

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**TSRC CORPORATION  
AND SUBSIDIARIES**

**Consolidated Financial Statements**

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

**Address: No. 2, Singgong Rd., Dashe Dist., Kaohsiung City.  
Telephone: (07)351-3811**

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

## Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Representation Letter	3
4. Independent Auditors' Report	4
5. Consolidated Balance Sheets	5
6. Consolidated Statements of Comprehensive Income	6
7. Consolidated Statements of Changes in Equity	7
8. Consolidated Statements of Cash Flows	8
9. Notes to the Consolidated Financial Statements	
(1) Organization and Business Scope	9
(2) Financial Statements Authorization Date and Authorization Process	9
(3) New Standards, Interpretations and Amendments	9~15
(4) Significant Accounting Policies	16~35
(5) Critical Accounting Judgments and Key Sources of Estimation Uncertainty	35
(6) Description of Significant Accounts	35~75
(7) Related-party Transactions	76~78
(8) Pledged Assets	79
(9) Commitments and Contingencies	79
(10) Losses Due to Major Disasters	79
(11) Subsequent Events	79
(12) Others	79
(13) Other Disclosures	
(a) Information on significant transactions	80~83
(b) Information on investees	83~84
(c) Information on investment in Mainland China	84~85
(14) Segment Information	85~87

## **Representation Letter**

The entities that are required to be included in the combined financial statements of TSRC Corporation as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standards No. 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, TSRC Corporation does not prepare a separate set of combined financial statements.

Company name: TSRC Corporation

Chairman: Nita Ing

Date: March 14, 2019



安侯建業聯合會計師事務所  
KPMG

台北市11049信義路5段7號68樓(台北101大樓)  
68F, TAIPEI 101 TOWER, No. 7, Sec. 5,  
Xinyi Road, Taipei City 11049, Taiwan (R.O.C.)

Telephone 電話 + 886 (2) 8101 6666  
Fax 傳真 + 886 (2) 8101 6667  
Internet 網址 kpmg.com/tw

## Independent Auditors' Report

To the Board of Directors of TSRC Corporation:

### Opinion

We have audited the consolidated financial statements of TSRC Corporation ("the Group"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year end December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### 1. Revenue recognition

Please refer to note 4(q), 6(v) and note 6(w) for disclosures related to revenue recognition.

Description of key audit matter:

Revenue is the key indicator used by investors and management while evaluating the Group's finance or operating performance. The Group initially adopted IFRS 15 and the accuracy of the timing and amount of revenue recognized have significant impact on the financial statements, for which the assumptions and judgments of revenue measurement and recognition rely on subjective judgments of the management. Therefore, we consider it as the key audit matter.

How the matter was addressed in our audit:

Testing the effectiveness of design and implementing the internal control (both manual and system control) of sales and collecting cycle; reviewing the revenue recognition of significant sales contracts to determine whether the accounting treatment, key judgment, estimation, and accounting treatment are reasonable; analyzing the changes in top 10 customers from the most recent period and last year, and the changes in the price and quantity of each category of product line to determine whether if there are any significant misstatements; selecting sales transactions from a period of time before and after the balance sheet date, and verifying with the vouchers to determine the accuracy of the timing and amounts of revenue recognized; understanding whether if there is a significant subsequent sales return or discount; and reviewing whether the disclosure of revenue made by the management is appropriate.

2. Inventory measurement

Please refer to note 4(h), note 5, and note 6(g) for disclosures related to inventory measurement.

Description of key audit matter:

The inventory of the Group includes various types of synthetic rubber and its raw material. Since there is an oversupply and a low market demand in the rubber manufacturing industry, which may result in a decline on the price of raw material, the carrying value of inventories may exceed its net realizable value. The measurement of inventory depends on the evaluation of the management based on evidence from internal and external, both subjective and objective. Therefore, we consider it as the key audit matter.

How the matter was addressed in our audit:

The key audit procedures performed is to understand management's accounting policy of inventory measurement and determine whether if it is reasonable and is being implement. The procedures includes reviewing the inventory aging documents and analyzing its changes; obtaining the documents of inventory measurement and evaluating whether if the bases used for net realizable value is reasonable; selecting samples and verifying them with the vouchers to test the accuracy of the amount; and reviewing whether the disclosure of inventory measurement made by the management is appropriate.

**Other Matter**

TSRC Corporation has additionally prepared its parent company only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unqualified opinion.

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditor's report are Po-Shu Huang and Ann-Tien Yu.

KPMG

Taipei, Taiwan (Republic of China)  
March 14, 2019

#### Notes to Readers

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

The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.



(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
TSRC CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Common Share)

		2018		2017	
		Amount	%	Amount	%
4000	Revenue (notes 6(v), 6(w) and 7)	\$ 29,751,218	100	31,766,237	100
5000	Operating costs (notes 6(g), 6(j), 6(l), 6(m), 6(o), 6(p), 6(u) and 7)	26,262,504	88	28,437,358	90
5910	Gross profit	3,488,714	12	3,328,879	10
6000	Operating expenses (notes 6(e), 6(j), 6(l), 6(m), 6(p), 6(q), 6(u) and 7):				
6100	Selling expenses	959,417	3	950,976	3
6200	General and administrative expenses	1,081,834	4	1,018,863	3
6300	Research and development expenses	387,948	1	375,550	1
6450	Expected credit losses for bad debt expense	10,214	-	-	-
	Total operating expenses	2,439,413	8	2,345,389	7
6500	Other income and expenses, net (notes 6(k), 6(o), 6(x) and 7)	252,513	-	219,036	1
6900	Operating profit	1,301,814	4	1,202,526	4
	Non-operating income and expenses (notes 6(h), 6(k) and 6(y)):				
7010	Other income	171,366	1	103,465	-
7020	Other gains and losses	28,977	-	179,259	1
7050	Finance costs	(169,434)	(1)	(188,149)	(1)
7770	Share of gain of associates and joint ventures accounted for under equity method	297,720	1	(159,966)	-
	Total non-operating income and expenses	328,629	1	(65,391)	-
7900	Net income before tax	1,630,443	5	1,137,135	4
7950	Less: Tax expense (note 6(r))	396,773	1	287,418	1
	Net income	1,233,670	4	849,717	3
8300	Other comprehensive income (loss):				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	Gains (losses) on remeasurements of defined benefit plans	(21,854)	-	2,427	-
8316	Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income	177,996	-	-	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
	Components of other comprehensive income that will not be reclassified to profit or loss	156,142	-	2,427	-
8360	Items that may be reclassified subsequently to profit or loss				
8361	Financial statements translation differences for foreign operations	(12,155)	-	(550,512)	(2)
8362	Unrealized gains (losses) on valuation of available-for-sale financial assets	-	-	(111,655)	-
8370	Share of other comprehensive income (loss) of associates and joint ventures accounted for under equity method	(150,695)	-	91,145	-
8399	Income tax expense relating to components of other comprehensive income (loss)	-	-	-	-
	Components of other comprehensive income that will be reclassified to profit or loss	(162,850)	-	(571,022)	(2)
8300	Other comprehensive income (loss), net of tax	(6,708)	-	(568,595)	(2)
	Total comprehensive income	\$ 1,226,962	4	281,122	1
	Net income (loss) attributable to:				
8610	Shareholders of parent	\$ 1,192,186	4	874,107	3
8620	Non-controlling interests	41,484	-	(24,390)	-
	Total comprehensive income attributable to:	\$ 1,233,670	4	849,717	3
8710	Shareholders of parent	\$ 1,222,054	4	321,811	1
8720	Non-controlling interests	4,908	-	(40,689)	-
		\$ 1,226,962	4	281,122	1
9710	Basic earnings per share (Diluted earnings per share) (in New Taiwan dollars) (note 6(t))	\$ 1.44		1.06	

See accompanying notes to consolidated financial statements.

