FORMOSA GROUP (CAYMAN) LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2016
(With Independent Auditors' Report Thereon)

KPMG

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Independent Auditors' Report

The Board of Directors
Formosa Group (Cayman) Limited

We have audited the accompanying statements of financial position of Formosa Group (Cayman) Limited as of December 31, 2015 and 2016, and the related statements of comprehensive income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Formosa Group (Cayman) Limited as of December 31, 2015 and 2016, and the results of its operations and its cash flows for the years ended December 31, 2015 and 2016, in conformity with the related financial accounting standards of the Business Entity Accounting Act and the Regulation on Handling Business Entity Accounting with respect to financial accounting standards, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations as endorsed by the ROC Financial Supervisory Commission.

KPMG

Taipei, Taiwan (the Republic of China)
March 9, 2017

Note to Readers

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

FORMOSA GROUP (CAYMAN) LIMITED

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2016
(Expressed in U.S. Dollars)

	Note	December 31, 2015	December 31, 2016
Assets			
Current assets:			
Cash		$ 258,766	236,042
Other receivables－related parties	7(a)	4,898,066,312	5,023,977,445
Total assets		**$ 4,898,325,078**	**5,024,213,487**
Liabilities and Equity			
Current liabilities:			
Accrued expenses		$ 11,176,788	14,562,095
Other payables－related parties	7(a)	3,351,337	995,229,993
Current portion of long-term debts	6(a) and 7(b)	1,615,000,000	1,355,500,000
Total current liabilities		1,629,528,125	2,365,292,088
Non-Current liabilities:			
Long-term debts	6(a) and 7(b)	2,257,250,000	1,597,150,000
Bonds payable	6(b) and 7(b)	992,902,889	993,665,389
Total non-current liabilities		3,250,152,889	2,590,815,389
Total liabilities		4,879,681,014	4,956,107,477
Equity			
Ordinary shares	6(c)	50,000	50,000
Unappropriated retained earnings		18,594,064	68,056,010
Total equity		18,644,064	68,106,010
Total liabilities and equity		**$ 4,898,325,078**	**5,024,213,487**

See accompanying notes to financial statements.

FORMOSA GROUP (CAYMAN) LIMITED

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2016
(Expressed in U.S. Dollars)

		For the years ended December 31,		
	Note		**2015**	**2016**
Operating revenues:				
Interest income		$	85,368,747	155,704,671
Operating costs:				
Interest expenses			(69,436,901)	(106,233,595)
Gross profit			15,931,846	49,471,076
Operating expenses:				
Administrative and general expenses	8		(54,851)	(9,130)
Income before income tax			15,876,995	49,461,946
Income tax expense			-	-
Net income / Total comprehensive income		**$**	**15,876,995**	**49,461,946**

See accompanying notes to financial statements.

FORMOSA GROUP (CAYMAN) LIMITED

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2016
(Expressed in U.S. Dollars)

		Ordinary shares	Unappropriated retained earnings	Total equity
Balance as of December 31, 2014	$	50,000	2,717,069	2,767,069
Profit / total comprehensive income for the year ended December 31, 2015		-	15,876,995	15,876,995
Balance as of December 31, 2015		50,000	18,594,064	18,644,064
Profit / total comprehensive income for the year ended December 31, 2016		-	49,461,946	49,461,946
Balance as of December 31, 2016	**$**	**50,000**	**68,056,010**	**68,106,010**

See accompanying notes to financial statements.

FORMOSA GROUP (CAYMAN) LIMITED

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2016
(Expressed in U.S. Dollars)

	For the years ended December 31, 2015	2016
Cash flows from operating activities:		
Income before income tax	$ 15,876,995	49,461,946
Adjustments for:		
Incomes and expenses not affecting cash flows:		
Interest expenses	69,436,901	106,233,595
Interest income	(85,368,747)	(155,704,671)
Amortization of bond discount	527,889	762,500
Incomes and expenses not affecting cash flows	(15,403,957)	(48,708,576)
Changes in operating assets and liabilities :		
Changes in operating liabilities :		
Accrued expenses	(517,183)	1,100
Other payables－related parties	3,351,337	1,301,191
Total changes in operating liabilities	2,834,154	1,302,291
Total adjustments	(12,569,803)	(47,406,285)
Cash generated from operations:	3,307,192	2,055,661
Interest received	71,720,272	165,828,080
Interest paid	(59,397,567)	(102,849,388)
Net cash provided by operating activities	15,629,897	65,034,353
Cash flows from investing activities:		
Increase in due from related parties (listed under other receivables －related parties)	(3,267,965,458)	(136,034,542)
Net cash used in investing activities	(3,267,965,458)	(136,034,542)
Cash flows from financing activities:		
Proceeds from bonds issued	992,375,000	-
Proceeds from long-term debts	2,259,250,000	323,900,000
Repayments of long-term debts	-	(1,243,500,000)
Increase in due to related parties (listed under other payables －related parties)	-	990,577,465
Net cash provided by financing activities	3,251,625,000	70,977,465
Decrease in cash	(710,561)	(22,724)
Cash at beginning of year	969,327	258,766
Cash at end of year	**$ 258,766**	**236,042**

