co., Ltd.	80,000	80,000	2,498
Total	\$219,000	\$219,000	\$6,837

(e) Rental income

The following sets forth rental income the company derived from the lease of oil storage facilities to related parties for the year ended December 31, 2008 and 2009 were as follows:

Related Parties	2008		2009		
	Amount	%	Amount		%
	NTD		NTD	USD	
Formosa Plastics Corporation	\$20,173	1.63	\$14,811	\$462	1.20
Formosa Chemicals & Fiber Corporation	28,877	2.34	47,485	1,483	3.84
Simosa Oil Corporation	11,760	0.95	11,761	367	0.95
Total	\$60,810	4.92	\$74,057	\$2,312	5.99

(f) Stocks pledged to related parties (in thousand shares)

Pledged Assets	Contents	December 31, 2008	December 31, 2009
Available-for-sale financial assets-current	Stocks of Nan Ya Plastics Corporation	1,746	1,746
Available-for-sale financial assets-current	Stocks of Formosa Chemicals & Fiber Corporation	36	36
Total		1,782	1,782

The above stocks were pledged to Formosa Oil (Asia Pacific) Corporation as collaterals for bank loans in May 2003.

7. PLEDGED ASSETS

- (1) As of December 31, 2008 and 2009, the following assets were pledged to banks and governmental authorities as collaterals for bank loans and export tax guarantee:

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Pledged Assets	Contents	December 31,	December 31, 2009	
		2008	NTD	USD
Inventories	Raw materials and oil products	\$11,499,024	\$19,912,722	\$621,690
Other financial assets - current	Stock of Nan Ya Plastics Corporation-79,500 in thousand shares	\$2,806,350	\$4,634,850	\$144,703
	Stock of Formosa Plastics Corporation-2,170 in thousand shares	94,612	146,041	4,560
	Total	\$2,900,962	\$4,780,891	\$149,263
Other financial assets- non-current	Stock of Nan Ya Plastics Corporation-1,746 in thousand shares	\$61,634	\$101,792	\$3,178
	Stock of Formosa Chemicals & Fiber Corporation-36 in thousand shares	1,440	2,498	78
	Total	\$63,074	\$104,290	\$3,256
Other financial assets- current	Certificates of time deposit	\$4,008	\$9,308	\$291
Other financial assets- non-current	Certificates of time deposit	\$4,000	\$2,000	\$62
Property, plant and equipment	Land	\$18,373,933	\$19,118,886	\$596,906
	Plant	19,922,412	19,311,427	602,917
	Machinery and equipment	109,394,333	163,270,721	5,097,431
	Transpiration equipment	1,052	607,260	18,959
	Other equipment	747,755	683,493	21,339
	Total	\$148,439,485	\$202,991,787	\$6,337,552

8. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2008 and 2009, the Company and subsidiaries' commitments and contingent liabilities were as follows:

- (1) The endorsed guarantees the Company provided for other companies in the same industry and related parties all amounted to \$219,000 thousand.
- (2) Guarantee notes received from counterparties as collateral for payment, construction completion commitment and others for operational needs were \$1,858,974 thousand and \$874,152 thousand, respectively.
- (3) Guarantee notes issued for borrowings (financing) were \$122,037,779 thousand and \$101,115,091 thousand, respectively
- (4) The unutilized portions of letters of credit issued by banks for importing raw materials were \$6,901,309 thousand and \$4,396,019 thousand, respectively.

9. SIGNIFICANT DISASTER LOSSES

None.

10. SIGNIFICANT SUBSEQUENT EVENTS

None.

11. OTHERS

(1) Financial risk management objectives and policies and hedging strategy

The Company and subsidiaries' principal financial instruments, other than derivatives, include cash and cash equivalents, due from (to) affiliates, bank loans, commercial paper payable, and bonds payable. The main purpose of these financial instruments is to reconcile the financing of the Company and subsidiaries' operations. The Company and subsidiaries have various other financial assets and liabilities such as (accounts) receivables and (accounts) payables, which arise directly from its operations.

The Company also enters into transactions of derivatives, including principally energy commodity swap contracts, interest rate swap contracts and forward currency contracts. The purpose is to hedge the interest rate and foreign currency risks arising from the Company's operational and financing activities. It is the Company and subsidiaries' policy that no transaction of derivative for trading purpose is allowed. Derivative transactions for hedging purpose that fail to meet the strict criteria of hedge accounting standards are treated in accounting as for trading.