## (English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

## TSRC CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent											Total equity attributable to owners of parent	Non-controlling Interests	Total equity
	Retained earnings					Total other equity interest								
	Common stock	Capital surplus	Legal reserve	Unappropriated retained earnings	Total	Financial statements transition differences for foreign operations	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Total				
Balance at January 1, 2017	\$ 8,257,099	849	3,671,676	1,709,336	5,381,012	990,359	-	735,464	(23,562)	1,702,261	15,341,221	1,710,604	17,051,825	
Appropriation and distribution:														
Legal reserve	-	-	98,836	(98,836)	-	-	-	-	-	-	-	-	-	
Cash dividends	-	-	-	(825,710)	(825,710)	-	-	-	-	-	(825,710)	(36,664)	(862,374)	
Other changes in capital surplus	-	40,194	-	-	-	-	-	-	-	-	40,194	-	40,194	
Net income	-	-	-	874,107	874,107	-	-	-	-	-	874,107	(24,390)	849,717	
Other comprehensive income (loss)	-	-	-	2,427	2,427	(478,351)	-	(111,655)	35,283	(554,723)	(552,296)	(16,299)	(568,595)	
Total comprehensive income (loss)	-	-	-	876,534	876,534	(478,351)	-	(111,655)	35,283	(554,723)	321,811	(40,689)	281,122	
Changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(67,321)	(67,321)	
Balance at December 31, 2017	8,257,099	41,043	3,770,512	1,661,324	5,431,836	512,008	-	623,809	11,721	1,147,538	14,877,516	1,565,930	16,443,446	
Effects of retrospective application	-	-	-	29,848	29,848	-	593,961	(623,809)	-	(29,848)	-	-	-	
Equity at beginning of period after adjustments	8,257,099	41,043	3,770,512	1,691,172	5,461,684	512,008	593,961	-	11,721	1,117,690	14,877,516	1,565,930	16,443,446	
Appropriation and distribution:														
Legal reserve	-	-	87,410	(87,410)	-	-	-	-	-	-	-	-	-	
Cash dividends	-	-	-	(792,682)	(792,682)	-	-	-	-	-	(792,682)	-	(792,682)	
Other changes in capital surplus	-	4,115	-	-	-	-	-	-	-	-	4,115	-	4,115	
Net income	-	-	-	1,192,186	1,192,186	-	-	-	-	-	1,192,186	41,484	1,233,670	
Other comprehensive income (loss)	-	-	-	(21,854)	(21,854)	(46,419)	177,996	-	(79,855)	51,722	29,868	(36,576)	(6,708)	
Total comprehensive income (loss)	-	-	-	1,170,332	1,170,332	(46,419)	177,996	-	(79,855)	51,722	1,222,054	4,908	1,226,962	
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	(29,848)	(29,848)	-	29,848	-	-	29,848	-	-	-	
Balance at December 31, 2018	\$ 8,257,099	45,158	3,857,922	1,951,564	5,809,486	465,589	801,805	-	(68,134)	1,199,260	15,311,003	1,570,838	16,881,841	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**TSRC CORPORATION AND SUBSIDIARIES****Consolidated Statements of Cash Flows****For the years ended December 31, 2018 and 2017****(Expressed in Thousands of New Taiwan Dollars)**

	2018	2017
<b>Cash flows from operating activities:</b>		
Consolidated net income before tax	\$ 1,630,443	1,137,135
<b>Adjustments:</b>		
Adjustments to reconcile profit and loss:		
Depreciation	874,575	868,770
Amortization	152,640	149,004
Expected credit losses for bad debt expense	10,214	-
Interest expense	169,434	188,149
Interest income	(78,175)	(51,122)
Dividend income	(81,371)	(52,343)
Share of profit of associates and joint ventures accounted for under equity method	(297,720)	159,966
Loss on disposal of property, plant and equipment	23,824	8,997
Gains on disposal of investments	-	(154,458)
Amortization of long-term prepaid rent	9,768	9,960
Gains from bargain purchase	(11,820)	-
Total adjustments to reconcile profit and loss	771,369	1,126,923
<b>Changes in operating assets and liabilities:</b>		
Net changes in operating assets:		
Financial assets at fair value through profit or loss	(679)	-
Notes receivable	350,523	(251,508)
Accounts receivable	23,481	378,265
Other receivable	(6,304)	54,605
Inventories	(408,683)	(660,772)
Other current assets	43,073	224,593
Total changes in operating assets, net	1,411	(254,817)
Net changes in operating liabilities:		
Financial liabilities at fair value through profit or loss	1,840	226
Accounts payable	(278,570)	13,936
Accounts payable—related parties	(35,663)	33,128
Other payable	176,107	(116,087)
Other current liabilities	16,088	(20,553)
Net defined benefit liability	(56,752)	2,761
Other operating liabilities	22,245	4,013
Total changes in operating liabilities, net	(154,705)	(82,576)
Total changes in operating assets and liabilities, net	(153,294)	(337,393)
Total adjustments	618,075	789,530
Cash provided by operating activities	2,248,518	1,926,665
Interest income received	69,172	52,558
Interest paid	(158,376)	(187,060)
Income taxes paid	(286,326)	(200,917)
Net cash provided by operating activities	1,872,988	1,591,246
<b>Cash flows from investing activities:</b>		
Proceeds from disposal of available-for-sale financial assets	-	254,448
Acquisition of investments accounted for under equity method	(42,184)	-
Acquisition of property, plant and equipment	(1,237,645)	(652,568)
Proceeds from disposal of property, plant and equipment	727	2,082
Decrease in other non-current assets	(89,986)	29,481
Dividends received	131,845	52,343
Other investing activities (Proceeds from capital repayments of investments accounted for under equity method/Loss control of subsidiaries)	245,391	(81,959)
Net cash used in investing activities	(991,852)	(396,173)
<b>Cash flows from financing activities:</b>		
Increase in short-term borrowings	36,511,929	37,497,175
Decrease in short-term borrowings	(39,037,284)	(36,871,867)
Increase in short-term commercial paper payable	1,119,523	3,742,751
Decrease in short-term commercial paper payable	(1,470,000)	(3,392,776)
Proceeds from long-term borrowings	3,753,662	-
Repayments of long-term borrowings	(800,000)	(984,638)
Increase in other long-term borrowings	494,940	-
Decrease in finance lease liabilities	(6,584)	(6,509)
Cash dividends paid	(791,238)	(861,089)
Overaging unclaimed dividends	4,115	40,194
Net cash provided by financing activities	(220,937)	(836,759)
Effect of exchange rate changes on cash and cash equivalents	307,113	(306,214)
Net increase in cash and cash equivalents	967,312	52,100
Cash and cash equivalents at beginning of period	3,560,440	3,508,340
Cash and cash equivalents at end of period	\$ 4,527,752	3,560,440

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**TSRC CORPORATION AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2018 and 2017**

**(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

**(1) Organization and Business Scope**

TSRC Corporation (the original name was Taiwan Synthetic Rubber Corporation, hereinafter referred to as "the Company") was incorporated in the Republic of China (ROC) on November 22, 1973, as a corporation limited by shares in accordance with the ROC Company Act. In May 1999, Taiwan Synthetic Rubber Corporation was renamed TSRC Corporation as approved by the stockholders' meeting. In June 2016, the Company changed its registered address to be No.2, Singgong Rd., Dashe Dist., Kaohsiung City. The consolidated financial statements comprise the Company and its subsidiaries (the Group) and the interests of the Group in associate companies and in jointly controlled companies. The Group is mainly engaged in the manufacture, import and sale of various types of synthetic rubber, and the import, export, and sale of related raw materials. Please refer to note 14.

**(2) Financial Statements Authorization Date and Authorization Process**

The consolidated financial statements were approved by the Board of Directors and published on March 14, 2019.

**(3) New Standards, Interpretations and Amendments:**

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning, or after, January 1, 2018. The differences between the current version and the previous version are as follows:

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

(Continued)

## TSRC CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

(i) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes a comprehensive framework for determining whether how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts". The Group applies this standard retrospectively with the cumulative effect. It needs not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related Interpretations for comparative reporting period. The Group recognizes the cumulative effect upon its initial application of this Standard as an adjustment to the opening balance of its retained earnings on January 1, 2018.

The Group uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2018.

The following are the nature and impacts on changing of accounting policies:

1) Sales of goods

For the sale of products, revenue is currently recognized when the related risks of the goods and rewards of ownership have been transferred to the customer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable, and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

2) Impacts on financial statements

The Group estimates the adoption of IFRS 15 will not have any significant impact on its consolidated financial statements.

(ii) IFRS 9 "Financial Instruments"

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

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

(Continued)

## TSRC CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

#### 1) Classification of financial assets and financial liabilities

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

The adoption of IFRS 9 did not have any significant impact on the Group's accounting policies on financial liabilities.

#### 2) Impairment of financial assets

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

#### 3) Transition

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

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as of January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, and therefore, is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

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

	IAS 39		IFRS 9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
<b>Financial Assets</b>				
Equity instruments	Available-for-sale (note 1)	1,120,121	FVOCI	1,149,969
Trade and other receivables	Loans and receivables (note 2)	3,817,055	Amortized cost	3,817,055

Note 1: The Group held equity instrument investment for long-term strategic purposes, as permitted by IFRS 9, at the date of initial application as measured at FVOCI. Therefore, an increase of \$29,848 thousand in those assets recognized, and a decrease of \$29,848 thousand in other equity interest, as well as the increase of \$29,848 thousand in retained earnings were recognized on January 1, 2018.