See accompanying notes to financial statements.

FORMOSA GROUP (CAYMAN) LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2016
(All amounts are expressed in U.S. Dollars)

(1) Organization and Principal Activities

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

(2) Approval Date and Procedures of the Financial Statements

The financial statements were approved and authorized for issue by the board of directors on March 9, 2017.

(3) New and Revised Standards and Interpretations

(a) Impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet in effect

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014
Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual improvements cycles 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

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

(b) Newly released or amended standards and interpretations not yet endorsed by the FSC

A summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC. The FSC announced that the Group should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the Group's financial statements were issued, the FSC has yet to announce the effective dates of the other IFRSs. As of the end of reporting date is as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IFRS 2 "Clarifications of classification and measurement of share-based payment transactions"	January 1, 2018
Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IFRS 4 " Insurance Contracts"("Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts")	January 1, 2018

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
Amendments to IAS 40 Investment Property	January 1, 2018

The Company is still currently determining the potential impact of the standards listed below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows: · Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income. · Impairment: The expected credit loss model is used to evaluate impairment.

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

(Continued)

(4) Summary of Significant Accounting Policies

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

(a) Statement of compliance

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

(b) Basis of preparation

Basis of measurement

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

Functional and presentation currency

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

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

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

1. The asset is expected to be realized, or sold or consumed, during the Company’s normal operating cycle;

2. The asset is held primarily for the purpose of trading;

3. The asset is expected to be realized within twelve months after the balance sheet date; or

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

(Continued)

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

1. The liability is expected to be settled during the Company's normal operating cycle;

2. The liability is held primarily for the purpose of trading;

3. The liability is due to be settled within twelve months after the balance sheet date; or

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

(d) Cash and cash equivalents

Cash comprises cash in bank.

(e) Financial instruments

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

(i) Financial assets

Financial assets are categorized into loans and receivables.

I. Loans and receivables

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

Interest income from receivables is recognized in other income.

II. Impairment of financial asset

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

(Continued)

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

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

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

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

III. Derecognition of financial assets

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

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

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

(Continued)

(ii) Financial liabilities

I. Other financial liabilities

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

II. Derecognition of financial liabilities

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

III. Offsetting of financial assets and liabilities

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

(f) Share capital

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

(5) Critical Accounting Judgments and Key Sources of Estimation Uncertainly

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

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

(Continued)

(6) Significant Accounts

(a) Long-term debts

	December 31, 2015			
	Currency	Interest rate	Expiration	Amount
Unsecured long-term debts	USD	1.3567%~1.8531%	2016~2018	$ 2,646,000,000
Secured long-term debts	USD	1.7523%	2020	1,226,250,000
Less: current portion				(1,615,000,000)
Total				$ 2,257,250,000

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

(i) On February 11, 2015, the Company signed a syndicated loan agreement with Bank of Taiwan (the lead bank) and 12 other banks. As of December 31, 2016, the details of the loan agreement are as follows:

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

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

III. Period: 5 years.

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

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

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

- Current Ratio (current assets, divide, current liabilities): not lower than 100%.
- Debt/Equity Ratio (total liabilities, divide, total equity): not higher than 150%.

(Continued)

(b) Formosa Petrochemical Corporation:

- Current Ratio (current assets, divide, current liabilities): not lower than 100%.
- Debt/Equity Ratio (total liabilities, divide, total equity): not higher than 195%.

The Guarantor did not breach any of the above mentioned financial covenants in respect of its financial statements as of December 31, 2016.