The main risks arising from the Company and subsidiaries' financial instruments are cash flow interest rate fluctuation risk, foreign currency risk, commodity price risk, credit risk, and liquidity risk. Risk management objectives and policies permitted by the Board of Directors are summarized below:

(a) Cash flow interest rate fluctuation risk

The Company is exposed to the risk of changes in market interest rates related primarily to the Company's long-term loans and bonds payable with a floating interest rate.

To manage interest rate risk, the Company and subsidiaries take a combination of loans with fixed and variable interest rates and enters into interest rate swaps, in which the Company agrees to exchange, at specified interest rate intervals, fixed and variable interest rate payments.

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(b) Foreign currency risk

In order to hedge against the (USD and NTD) exchange rate risk arising from the long-term syndicated loan and foreign currency demand, the Company enters into long-term forward contract (LTF).

(c) Commodity price risk

The Company's oil-refining plant's margin is exposed to the risk of the fluctuation of the crude oil price and the international petroleum product price. In order to keep the margin and cash flows stable, the Company, based on its annual production and sales plan, has entered into cash settled derivatives, such as the Gasoil vs. Crude, and Jet/Kero vs. Crude swaps.

(d) Credit risk

The Company and subsidiaries trade only with recognized, creditworthy third parties. It is the Company and subsidiaries' policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables' turnovers are monitored on an ongoing basis and thus the likelihood of (the company) having bad debts is minimal. 29.56% and 32.26% of net income for the year ended December 31, 2008 and 2009, respectively, were from customers whose sales volume exceeded 10% of the sales revenue. In order to reduce the credit risk, the Company constantly assesses customers' credit (financial status) before entering transactions. The collectability of receivables is secured when the terms and conditions of the transactions are followed in accordance with a sales contract.

With respect to credit risk arising from the other financial assets (including cash and cash equivalents, available-for-sale financial assets and certain derivative instruments) of the Company and subsidiaries, which is caused mainly by the risk that the counterparty's is unable to fulfill the contractual obligations, the maximum risk the company is exposed to is the book value of these financial assets.

(e) Liquidity risk

The Company and subsidiaries' objective is to reconcile funds, to obtain flexibility in using different funds, and to stabilize the funds through the use of cash and cash equivalents, due from (to) affiliates, bank loans, commercial paper payable, bonds payable, and so on.

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(2) Financial instruments

A. As of December 31, 2008 and 2009, the Company and subsidiaries' non-derivative and derivative financial instruments are as follows:

	December 31, 2008			
	Book value		Fair value	
	NTD		NTD	
<u>Non-derivative financial instruments</u>				
Asset				
Cash and cash equivalents	\$1,852,507		\$1,852,507	
Notes and accounts receivable (including related parties)	31,735,918		31,735,918	
Available-for-sale financial assets-current	10,500,457		10,500,457	
Other financial assets –current	2,904,970		2,904,970	
Assets carried at cost-non-current (Note 1)	1,186,113		-	
Long-term equity investment-equity method (Note2)	12,593,963		12,593,963	
Other financial assets-non-current	67,074		67,074	
Liability				
Short-term loans	32,876,064		32,876,024	
Commercial paper payable	1,598,634		1,598,634	
Notes and accounts payable (including related parties)	16,057,594		16,057,594	
Long-term loans (Note 3)	95,448,438		95,448,438	
Bonds payable (Note 3)	77,975,000		77,975,000	
<u>Derivative financial instruments</u>				
Asset				
Forward currency contracts	537,994		537,994	
Energy commodity swap contracts	57,968		57,968	
Interest rate swap contracts	121,599		121,599	
Liability				
Energy commodity swap contracts	1,990		1,990	
Interest rate swap contracts	945,608		945,608	
	December 31, 2009			
	Book value		Fair value	
	NTD	USD	NTD	USD
<u>Non-derivative financial instruments</u>				
Asset				
Cash and cash equivalents	\$5,257,110	\$164,131	\$5,257,110	\$164,131
Notes and accounts receivable (including related parties)	66,418,450	2,073,633	66,418,450	2,073,633
Available-for-sale financial assets-current	19,269,159	601,597	19,269,159	601,597
Other financial assets –current	4,790,199	149,554	4,790,199	149,554
Assets carried at cost-non-current (Note 1)	3,036,414	94,799	-	-
Long-term equity investment-equity method (Note 2)	15,074,238	470,629	15,074,238	470,629
Other financial assets-non-current	106,290	3,318	106,290	3,318
Liability				
Short-term loans	31,091,029	970,684	31,091,029	970,684