Note 2: Notes receivable, accounts receivable, and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on January 1, 2018.

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings effect	2018.1.1 Other equity effect
Fair value through other comprehensive income						
Beginning balance of available-for-sale (IAS 39)	\$ 1,120,121	(1,120,121)	-	-	-	-
Available-for-sale to FVOCI	-	1,120,121	29,848	-	29,848	(29,848)
Total	\$ 1,120,121	-	29,848	1,149,969	29,848	(29,848)
Amortized cost						
Beginning balance of trade and other receivables	\$ 3,817,055	-	-	3,817,055	-	-

(iii) Amendments to IAS 7 "Disclosure Initiative"

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as note 6(ae).

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning, or after, January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

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

(i) IFRS 16 "Leases"

IFRS 16 replaces the existing leases guidance, including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify the leases as finance or operating leases.

So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of its offices, factory facilities and warehouses. No significant impact is expected for the Group's finance leases. Besides, The Group does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

1) Determining whether an arrangement contains a lease

The Group has an arrangement that was not in the legal form of a lease, for which it concluded that the arrangement contains a lease of equipment under IFRIC 4. On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified them as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Group can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with a lease term that ends within 12 months at the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- 3) So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of its offices, warehouses, and factory facilities. The Group estimated that its right-of-use assets and lease liabilities to increase by \$1,176,226 thousand and \$1,176,226 thousand, respectively, on January 1, 2019. No significant impact is expected for the Group's finance leases. Besides, the Group does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant. Also, the Group is not required to make any adjustments for leases where the Group is the intermediate lessor in a sub-lease.

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the most significant impact identified is that the Group will have to recognize the new income tax liabilities and income tax expense for its uncertainty over income tax treatments.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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

(Continued)

## TSRC CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (4) Significant Accounting Policies

The significant accounting policies presented in the consolidated financial statements are summarized as follows. Except for those described otherwise, the accounting policies have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently to the balance sheet as of reporting date.

##### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the Regulations) and the IFRSs endorsed by the FSC.

##### (b) Basis of preparation

###### (i) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for those otherwise explained in the accounting policies in the notes.

###### (ii) Functional and presentation currency

The functional currency of each individual consolidated entity is determined based on the primary economic environment. The consolidated financial statements are presented in New Taiwan dollars, which is Company's functional currency. The assets and liabilities of foreign operations are translated to the Group's functional currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to the Group's functional currency at the average rate. Foreign currency differences are recognized in other comprehensive income. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

##### (c) Basis of consolidation

###### (i) Principles of preparation of consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The Company controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its control over the investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Transactions and balances, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The comprehensive income from subsidiaries is allocated to the Company and its non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by the Group.

(Continued)

## TSRC CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over its subsidiaries are accounted for as equity transactions. Any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the shareholders of the parent.

When the Group loses control of a subsidiary, the Group derecognises the assets (including goodwill) and liabilities of the former subsidiary at their carrying amounts from the consolidated statement and re-measures the fair value of retained interest at the date when control is lost. A gain or loss is recognized in profit or loss and is calculated as the difference between:

- 1) the aggregate of the fair value of consideration received and the fair value of any retained interest at the date when control is lost; and
- 2) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any noncontrolling interest.

The Group shall apply the accounting treatment to all previously recognizes amount related to its subsidiary in its comprehensive income as if the related assets and liabilities were disposed by the Group directly.

(ii) List of the subsidiaries included in the consolidated financial statements

List of the subsidiaries included in the consolidated financial statements

Name of investor	Name of investee	Scope of business	Percentage of ownership		Description
			December 31, 2018	December 31, 2017	
TSRC	Trimurti Holding Corporation	Investment	100.00 %	100.00 %	
TSRC	Hardison International Corporation	Investment	100.00 %	100.00 %	
TSRC & Hardison International Corporation	Dymas Corporation	Investment	100.00 %	100.00 %	(note 1)
TSRC	TSRC (Vietnam) Co., Ltd.	Production and processing of rubber color masterbatch, thermoplastic elastomer and plastic compound products	100.00 %	-	(note 5)
Trimurti Holding Corporation	Polybus Corporation Pte Ltd.	International commerce and investment	100.00 %	100.00 %	
Trimurti Holding Corporation	TSRC (Hong Kong) Limited	Investment	100.00 %	100.00 %	
TSRC (Hong Kong) Limited	TSRC (Shanghai) Industries Ltd.	Production and sale of reengineering plastic, plastic compound metal, and plastic elasticity engineering products	100.00 %	100.00 %	

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Name of investor	Name of investee	Scope of business	Percentage of ownership		Description
			December 31, 2018	December 31, 2017	
TSRC (Hong Kong) Limited	TSRC (Lux.) Corporation S.'a r.l.	International commerce and investment	100.00 %	100.00 %	
TSRC (Lux.) Corporation S.'a r.l.	TSRC (USA) Investment Corporation	Investment	100.00 %	100.00 %	
TSRC (USA) Investment Corporation	Dexco Polymers L.P.	Production and sale of synthetic rubber products	100.00 %	100.00 %	(note 2)
Polybus Corporation Pte Ltd.	Shen Hua Chemical Industrial Co., Ltd.	Production and sale of synthetic rubber products	65.44 %	65.44 %	
Polybus Corporation Pte Ltd.	TSRC-UBE (Nantong) Chemical Industrial Co., Ltd.	Production and sale of synthetic rubber products	55.00 %	55.00 %	
Polybus Corporation Pte Ltd.	TSRC (Nantong) Industries Ltd.	Production and sale of synthetic rubber products	100.00 %	100.00 %	
Hardison International Corporation	Triton International Holdings Corporation	Investment	100.00 %	100.00 %	
Hardison International Corporation	TSRC Biotech Ltd.	Investment	-	100.00 %	(note 4)
Triton International Holdings Corporation	Nantong Qix Storage Co., Ltd.	Storehouse for chemicals	50.00 %	50.00 %	(note 3)

Note 1: TSRC directly owns 19.48% of Dymas's equity and indirectly owns 80.52% via Hardison International Corporation.

Note 2: TSRC (USA) Investment Corporation is a limited liability shareholder of Dexco Polymers Operating LLC (Dexco LLC). TSRC (USA) directly owns 99% of Dexco Polymers L.P., and indirectly owns Dexco Polymers L.P. via Dexco LLC. Dexco LLC does not engage in operations, so there is no further disclosure of the consolidated information.

Note 3: The Group lost the control of Nantong Qix Storage Co., Ltd (Nantong Qix) in June 2017, due to were amendment of Corporate Charter. Nantong Qix is not in the consolidated financial statements.

Note 4: TSRC Biotech Ltd. completed its dissolution procedure in June 2018.

Note 5: TSRC made the resolution to establish TSRC (Vietnam) Co., Ltd. by the Board of Directors in May 2018, and TSRC has been established in October 2018.

(d) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are remeasured to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Foreign currency differences arising from remeasurement are recognized in profit or loss, except for the difference resulting from available-for-sale equity investment which is recognized in other comprehensive income arising from the remeasurement.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

- (e) Classification of current and non-current assets and liabilities
- (i) An asset is classified as current under one of the following criteria, and all other assets are classified as non current.
- 1) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
  - 2) It holds the asset primarily for the purpose of trading;
  - 3) It expects to realize the asset within twelve months after the reporting period; or
  - 4) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.
- (ii) A liability is classified as current under one of the following criteria, and all other liabilities are classified as non current.
- 1) It expects to settle the liability in its normal operating cycle;
  - 2) It holds the liability primarily for the purpose of trading;
  - 3) The liability is due to be settled within twelve months after the reporting period even if refinancing or a revised repayment plan is arranged between the reporting date and the issuance date of the financial statements; or
  - 4) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.
- (f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, time deposits, and short-term investments with high liquidity that are subject to an insignificant risk of changes in their fair value.

The time deposits with maturity of one year or less from the acquisition date are listed in cash and cash equivalents because they are held for the purpose of meeting short-term cash commitments instead of investment or other purposes, are readily convertible to a fixed amount of cash, and are subject to an insignificant risk of changes in value.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(g) Financial instruments

(i) Financial assets (applicable commencing January 1, 2018)

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

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

1) Financial assets measured at amortized cost

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

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

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

2) Fair value through other comprehensive income (FVOCI )

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of equity investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of debt investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the exdividend date.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets and accounts receivable (except for those presented as accounts receivable but measured at FVTPL). On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

4) Impairment of financial assets

The Group recognizes its loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, notes and accounts receivable, other receivable and guarantee deposit paid).