VI. As of December 31, 2016, the credit line of $1,500,000,000 had been used.

(b) Bonds Payable

	December 31, 2015	December 31, 2016
Overseas unsecured nonconvertible corporate bonds	$ 992,902,889	993,665,389
Less: current portion	-	-
Total	$ 992,902,889	993,665,389
Expiry	2025	2025

The major terms of overseas unsecured bonds are as follows:

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

(c) Equity

As of December 31, 2015 and 2016, the Company's total authorized and issued capital stock both amounted to $50,000, with $1 par value per share.

(d) Financial Instruments

(i) Liquidity risk

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

(Continued)

FORMOSA GROUP (CAYMAN) LIMITED

NOTES TO FINANCIAL STATEMENTS

	Carrying amount	Contractual cash flow	Within 6 months	6-12months	1-2years	2-5years	Over 5 years
December 31, 2015							
Non-derivative financial liabilities							
Long-term debts	$ 3,872,250,000	4,037,003,844	857,107,325	777,866,115	1,064,263,954	1,337,766,450	-
Bonds payable	992,902,889	1,314,062,500	-	-	-	-	1,314,062,500
Other payables-related parties	3,351,337	3,351,337	3,351,337	-	-	-	-
Accrued expenses	11,176,788	11,176,788	11,176,788	-	-	-	-
	$ 4,879,681,014	5,365,594,469	871,635,450	777,866,115	1,064,263,954	1,337,766,450	1,314,062,500
December 31, 2016							
Non-derivative financial liabilities							
Long-term debts	$ 2,952,650,000	3,132,687,936	262,874,560	1,119,723,696	104,422,400	1,645,667,280	-
Bonds payable	993,665,389	1,261,955,044	-	-	-	-	1,261,955,044
Other payables-related parties	995,229,993	1,002,213,564	1,002,213,564	-	-	-	-
Accrued expenses	14,562,095	14,562,095	14,562,095	-	-	-	-
	$ 4,956,107,477	5,411,418,639	1,279,650,219	1,119,723,696	104,422,400	1,645,667,280	1,261,955,044

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

(ii) Interest rate analysis

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

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

An increase of 1% in interest rates mainly from loans with floating interest rates at the reporting date would have decreased net income after tax by $48,651,529 and 49,368,929 for the years ended December 31, 2015 and 2016, respectively.

(e) Fair value

(i) Fair value and carrying amount

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

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

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

(ii) Valuation techniques and assumptions used in fair value determination

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

(f) Financial Risk Management

(i) Framework of risk management

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

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

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

(ii) Market risk

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

(iii) Liquidity risk

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

(Continued)

FORMOSA GROUP (CAYMAN) LIMITED

NOTES TO FINANCIAL STATEMENTS

(7) Related-party Transactions

(a) Significant related-party transactions

(i) Financing transactions

Financing transactions with related parties were as follows:

	Due from related parties (recognized as other receivables –related parties)	
	December31,	
	2015	2016
Other related parties	$ 4,882,965,458	5,019,000,000

As of December 31, 2015 and 2016, the interest revenue from the above-mentioned transactions amounted to $15,100,854 and $4,977,445, respectively, which was recognized as other receivables–related parties.

	Due to related parties (recognized as other payables–related parties)	
	December31,	
	2015	2016
Other related parties	$ -	990,577,465

As of December 31, 2015 and 2016, the interest expense from the abovementioned transactions amounted to $0 and $1,187,447, respectively, which was recognized as accrued expenses.

(b) Endorsements and guarantees

As of December 31, 2015 and 2016, the Company's related parties, including Formosa Plastics Corporation, Nan Ya Plastics Corporation, Formosa Chemicals & Fibre Corporation and Formosa Petrochemical Corporation, provided a guarantee worth $5,165,000,000 and $4,120,000,000, respectively, for the Company's long-term loan and bonds payable. As of December 31, 2015 and 2016, the guarantee fee payable to the guarantors amounted to $3,351,337 and $4,652,528, respectively, which was recognized under other payables–related parties.

(8) Others

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

	For the years ended December 31,		
		2015	2016
Professional fees	$	44,000	8,600
Others		10,851	530
Total	**$**	**54,851**	**9,130**

(9) Commitments and Contingencies

On April 2, 2015, the Company signed a loan agreement with Formosa Ha Tinh (Cayman) Limited. Under this loan agreement, the Company granted a loan facility to Formosa Ha Tinh (Cayman) Limited with an aggregate principal amount not to exceed $3,120,000,000 with expected drawdown schedule in the second quarter of 2015. As of December 31, 2015 and 2016, Formosa Ha Tinh (Cayman) Corporation's borrowing from the Company amounted to $2,582,965,458 and $2,719,000,000, respectively.