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	December 31, 2009			
	Book value		Fair value	
	NTD	USD	NTD	USD
Notes and accounts payable (including related parties)	21,095,330	658,612	21,095,330	658,612
Long-term loans (Note 3)	74,712,026	2,332,564	74,712,026	2,332,564
Bonds payable (Note 3)	71,600,000	2,235,404	71,600,000	2,235,404
<u>Derivative financial instruments</u>				
Asset				
Forward currency contracts	225,227	7,032	225,227	7,032
Interest rate swap contracts	25,197	787	25,197	787
Liability				
Interest rate swap contracts	521,181	16,272	521,181	16,272

(Note 1) : The fair value of financial assets measured at cost is unable to be estimated since there is no active market for the trading of those unlisted investments.

(Note 2) : The fair value of held-to-maturity financial assets and long-term equity investments accounted for under equity method are based on the quoted market prices (if available). If market prices are unavailable, the Company estimates the fair value based on the book values.

(Note 3) : The fair value of long-term borrowings and bonds payables are estimated based on the future expected cash flows discounted at an interest rate to present value. The discount rate should be determined by the long-term borrowing rate under comparable terms and conditions that are acquirable by the Company. When the discount rate is a market floating rate, the fair value is equal to the book value.

B. The company's methodologies and assumptions for the estimation of fair values of financial instruments are as follow:

- (a) The fair values of the short-term financial instruments are determined with respect to their carrying amounts due to their short periods to maturity. Their carrying values should be a reasonable base for the estimation of their fair values. The Company applied this methodology to cash and cash equivalents, notes and accounts receivable, due from (to) affiliates, other financial assets-current and non-current, short-term loans, commercial paper payable, notes and accounts payable, and so on.
- (b) When a financial asset has a price quoted from an actively trading market, such a market price will be the asset's fair value. If there is no market price to refer to, the fair value will be determined by using a valuation technique. The estimation bases and assumptions are consistent with those used by the market participant when setting the price of a financial instrument. The

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Company uses a discount rate consistent with the rate of return of a financial instrument that in essence, has the same conditions and characteristics as the financial asset. Conditions and characteristics include the credit status of the liable party, remaining interest-bearing period pursuant to contractual terms, remaining principal-paying period, currency the payments are made in, etc.).

- (c) The fair value of long-term loans is estimated using discounted future cash flows. The discount rate is based on the interest rate of long-term loans which Company can be granted under the similar conditions (similar period to maturity). But if the long-term loan has a floating interest rate, its fair value is equal to its book value.

- C. The fair values of the derivative financial assets and liabilities are determined with reference to published quoted prices in an active market or estimated using a valuation technique are shown as below:

	Published price quotations in an active market			Estimated using a valuation technique		
	December 31, 2008	December 31, 2009		December 31, 2008	December 31, 2009	
	NTD	NTD	USD	NTD	NTD	USD
<u>Non-derivative financial instruments</u>						
<u>Financial assets</u>						
Cash and cash equivalents	\$1,852,507	\$5,257,110	\$164,131	\$-	\$-	\$-
Notes and accounts receivable (including related parties)	-	-	-	31,735,918	66,418,450	2,073,633
Available-for-sale financial assets-current	10,500,457	19,269,159	601,597	-	-	-
Long-term equity investment-equity method	-	-	-	12,593,963	15,074,238	470,629
Other financial assets-current	2,904,970	4,790,199	149,554	-	-	-
Other financial assets-non-current	67,074	106,290	3,318	-	-	-
<u>Financial liabilities</u>						
Short-term loans	-	-	-	32,876,064	31,091,029	970,684
Commercial paper payable	-	-	-	1,598,634	-	-
Notes and accounts payable (including related parties)	-	-	-	16,057,594	21,095,330	658,612
Long-term loans	-	-	-	95,448,438	74,712,026	2,332,564
Bonds payable	-	-	-	77,975,000	71,600,000	2,235,404
<u>Derivative financial instruments</u>						
<u>Asset</u>						
Forward currency contracts	-	-	-	537,994	225,227	7,032
Energy commodity swap contracts	-	-	-	57,968	-	-
Interest rate swap contracts	-	-	-	121,599	25,197	787
<u>Liability</u>						
Energy commodity swap contracts	-	-	-	1,990	-	-
Interest rate swap contracts	-	-	-	945,608	521,181	16,272

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(Note): The valuation of the energy commodity swaps was based on published market values on the Goldman Sachs Commodity Index. Forward exchange contracts, interest rate swaps and cross currency swaps were valued based on discounted future cash flows.