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

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

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

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

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

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

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

(Continued)

## TSRC CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

#### 5) Derecognition of financial assets

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

#### (ii) Financial assets (applicable from January 1, 2018)

The Group classifies financial assets into the following categories: receivables and available-for-sale financial assets.

##### 1) Receivables

Receivables are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method. The fair value is the amount of expected future cash flows discounted to present value. Cash flows from short-term accounts receivable with high collectibility shall not be discounted.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

If objective evidence of impairment exists, an impairment loss should be recognized. An impairment loss in respect of a financial asset is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Collateral and proceeds from insurance should also be considered when determining the estimated future cash flows. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. However, the reversing amount cannot exceed the amortized balance of the assets assuming no impairment was recognized in prior periods.

2) Available-for-sale financial assets

Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, dividend income, and foreign currency gains or losses which are recognized as current earnings, are recognized in other comprehensive income and presented in the unrealized gain/loss from available-for-sale financial assets in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in other gains and losses under non-operating income and expenses. The purchase and disposal of financial assets are recognized using trade-date accounting.

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Dividend income is recorded under non-operating income and expenses.

If there is any objective evidence of impairment, the accumulated gain or loss recognized as other comprehensive income is reclassified to current earnings. If, in a subsequent period, the amount of the impairment loss of a financial asset decreases, impairment losses recognized on an available-for-sale equity security cannot be reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

3) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received less the direct cost of issuing.

Interest, gains or losses related to financial liabilities are recognized in profit or loss, and recorded under non-operating income and expenses.

2) Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as at fair value through profit or loss, which comprise loans and borrowings, and trade 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 profit or loss, and is recorded under non-operating income and expenses.

3) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled or has expired.

4) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable right 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.

5) Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder of a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract not designated as at fair value through profit or loss issued by the Group is recognized initially at fair value plus any directly attributable transaction cost. After initial recognition, it is measured at the higher of (a) the contractual obligation amount determined in accordance with IAS 37; or (b) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with accounting policies.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iv) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are initially measured at fair value. Any attributable transaction costs thereof are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in the line item of non-operating income and expenses in the statement of comprehensive income. When a derivative is designated as, and effective for, a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, whereas when the fair value is negative, it is classified as a financial liability.

(h) Inventories

The cost of inventories consists of all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories includes an appropriate share of fixed production overhead based on normal capacity and allocated variable production overhead based on actual output. However, unallocated fixed production overhead arising from lower or idle capacity is recognized in cost of goods sold during the period. If actual capacity is higher than normal capacity, fixed production overhead should be allocated based on actual capacity. The method of valuing inventories is the weighted-average method.

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period. When the cost of inventories is higher than the net realizable value, inventories are written down to net realizable value, and the write-down amount is charged to current year's cost of goods sold. If net realizable value increases in the future, the cost of inventories is reversed within the original write-down amount, and such reversal is treated as a reduction of cost of goods sold.

(i) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

The equity of associates are incorporated in these consolidated financial statements using the equity method. Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees after adjustments to align the accounting policies with those of the Group from the date that significant influence commences until the date that significant influence ceases. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes the changes in ownership interests of the associate in capital surplus in proportion to its ownership interests.

(Continued)

## TSRC CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

When the Group's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

The Group adopts the acquisition method for changes in ownership interests of investment in associates. Goodwill is measured at the amount of fair value transferred out subtracted by the net amounts of the identifiable assets acquired and the liabilities assumed (normally measured at fair value) on the acquisition-date. If the balance after subtraction is negative, the Group shall first reassess if all the assets acquired and the liabilities are identified correctly, then the Group can recognize gain from bargain purchase in profit or loss.

If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group shall continue to apply the equity method without remeasuring the retained interest.

(j) Joint arrangements

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venture recognizes its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28.

The Group determines the type of joint arrangement in which it is involved by considering the structure and form of the arrangement, the separate legal vehicle, the terms agreed by the parties in the contractual arrangement and other facts and circumstances. Previously the Group determines the type of joint arrangement by considering only the structure and form of the arrangement. The Group has re-determined the joint arrangement which it is involved and has reclassified the "jointly controlled entity" to "joint venture." After the reclassification, the Group continues to adopt the accounting treatment by the equity method. Therefore, there is no impact on the recognized assets, liabilities, and comprehensive income of the subsidiary.

(k) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other gains and losses.

(ii) Reclassification to investment properties

Property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment property.

(iii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iv) Depreciation

The depreciable amount of an asset is determined after deducting its residual amount from its original cost and is depreciated using the straight-line method over its useful life. Assets are evaluated based on their individually significant components, and if the useful life of a component varies from that of others, then this component should be separately depreciated. The depreciation charge for each period shall be recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives, for the current and comparative years, of significant items of property, plant and equipment are as follows:

1) Land improvements	8~30 years
2) Buildings	3~60 years
3) Machinery	3~40 years
4) Furniture and fixtures equipment	3~8 years
5) Leased assets	3~8 years

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the changes are accounted for as a change in an accounting estimate.

(l) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, or to use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently measured under the cost model, and the depreciation expense is calculated using the depreciable amount. The depreciation method, the useful life, and the residual amount are the same as those adopted for property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property and any other cost and capitalized borrowing costs that can be directly attributed.

When the use of an investment property changes such that it is reclassified as property, plant and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting.

(m) Leases

(i) Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term.

(ii) Lessee

Leases in which the Group assumes substantially all of the risks and rewards of ownership of leased assets are classified as finance leases. On initial recognition, the lease asset is measured at an amount equal to the lower of its fair value or the present of the minimum lease payments. Subsequent minimum lease payments are attributable to finance cost and the reduction of the outstanding liabilities, and the finance cost is allocated to each period during the lease term using a constant periodic rate of interest on the remaining balance of the liability. The acquisition of property, plant and equipment under a finance lease is accounted for in accordance with the accounting policy applicable to the asset.

Other leases are operating leases and are not recognized in the Group's statement of financial position. Payments made under an operating lease are recognized in profit or loss on a straight-line basis over the term of the lease.

(n) Intangible assets

(i) Goodwill

Goodwill arises from business combinations in which the acquisition method is adopted, and is recorded at cost less accumulated impairment losses.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortization and any accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iv) Amortization

The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with an indefinite useful life, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

1) Computer software	3 years
2) Industrial technology and know-how	10~20 years
3) Patent	20 years
4) Non-compete agreement	3 years
5) Customer relationship	18 years
6) Trademark and goodwill	Uncertain useful lives

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each reporting date. Any change shall be accounted for as changes in accounting estimates.

(o) Impairment—non-financial assets

With regard to non-financial assets (other than inventories and deferred tax assets), the Group assesses at the end of each reporting period whether there is any indication that an impairment loss has occurred, and estimates the recoverable amount for assets with an indication of impairment. If it is not possible to determine the recoverable amount for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value less costs to sell or its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. Impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount, increasing the individual asset's or cash-generating unit's carrying amount to its estimated recoverable amount. The reversal of an impairment loss of an individual asset or cash-generating unit cannot exceed the carrying amount of the individual asset or cash-generating unit, less any depreciation or amortization, had it not recognized an impairment loss.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use is required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. If the carrying amount of the cash-generating units exceeds the recoverable amount of the units, the entity shall recognize the impairment loss, and the impairment loss shall be allocated to reduce the carrying amount of each asset in the unit. Reversal of an impairment loss for goodwill is prohibited.

(p) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(q) Revenue

(i) Revenue from contracts with customers (applicable commencing January 1, 2018)

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

1) Sale of goods

The Group is mainly engaged in the manufacture and sale of various types of synthetic rubber. The Group recognizes revenue when control of the products has been transferred, being when the products are delivered to the customer, the ownership of the significant risks and rewards of the products have been transferred to the customer, and the Group is no longer engaged with the management of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract and the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

2) Management services

The Group is engaged in providing management services. Revenue from providing services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided at the end of the reporting period as a proportion of the total services to be provided. The proportion of services provided is determined based on surveys of work performed.

3) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Revenue (applicable before January 1, 2018)

1) Sale of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For export transactions, transfer occurs upon loading the goods onto the relevant carrier at the port; however, for sales in the domestic market, transfer usually occurs when the product is received at the customer's warehouse.

2) Rendering of services

The Group is engaged in providing management services. Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed based on surveys of work performed.

3) Rental income

The rental income arising from investment property is recognized in profit or loss on a straight-line basis during the lease term.

(r) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The fair value of any plan assets is deducted. The discount rate is the yield at the reporting date (market yields of high-quality corporate bonds or government bonds) on bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income to retained earnings.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(s) Income tax

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes comprise the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the exceptions below:

- (i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) The taxing of deferred tax assets and liabilities fulfills one of the scenarios below:
  - 1) levied by the same taxing authority; or
  - 2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset should be recognized for unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be utilized. Such deferred tax assets shall also be reviewed at each reporting date, and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(t) **Earnings per share**

Earnings per share (EPS) of common stock are 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. The weighted-average number of common shares outstanding is adjusted retroactively for the increase in common shares outstanding from stock issuance arising from the capitalization of retained earnings, or additional paid-in capital.

Employee bonuses in the form of stock of the Company are potential stock. If the potential stock does not have a dilutive effect, only the basic earnings per share are disclosed; otherwise, diluted earnings per share are disclosed in addition to the basic earnings per share. When computing diluted earnings per share with regard to employee bonuses in the form of stock, the closing price at the reporting date is used as the basis of computation of the number of shares to be issued. When computing diluted earnings per share prior to the following Board of Directors, the effect of dilution from these potential shares is taken into consideration.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(u) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

**(5) Critical Accounting Judgments and Key Sources of Estimation Uncertainty**

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The Management will continually review the estimates and basic assumptions. Changes in accounting estimates will be recognized in the period of change and the future period of their impact.

There are no critical judgments in applying the accounting policies that have significant effect on the amounts recognized in the consolidated financial statements.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

Inventory measurement

Since inventory is measured by the lower of cost and net realizable value, the Group evaluated the inventory based on the selling price of the product line and price fluctuation of raw material, and written down the book value to net realizable value. Please refer to note 6(g) for inventory measurement.

**(6) Description of Significant Accounts**

(a) Cash and cash equivalents

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Cash on hand	\$ 433	435
Checking and savings deposits	1,593,472	1,037,168
Time deposits	<u>2,933,847</u>	<u>2,522,837</u>
Cash and cash equivalents per statements of cash flow	<u><u>\$ 4,527,752</u></u>	<u><u>3,560,440</u></u>

The disclosure of interest rate risk and sensitivity analysis for the Group's financial assets and liabilities is referred to note 6(aa).

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(b) Financial assets and liabilities at fair value through profit or loss

	<u>December 31, 2018</u>	
Mandatorily measured at fair value through profit or loss:		
Derivative instruments not used for hedging		
Forward contracts	\$ <u>679</u>	
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Financial liabilities held for trading:		
Derivative instruments not used for hedging		
Forward contracts/Swap contracts	\$ <u>2,066</u>	<u>226</u>

The Group uses derivative financial instruments to manage the exposures due to fluctuations of foreign exchange risk from its operating activities. As of December 31, 2018 and 2017, the Group reported the following derivatives financial instruments as financial assets and liabilities at fair value through profit or loss without the application of hedge accounting.

Forward contracts / Swap contracts:

	<u>December 31, 2018</u>		
	<u>Contract amount (thousand)</u>	<u>Currency</u>	<u>Maturity dates</u>
Swap contracts	\$ 14,960	USD/EUR	2019.1.4~2019.1.29
	<u>December 31, 2017</u>		
	<u>Contract amount (thousand)</u>	<u>Currency</u>	<u>Expired date</u>
Forward Exchange Agreement	\$ 650	EUR/TWD	2018.1.18~2018.3.21
Forward Exchange Agreement	200	EUR/USD	2018.2.13

(c) Financial assets at fair value through other comprehensive income — non-current

	<u>December 31, 2018</u>
Equity investments at fair value through other comprehensive income:	
Listed stocks (domestic)	\$ 305,631
Unlisted stocks (domestic and overseas)	<u>994,175</u>
Total	<u>\$ 1,299,806</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(i) Equity investments at fair value through other comprehensive income

The Group held equity instrument investment for long-term strategic purposes, not held for trading purposes, which have been designated as measured at fair value through other comprehensive income. These investments were classified as available-for-sale financial assets — non-current on December 31, 2017.

In January 2018, the Group surrendered all of its shares in Pulse Metric, Inc. due to the investee had no substantial operation. The shares disposed had a no fair value; therefore the Group realized a loss of \$29,848 thousand, recognized in other comprehensive income. The loss had been transferred to retained earnings.

(ii) For dividend income, please refer to note 6(y).

(iii) For credit risk and market risk, please refer to note 6(aa).

(iv) The Group did not hold any collateral for the collectible amounts.

(v) The significant financial assets at fair value through other comprehensive income denominated in foreign currency were as follows:

	Foreign currency amount	Exchange rate	TWD
<b>December 31, 2018</b>			
THB	\$ 367,531	0.9532	350,331

(d) Available-for-sale financial assets — non-current

	December 31, 2017
Listed stocks (domestic)	\$ 235,024
Unlisted stocks (domestic and overseas)	885,097
Total	<u>\$ 1,120,121</u>

Please refer to note 6(y) for gains on disposal of investments and dividend income.

If the market price of the available-for-sale financial assets fluctuates (assuming that all other variables remain the same), the impact on other comprehensive income will be as follows:

	2017	
	Other comprehensive income (after tax)	Net income
<b>Fluctuation in market price at reporting date</b>		
Increase 10%	\$ 112,012	-
Decrease 10%	\$ (112,012)	-

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The significant available-for-sale financial assets denominated in foreign currency were as follows:

	<u>Foreign currency amount</u>	<u>Exchange rate</u>	<u>TWD</u>
<b>December 31, 2017</b>			
THB	\$ 343,722	0.9176	315,399

As of December 31, 2017, the Group did not pledge any collateral on available-for-sale financial instruments. For credit risk and market risk, please refer to note 6(aa).

(e) Notes and accounts receivable (including related parties)

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Notes receivable	\$ 558,944	909,467
Accounts receivable	2,884,202	2,907,867
Less: loss allowance	<u>10,309</u>	<u>279</u>
	<u><u>\$ 3,432,837</u></u>	<u><u>3,817,055</u></u>

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected credit loss provision for all receivables on December 31, 2018. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward-looking information. The expected credit losses as of December 31, 2018 was determined as follows:

	<u>Gross carrying amount</u>	<u>Weighted- average expected credit loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 3,364,574	0.04%~0.33%	3,417
1 to 30 days past due	60,182	0.45%~16.31%	1,996
31 to 90 days past due	17,659	5.98%~65.24%	4,165
More than 90 days past	<u>731</u>	100%	<u>731</u>
	<u><u>\$ 3,443,146</u></u>		<u><u>10,309</u></u>

As of December 31, 2017, the Group applies the incurred loss model to consider the loss allowance provision and the aging analysis of notes and trade receivable, which were past due but not impaired, was as follows:

	<u>December 31, 2017</u>
1 to 30 days past due	<u><u>\$ 99,033</u></u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The movement in the allowance for notes and accounts receivable was as follows:

		<b>2017</b>	
	<b>2018</b>	<b>Individually assessed impairment</b>	<b>Collectively assessed impairment</b>
Balance at January 1, 2018 and 2017 per IAS 39	\$ 279	282	-
Adjustment on initial application of IFRS 9	-		
Balance at January 1, 2018 per IFRS 9	279		
Impairment loss recognized	10,214	-	-
Impairment loss reversed	(279)	-	-
Foreign exchange gains (losses)	95	(3)	-
Balance at December 31, 2018 and 2017	<u>\$ 10,309</u>	<u>279</u>	<u>-</u>

The Group did not hold any collateral for the collectible amounts. For other credit risk information, please refers to note 6(aa).

The carrying amounts of notes and accounts receivable with short maturity are not discounted under the assumption that the carrying amount approximates the fair value.

(f) Other receivables (including related parties)

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Other receivables—related parties	\$ 42,427	55,120
Other	48,968	20,968
	<u>\$ 91,395</u>	<u>76,088</u>

As of December 31, 2018 and 2017, the Group had no other receivables that were past due. Therefore, no provisions for doubtful debt were required after the management's assessment. For other credit risk information, please refers to note 6(aa).

(g) Inventories

The components of the Group's inventories were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Raw materials	\$ 1,713,308	1,905,394
Supplies	102,599	98,738
Work in progress	370,562	335,606
Finished goods	3,576,007	3,114,627
Merchandise	686,887	586,315
Total	<u>\$ 6,449,363</u>	<u>6,040,680</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

As of December 31, 2018 and 2017, the Group did not pledge any collateral on inventories.