B. Interest rate risk

The following table sets out the carrying amount, of the Company and subsidiaries' financial instruments that are exposed to interest rate risk as of December 31, 2009 (arranged in terms of period to maturity):

(a) Fixed rate

	1 year	1-2 years	2-3 years	3-4 years	4-5 years	Above 5 years	Total
Bonds payable	\$(22,300,000)	\$(19,300,000)	\$(9,000,000)	\$(15,000,000)	\$(6,000,000)	\$-	\$(71,600,000)
Other financial assets- current	9,308	-	-	-	-	-	9,308
Other financial asset-noncurrent	-	-	2,000	-	-	-	2,000
Bank loans	(2,278,180)	(2,193,553)	(2,159,926)	(2,159,926)	(2,159,926)	(4,319,852)	(15,271,363)

(b) Floating rate

	1 year	1-2 years	2-3 years	3-4 years	4-5 years	Above 5 years	Total
Cash and equivalents	\$5,179,697	\$-	\$-	\$-	\$-	\$-	\$5,179,697
Short and Long-term loans	(55,741,671)	(17,795,234)	(5,944,051)	(2,607,617)	(2,606,977)	(5,836,142)	(90,531,692)

Interest on financial instruments classified as having a floating rate is re-priced at intervals of less than one year. Interest on financial instruments classified as having a fixed rate is fixed until the maturity of the instrument. Other financial instruments of the Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk and thus not included in the above table.

C. Credit risk

The likelihood of significant concentrations of credit risk is minimal.

D. Hedging policies-Cash flow hedging

(a) As of December 31, 2009, the company has a nominal amount of \$6,000,000 thousand which receives a floating rate by paying a fixed rate of 1.496%~3.75% for the purpose to hedge against cash flow interest rate fluctuation risk arisen from domestic unsecured unconvertible bonds. The bonds and interest rate swap contracts have the same critical terms.

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The other group has a nominal amount of \$12,100,000 thousand and US\$97,420 thousand which receives floating Commercial paper Rate by paying a fixed rate of 1.42%~3.69% on the nominal amount. It is used to hedge against the cash flow interest rate fluctuation risk arisen from long-term syndicated loan for No.6 Naphtha cracking Project. This interest rate swap contract that hedges cash flow risks was assessed to be highly effective. As of December 31, 2009, an unrealized loss of \$297,535 thousand has been included in equity.

(3) Significant contracts

A. The agreements entered into by the Company with the Bureau of Energy, Ministry of Economic Affairs under the government's scheme for purchase, storage and administration of petroleum are set forth below:

- (a) The agreement for the 2003 No.1 bid for the purchase of 150,000 KL of crude oil is effective from May 1, 2008 to June 30, 2012.
- (b) The agreement for the 2004 No.1 bid for the purchase of 500,000 KL of crude oil is effective from September 10, 2008 to June 30, 2012.
- (c) The agreement for the 2004 No.1-3 bid for the purchase of 250,000 KL of crude oil is effective from October 26, 2009 to June 30, 2012.
- (d) The agreement for the 2004 No.1-4 bid for the purchase of 100,000 KL of crude oil is effective from November 24, 2008 to June 30, 2012.
- (e) The agreement for the 2007 No.3 bid for the purchase of 50,000 KL of liquefied petroleum gas stored on behalf of others is effective from the bid-ending date of November 1, 2007 to October 31, 2011.
- (f) The agreement for the 2008 No.8 bid for the purchase of 20,000 KL of the 95 unleaded gasoline's stored on behalf of others is effective from November 12, 2008 to December 31, 2012.
- (g) The agreement for the 2008 No.10 bid for the purchase of 50,000 KL of jet fuel stored on behalf of others is effective from November 25, 2008 to December 31, 2012.
- (h) The agreement for the 2008 No.12 bid for the purchase of 50,000 KL of ordinary diesel oil is effective from November 25, 2008 to December 31, 2012.

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- (i) The agreement for the 2008 No.13 bid for the purchase of 100,000 KL of ordinary diesel oil stored on behalf of others is effective from November 25, 2008 to December 31, 2012.

The Company is obliged to store the contractually agreed quantity of petroleum during the contractual period. A fee is charged to the government on the storage of petroleum (and received by the company).