Except for operating costs arising from the ordinary sale of inventories, other gains and losses directly recorded under operating cost were as follows:

	<b>2018</b>	<b>2017</b>
Loss on decline in market value of inventory	\$ 35,089	32,478
Income from sale of scrap	(58,932)	(66,012)
Loss on physical count	446	2,982
Unallocated production overhead	62,666	99,954
Total	<u>\$ 39,269</u>	<u>69,402</u>

(h) Investments accounted for under equity method

The details of the investments accounted for under the equity method at the reporting date were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Associates	\$ 628,467	805,561
Joint ventures	438,911	318,383
	<u>\$ 1,067,378</u>	<u>1,123,944</u>

(i) Associates

For the years ended December 31, 2018 and 2017, the Group recognized its share of gain from the associates of \$104,521 thousand and \$120,983 thousand, respectively.

The details of the significant associates are as follows:

Name of associates	Existing relationship with the Group	The main operating place / register country	Proportion of equity and voting right	
			December 31, 2018	December 31, 2017
Indian Synthetic Rubber Private Limited	Strategic alliance of production and sales of synthetic rubber products	India	50.00 % (Note 1)	34.04 %
ARLANXEO-TSRC (Nantong) Chemicals Industries Co., Ltd.	Strategic alliance of production and sales of NBR	China	50.00 %	50.00 %

Note 1: Indian Synthetic Rubber Private Limited has been reclassified from associate to joint venture from April 2018.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

A summary of the financial information of the significant associate were as follows:

1) Summary of financial information of Indian Synthetic Rubber Private Limited

On April 10, 2018, the Group acquired 15.96% ownership of Indian Synthetic Rubber Private Limited from other shareholders, and the Group recognized the gain from bargain purchase amounting to \$11,820 thousand. After the acquisition transaction, the Group owns 50% of Indian Synthetic Rubber Private Limited, which has been reclassified from associate to joint venture, but still listed as investments accounted for under equity method.

	<b>December 31,</b>	
	<b>2017</b>	
Current assets	\$	2,523,989
Non-current assets		3,779,641
Current liabilities		(3,788,115)
Non-current liabilities		(1,958,847)
Equity	\$	<u>556,668</u>
Equity attributable to the Group	\$	<u>189,490</u>
	<b>For the three</b>	
	<b>months ended</b>	
	<b>March 31, 2018</b>	<b>2017</b>
Revenue	\$ <u>1,324,113</u>	<u>5,624,915</u>
Net income of continued operations	\$ 36,141	263,190
Other comprehensive income (loss)	-	102,557
Total comprehensive income (loss)	\$ <u>36,141</u>	<u>365,747</u>
Total comprehensive income attributable to the Group	\$ <u>12,303</u>	<u>124,500</u>

Note 2: For information on revenue and profit or loss for the December 31, 2018, please refer to the description of joint ventures.

	<b>For the three</b>	
	<b>months ended</b>	
	<b>March 31, 2018</b>	<b>2017</b>
Beginning equity of the associate attributable to the Group	\$ 205,093	76,678
Current total comprehensive income of the associate attributable to the Group	12,303	124,500
Other	(4,109)	3,915
Associate reclassified to joint venture	(213,287)	-
Ending balance of the equity of the associate attributable to the Group	\$ <u>-</u>	<u>205,093</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

2) Summary of financial information of ARLANXEO-TSRC (Nantong)

	December 31, 2018	December 31, 2017
Current assets	\$ 716,347	524,169
Non-current assets	822,219	942,114
Current liabilities	(1,094,043)	(1,082,863)
Non-current liabilities	(13,709)	(22,024)
Equity	<u>\$ 430,814</u>	<u>361,396</u>
Equity attributable to the Group	<u>\$ 215,407</u>	<u>180,698</u>
	<b>2018</b>	<b>2017</b>
Revenue	<u>\$ 2,062,759</u>	<u>1,446,906</u>
Net income of continued operations	79,204	4,943
Other comprehensive income (loss)	-	-
Total comprehensive income (loss)	<u>\$ 79,204</u>	<u>4,943</u>
Total comprehensive income attributable to the Group	<u>\$ 39,602</u>	<u>2,471</u>
	<b>2018</b>	<b>2017</b>
Beginning equity of the associate attributable to the Group	\$ 181,347	180,559
Current total comprehensive income of the associate attributable to the Group	39,602	2,471
Other	(1,114)	(1,683)
Ending balance of the equity of the associate attributable to the Group	<u>\$ 219,835</u>	<u>181,347</u>

3) Summary of respectively not significant associates recognized under equity method were as follows:

	December 31, 2018	December 31, 2017
Balance of not significant associate's equity	<u>\$ 408,632</u>	<u>419,121</u>
	<b>2018</b>	<b>2017</b>
Attributable to the Group:		
Income from continued operation	\$ 52,616	28,922
Other comprehensive income	-	-
Total comprehensive income	<u>\$ 52,616</u>	<u>28,922</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Joint ventures

1) Summary of financial information of Indian Synthetic Rubber Private Limited

	<b>December 31, 2018</b>
Current assets	\$ 2,663,769
Non-current assets	3,484,344
Current liabilities	(2,424,997)
Non-current liabilities	(2,910,295)
Equity	<u>\$ 812,821</u>
Equity attributable to the Group	<u>\$ 406,411</u>
	<b>For the nine months ended December 31, 2018</b>
Revenue	<u>\$ 4,126,045</u>
Net income of continued operations	\$ 413,944
Other comprehensive income (loss)	(157,496)
Total comprehensive income (loss)	<u>\$ 256,448</u>
Total comprehensive income attributable to the Group	<u>\$ 109,926</u>
	<b>For the nine months ended December 31, 2018</b>
Beginning equity of the joint venture attributable to the Group	\$ -
Joint venture reclassified from associate	213,287
Current total comprehensive income of the joint venture attributable to the Group	109,926
Other	39,928
Ending balance of the equity of the joint venture attributable to the Group	<u>\$ 363,141</u>

2) Summary of respectively not significant joint ventures recognized under the equity method were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Balance of not significant joint venture's equity	<u>\$ 75,770</u>	<u>318,383</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<u>2018</u>	<u>2017</u>
Attributable to the Group:		
Income (loss) from continued operation	\$ 4,525	(280,949)
Other comprehensive income (loss)	-	-
Total comprehensive income (loss)	<u>\$ 4,525</u>	<u>(280,949)</u>

The liquidation of Taiwan Advance Material Corp. in December 2018 was approved by its Board of Directors and the Ministry of Economic Affairs in October 2017, wherein the remaining amount of \$245,391 thousands had been received by the Group.

(iii) Collateral

As of December 31, 2018 and 2017, the Group did not pledge any collateral on investments accounted for under the equity method.

(i) Lose control of subsidiaries

The Group lost the control of Nantong Qix Storage Co., Ltd (Nantong Qix) in June, 2017, due to amendment of the Corporate Charter. Nantong Qix is not included in the consolidated financial statements, but listed as investments accounted for under equity method.

The carrying amount of assets and liabilities of Nantong Qix on June 30, 2017 were as follows:

Cash and cash equivalents	\$ 81,959
Accounts receivables	1,060
Other receivables	849
Other current assets	357
Property, plant and equipment	35,944
Other non-current assets	23,848
Accounts payables	(421)
Other payables	(8,954)
Carrying amount of net assets	<u>\$ 134,642</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(j) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group were as follows:

	Land	Land improvements	Buildings	Machinery	Furniture and fixtures and other equipment	Leased assets	Construction in progress	Total
<b>Cost:</b>								
Balance at January 1, 2018	\$ 614,101	106,131	4,048,091	19,944,375	217,074	94,596	566,082	25,590,450
Additions	-	-	-	4,791	254	-	1,209,361	1,214,406
Disposals	-	-	(1,035)	(114,721)	(1,889)	-	-	(117,645)
Reclassification	-	199	11,310	512,270	13,227	-	(560,479)	(23,473)
Effect of changes in exchange rates	-	669	(60,202)	(64,588)	(393)	-	(4,105)	(128,619)
Balance at December 31, 2018	<u>\$ 614,101</u>	<u>106,999</u>	<u>3,998,164</u>	<u>20,282,127</u>	<u>228,273</u>	<u>94,596</u>	<u>1,210,859</u>	<u>26,535,119</u>
Balance at January 1, 2017	\$ 614,101	106,510	4,062,799	20,289,079	192,592	94,596	357,046	25,716,723
Additions	-	-	-	2,778	343	-	692,022	695,143
Disposals	-	-	(1,775)	(151,425)	(843)	-	-	(154,043)
Reclassification	-	1,460	18,546	167,924	29,606	-	(475,082)	(257,546)
Effect of changes in exchange rates	-	(1,839)	(31,479)	(363,981)	(4,624)	-	(7,904)	(409,827)
Balance at December 31, 2017	<u>\$ 614,101</u>	<u>106,131</u>	<u>4,048,091</u>	<u>19,944,375</u>	<u>217,074</u>	<u>94,596</u>	<u>566,082</u>	<u>25,590,450</u>
<b>Depreciation and impairment loss:</b>								
Balance at January 1, 2018	\$ -	85,133	2,134,269	14,652,082	160,257	-	-	17,031,741
Depreciation	-	2,446	131,216	714,097	12,090	-	-	859,849
Disposal	-	-	(1,035)	(90,361)	(1,698)	-	-	(93,094)
Effect of changes in exchange rates	-	658	(27,768)	(5,108)	(8)	-	-	(32,226)
Balance at December 31, 2018	<u>\$ -</u>	<u>88,237</u>	<u>2,236,682</u>	<u>15,270,710</u>	<u>170,641</u>	<u>-</u>	<u>-</u>	<u>17,766,270</u>
Balance at January 1, 2017	\$ -	84,347	2,036,837	14,493,478	154,803	-	-	16,769,465
Depreciation	-	2,587	129,271	710,898	11,289	-	-	854,045
Disposal	-	-	(1,619)	(140,606)	(739)	-	-	(142,964)
Reclassification	-	-	(16,813)	(127,834)	(989)	-	-	(145,636)
Effect of changes in exchange rates	-	(1,801)	(13,407)	(283,854)	(4,107)	-	-	(303,169)
Balance at December 31, 2017	<u>\$ -</u>	<u>85,133</u>	<u>2,134,269</u>	<u>14,652,082</u>	<u>160,257</u>	<u>-</u>	<u>-</u>	<u>17,031,741</u>
<b>Carrying value:</b>								
December 31, 2018	<u>\$ 614,101</u>	<u>18,762</u>	<u>1,761,482</u>	<u>5,011,417</u>	<u>57,632</u>	<u>94,596</u>	<u>1,210,859</u>	<u>8,768,849</u>
January 1, 2017	<u>\$ 614,101</u>	<u>22,163</u>	<u>2,025,962</u>	<u>5,795,601</u>	<u>37,789</u>	<u>94,596</u>	<u>357,046</u>	<u>8,947,258</u>
December 31, 2017	<u>\$ 614,101</u>	<u>20,998</u>	<u>1,913,822</u>	<u>5,292,293</u>	<u>56,817</u>	<u>94,596</u>	<u>566,082</u>	<u>8,558,709</u>

The Group performed the asset impairment test by estimating the future cash flows. Impairment loss was recognized thereon as the estimated amount of future cash flows was less than the carrying value.

Please refer to note 8 for the information of the property, plant and equipment.

(k) Investment property

	Land	Buildings	Total
<b>Cost:</b>			
Balance as at January 1, 2018	\$ 1,073,579	741,889	1,815,468
Additions	-	-	-
Balance as at December 31, 2018	<u>\$ 1,073,579</u>	<u>741,889</u>	<u>1,815,468</u>
Balance as at January 1, 2017	\$ 1,073,579	741,889	1,815,468
Additions	-	-	-
Balance as at December 31, 2017	<u>\$ 1,073,579</u>	<u>741,889</u>	<u>1,815,468</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Depreciation:			
Balance as at January 1, 2018	\$ -	204,418	204,418
Depreciation	<u>-</u>	<u>14,726</u>	<u>14,726</u>
Balance as at December 31, 2018	<u>\$ -</u>	<u>219,144</u>	<u>219,144</u>
Balance as at January 1, 2017	\$ -	189,693	189,693
Depreciation	<u>-</u>	<u>14,725</u>	<u>14,725</u>
Balance as at December 31, 2017	<u>\$ -</u>	<u>204,418</u>	<u>204,418</u>
Carrying value:			
Balance as at December 31, 2018	<u>\$ 1,073,579</u>	<u>522,745</u>	<u>1,596,324</u>
Balance as at December 31, 2017	<u>\$ 1,073,579</u>	<u>537,471</u>	<u>1,611,050</u>
Balance as at January 1, 2017	<u>\$ 1,073,579</u>	<u>552,196</u>	<u>1,625,775</u>
Fair value:			
Balance as at December 31, 2018			<u>\$ 3,334,675</u>
Balance as at December 31, 2017			<u>\$ 3,334,675</u>
Balance as at January 1, 2017			<u>\$ 3,148,146</u>

Investment property comprises a number of commercial properties that are leased to third parties. Each of the leases contains an initial non-cancellable period of 1~5 years. Subsequent renewals are negotiable with the lessee, and no contingent rents are charged. Please refer to note 6(x) for further information.

The fair value of investment property (as disclosed in the financial statements) is based on a valuation by an independent appraiser. The range of yields applied to the net annual rentals to determine the fair value of the property were as follows:

<u>Region</u>	<u>2018</u>	<u>2017</u>
Da'an Dist., Taipei City	2.10%	2.10%

The Group has rented out a parcel of land, but has decided not to treat this property as investment property because it is out not the Group's intention to hold it for capital appreciation or rental income. Accordingly, the property is still recorded under property, plant and equipment.

As of December 31, 2018 and 2017, the Group did not pledge any collateral on investment properties.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(l) Intangible assets

The cost and amortization of the intangible assets of the Group were as follows:

	Industrial technology and know- how	Computer software	Goodwill	Patent and trademark	Customer relationship	Non- complete agreement	Total
<b>Costs:</b>							
Balance at January 1, 2018	\$ 1,003,145	236,986	205,021	587,467	1,071,543	8,954	3,113,116
Reclassification	-	9,260	-	-	-	-	9,260
Effect of changes in exchange rates	17,893	(1,703)	6,079	17,418	31,772	266	71,725
Balance at December 31, 2018	<u>\$ 1,021,038</u>	<u>244,543</u>	<u>211,100</u>	<u>604,885</u>	<u>1,103,315</u>	<u>9,220</u>	<u>3,194,101</u>
Balance at January 1, 2017	\$ 1,039,513	201,489	221,719	635,313	1,158,816	9,683	3,266,533
Reclassification	32,157	37,971	-	-	-	-	70,128
Disposals	-	(1,798)	-	-	-	-	(1,798)
Effect of changes in exchange rates	(68,525)	(676)	(16,698)	(47,846)	(87,273)	(729)	(221,747)
Balance at December 31, 2017	<u>\$ 1,003,145</u>	<u>236,986</u>	<u>205,021</u>	<u>587,467</u>	<u>1,071,543</u>	<u>8,954</u>	<u>3,113,116</u>
<b>Amortization:</b>							
Balance at January 1, 2018	\$ 406,994	201,328	-	151,661	401,829	8,954	1,170,766
Amortization	48,724	20,126	-	23,664	60,126	-	152,640
Effect of changes in exchange rates	2,519	(1,712)	-	4,957	13,064	266	19,094
Balance at December 31, 2018	<u>\$ 458,237</u>	<u>219,742</u>	<u>-</u>	<u>180,282</u>	<u>475,019</u>	<u>9,220</u>	<u>1,342,500</u>
Balance at January 1, 2017	\$ 381,187	186,874	-	138,675	370,177	9,683	1,086,596
Amortization	47,275	17,096	-	23,902	60,731	-	149,004
Reclassification	-	(184)	-	-	-	-	(184)
Disposals	-	(1,798)	-	-	-	-	(1,798)
Effect of changes in exchange rates	(21,468)	(660)	-	(10,916)	(29,079)	(729)	(62,852)
Balance at December 31, 2017	<u>\$ 406,994</u>	<u>201,328</u>	<u>-</u>	<u>151,661</u>	<u>401,829</u>	<u>8,954</u>	<u>1,170,766</u>
<b>Carrying value:</b>							
December 31, 2018	<u>\$ 562,801</u>	<u>24,801</u>	<u>211,100</u>	<u>424,603</u>	<u>628,296</u>	<u>-</u>	<u>1,851,601</u>
December 31, 2017	<u>\$ 596,151</u>	<u>35,658</u>	<u>205,021</u>	<u>435,806</u>	<u>669,714</u>	<u>-</u>	<u>1,942,350</u>
January 1, 2017	<u>\$ 658,326</u>	<u>14,615</u>	<u>221,719</u>	<u>496,638</u>	<u>788,639</u>	<u>-</u>	<u>2,179,937</u>

(i) In 2018 and 2017, the amortization of intangible assets were as follows:

	2018	2017
Operating costs	<u>\$ 6,422</u>	<u>6,793</u>
Operating expenses	<u>\$ 146,218</u>	<u>142,211</u>

(ii) Impairment Loss

In accordance with IAS 36 “impairment of assets,” the Group assesses the impairment loss of intangible assets, goodwill and trademark, at the end of each reporting period. The recoverable amount of the cash generating unit is the expected discount present value of future cash inflows. As of December 31, 2018 and 2017, based on the result of the assessment of the Group, the recoverable amount of the cash-generating unit was higher than the book value. Therefore, there was no impairment loss.