(4) Others

1. Reclassification

Certain accounts in the financial statements for the year ended December 31, 2008 have been reclassified in order to be comparable with those in the financial statements for the year ended December 31, 2009. The details were as follows:

<u>Income of statements</u>	<u>Pre- reclassification</u>	<u>Post- reclassification</u>
Cost of goods sold	\$842,602,177	\$850,508,167
Gains on physical inventory	\$(346,130)	\$-
Loss of inventory valuation	\$8,252,120	\$-

11. SEGMENT INFORMATION

(1) Information by industry

A. Information for the year ended December 31, 2008 (expressed in thousands of NT dollars)

	<u>Petrochemical Division</u>	<u>Utility Division</u>	<u>Others</u>	<u>Consolidated Amount</u>
Revenues from outside parties	\$823,725,081	\$35,464,924	\$17,960,625	\$877,150,630
Inter-company revenues	55,704,394	7,034,722	(62,739,116)	-
Total revenues	<u>\$879,429,475</u>	<u>\$42,499,646</u>	<u>(\$44,778,491)</u>	<u>\$877,150,630</u>
Operating income	<u>\$23,142,523</u>	<u>\$3,902,099</u>	<u>\$301,546</u>	\$27,346,168
General expenses				(3,453,870)
Interest income (expense)				(5,115,335)
Non-operating income (expense)				(4,316,586)
Income before income tax from continuing operations				<u>\$14,460,377</u>
Identifiable assets	<u>\$232,419,870</u>	<u>\$49,960,862</u>	<u>\$25,594,013</u>	<u>\$307,974,745</u>
Long-term investments				14,506,743
General assets				109,143,811
Total assets				<u>\$431,625,299</u>
Depreciation	<u>\$30,050,555</u>	<u>\$4,675,957</u>	<u>\$806,908</u>	
Capital expenditure	<u>\$9,092,771</u>	<u>\$1,685,009</u>	<u>\$1,590,915</u>	

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B. Information for the year ended December 31, 2009 (expressed in thousands of NT dollars)

	Petrochemical Division	Utility Division	Others	Consolidated Amount
Revenues from outside parties	\$574,107,521	\$41,945,865	\$19,544,892	\$635,598,278
Inter-company revenues	38,971,877	7,715,534	(46,687,411)	-
Total revenues	<u>\$613,079,398</u>	<u>\$49,661,399</u>	<u>(\$27,142,519)</u>	<u>\$635,598,278</u>
Operating income	<u>\$39,886,779</u>	<u>\$8,476,867</u>	<u>\$629,540</u>	\$48,993,186
General expenses				(3,082,020)
Interest income (expense)				(3,661,229)
Non-operating income (expense)				5,824,027
Income before income tax from continuing operations				<u>\$48,073,964</u>
Identifiable assets	<u>\$217,873,178</u>	<u>\$46,175,873</u>	<u>\$34,704,740</u>	<u>\$298,753,791</u>
Long-term investments				18,442,169
General assets				132,210,824
Total assets				<u>\$449,406,784</u>
Depreciation	<u>\$26,692,266</u>	<u>\$4,808,029</u>	<u>\$876,601</u>	
Capital expenditure	<u>\$2,322,632</u>	<u>\$2,467,684</u>	<u>\$776,395</u>	

(2) Geographic information

The Company does not have overseas operating units.

(3) Export sales

Area	2008	2009	
	NTD	NTD	USD
Asia	\$323,154,565	\$187,816,143	\$5,863,757
America	33,107,859	18,653,483	582,375
Europe	24,676,012	47,194,774	1,473,455
Others	46,870,254	18,231,944	569,215
Total	<u>427,808,690</u>	<u>\$271,896,344</u>	<u>\$8,488,802</u>

(4) Major customers

A. For the year ended December 31, 2008

Customer	Sales Amount (NTD)	%	Division
Formosa Chemicals & Fiber Corp.	\$156,607,822	17.85	Petrochemical and utility divisions
Formosa Plastics Corp.	102,634,659	11.71	Petrochemical and utility divisions
Nan Ya Plastics Corp.	58,824,055	6.71	Petrochemical and utility divisions
	<u>\$318,066,536</u>	<u>36.27</u>	

B. For the year ended December 31, 2009

Customer	Sales Amount		%	Division
	NTD	USD		
Formosa Chemicals & Fiber Corp.	\$117,807,989	3,678,052	18.53%	Petrochemical and utility divisions
Formosa Plastics Corp.	87,259,499	2,724,305	13.73%	Petrochemical and utility divisions
VITOL	50,195,702	1,567,146	7.90%	Petrochemical divisions
Nan Ya Plastics Corp.	45,316,868	1,414,826	7.13%	Petrochemical and utility divisions
	<u>\$300,580,058</u>	<u>\$9,384,329</u>	<u>47.29%</u>	