1) operating results, and the financial budget.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- 2) Forecast of operating revenue, operating cost, and operating expenses are based on the future operational plan, with consideration on the changes and competition in the market industry.
- 3) For the years 2018 and 2017, the discount rates for the present value of recoverable amounts were 8% and 9%, respectively.

(iii) The Group did not pledge any collateral on intangible assets.

(m) Prepaid rent

	<u>Land lease prepayment</u>
Cost:	
January 1, 2018	\$ 490,235
Additions	75,153
Effects of changes in exchange rates	<u>(11,199)</u>
December 31, 2018	<u>\$ 554,189</u>
January 1, 2017	\$ 526,479
Reclassification	(31,046)
Effects of changes in exchange rates	<u>(5,198)</u>
December 31, 2017	<u>\$ 490,235</u>
Amortization:	
January 1, 2018	\$ 113,288
Amortization	9,768
Effects of changes in exchange rates	<u>(2,754)</u>
December 31, 2018	<u>\$ 120,302</u>
January 1, 2017	\$ 112,377
Amortization	9,960
Reclassification	(8,072)
Effects of changes in exchange rates	<u>(977)</u>
December 31, 2017	<u>\$ 113,288</u>
Carrying value:	
December 31, 2018	<u>\$ 433,887</u>
December 31, 2017	<u>\$ 376,947</u>
January 1, 2017	<u>\$ 414,102</u>
December 31, 2018	
Current	\$ 11,454
Non-current	<u>422,433</u>
	<u>\$ 433,887</u>
December 31, 2017	
Current	\$ 9,805
Non-current	<u>367,142</u>
	<u>\$ 376,947</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

As of December 31, 2018 and 2017, the Group's prepaid rent was not provided as pledged assets for long-term borrowings and credit lines.

(n) Short-term and long-term borrowings

The details of the Group's short-term and long-term borrowings were as follows:

(i) Short-term borrowings

<b>December 31, 2018</b>		
	<b>Range of interest rates (%)</b>	<b>Year of maturity</b>
Unsecured loans	0.55~5.66	2019
		<b>\$ <u>4,147,772</u></b>
<b>December 31, 2017</b>		
	<b>Range of interest rates (%)</b>	<b>Year of maturity</b>
Unsecured loans	0.40~4.79	2018
		<b>\$ <u>6,365,254</u></b>

The abovementioned short-term borrowings were to mature within one year.

As of December 31, 2018 and 2017, the unused credit facilities (including credit lines for short-term commercial paper payable) amounted to \$15,664,492 thousand and \$13,586,947 thousand, respectively.

(ii) Short-term commercial paper payable

<b>December 31, 2017</b>		
	<b>Guarantee or acceptance institution</b>	<b>Range of interest rates (%)</b>
Commercial paper payable	International Bills	0.87
	Finance Corporation	
Less: discount		<u>25</u>
Total		<b>\$ <u>349,975</u></b>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iii) Long-term borrowings

1) Long-term bank borrowings

<b>December 31, 2018</b>				
	<b>Currency</b>	<b>Range of interest rates (%)</b>	<b>Year of maturity</b>	<b>Amount</b>
Secured loans	USD	4.25~4.38	2020~2023	\$ 768,325
Unsecured loans	NTD	1.05~1.44	2019~2023	3,800,000
Total				<u>\$ 4,568,325</u>
Current				\$ 850,000
Non-current				3,718,325
Total				<u>\$ 4,568,325</u>

<b>December 31, 2017</b>				
	<b>Currency</b>	<b>Range of interest rates (%)</b>	<b>Year of maturity</b>	<b>Amount</b>
Unsecured loans	NTD	1.44	2018~2019	\$ 1,600,000
Current				\$ 800,000
Non-current				800,000
Total				<u>\$ 1,600,000</u>

2) Long-term commercial paper payable (recorded as other long-term borrowings)

<b>December 31, 2018</b>			
	<b>Guarantee or acceptance institution</b>	<b>Range of interest rates (%)</b>	<b>Amount</b>
Commercial paper payable	CTBC Bank	1.2457	\$ 500,000
Less: discount			307
Total			<u>\$ 499,693</u>

The Group disclosed the related risk exposure to the financial instruments in note 6(aa).

(iv) Collateral of loans

The Group pledged certain assets for the loans. Please refer to note 8 for additional information.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(v) Special agreements of loan contracts

The Group entered into syndicated loan contracts with Taipei Fubon Bank and seven other banks:

- 1) Borrower: TSRC (USA) Investment Corporation.
- 2) Amount: USD80,000,000.
- 3) Duration: Originally 5 years (starting from March 31, 2011). According to the contracts, TSRC (USA) Investment Corporation could extend the duration for two more years when the loan mature in March 2016.
- 4) Interest rate: 3-month or 6-month LIBOR plus 1.30%.
- 5) Repayment term: Principal that borrower is repaid semi-annually in 8 installments starting 18 months after the date of initial utilization of the loan. Principal amount of the loan that borrower is repaid semi-annually in 7 installments starting 24 months from the date of initial utilization of the loan. Each of the first 6 installments is 10% of the principal, and the final installment is 40% of the principal. Starting from March 2016, borrower will repay the outstanding amount USD32,000 thousand semi-annually in 5 installments.
- 6) Guarantee: The Company provided a guarantee for TSRC (USA) Investment Corporation.
- 7) Others: During the period of borrowing, the Group should comply with the covenants. As of December 31, 2017, the Group was in compliance with the covenants described above. The loans was repaid in 2017.

(vi) Finance lease liabilities

The Group has entered into a lease contract for leasing a parcel of land from the Industrial Development Bureau of the Ministry of Economic Affairs for the period from June 29, 2004, to June 28, 2024. During the term of the lease, the Group has an option to purchase the rented land from the Industrial Development Bureau of the Ministry of Economic Affairs through a formal application. Once the application is approved, the rental and deposit paid during the lease period can be offset against the purchase price. The Group intends to purchase the rented land after the contract expires. The finance lease liabilities payable were as follows:

	<u>Future minimum lease payments</u>	<u>Interest</u>	<u>Present value of minimum lease payments</u>
<b>December 31, 2018</b>			
Less than one year	\$ 7,064	77	6,987
Between one and five years	28,256	1,054	27,202
More than five years	<u>3,532</u>	<u>1,883</u>	<u>1,649</u>
	<u><u>\$ 38,852</u></u>	<u><u>3,014</u></u>	<u><u>35,838</u></u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<b>Future minimum lease payments</b>	<b>Interest</b>	<b>Present value of minimum lease payments</b>
<b>December 31, 2017</b>			
Less than one year	\$ 7,064	77	6,987
Between one and five years	28,256	1,054	27,202
More than five years	10,595	2,362	8,233
	<u>\$ 45,915</u>	<u>3,493</u>	<u>42,422</u>

(o) Current provisions (recorded as other payable)

	<b>Onerous Contracts</b>	<b>Provision for defective products</b>	<b>Total</b>
Balance at January 1, 2018	\$ -	28,324	28,324
Increase in provisions	-	33,103	33,103
Provisions recognized	-	(1,466)	(1,466)
Reversal of unused provisions	-	(32,563)	(32,563)
Effect of changes in exchange rates	-	(270)	(270)
Balance at December 31, 2018	<u>\$ -</u>	<u>27,128</u>	<u>27,128</u>
Balance at January 1, 2017	33,599	-	33,599
Increase in provisions	\$ -	58,828	58,828
Provisions recognized	(32,789)	-	(32,789)
Reversal of unused provisions	-	(30,674)	(30,674)
Effect of changes in exchange rates	(810)	170	(640)
Balance at December 31, 2017	<u>\$ -</u>	<u>28,324</u>	<u>28,324</u>

In order to meet its obligation in the sales contracts, the Group expected the benefit to be lower than the expected cost. The Group accrued its provision according to the contracts, and recorded it under other income and expenses.

The Group may have losses caused by the defeats of new products that are not yet mass produced and by the return and compensation occurred after products were delivered to customers. The Group had estimated the provisions based on historical experience and recognized the amount under operating cost.

(p) Operating leases

(i) Lessee

Non-cancellable rental payables of operating leases were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Less than five years	\$ 247,585	173,442
More than five years	126,856	132,564
	<u>\$ 374,441</u>	<u>306,006</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The Group leases offices and factory facilities under operating leases. The leases typically run for a period of 1 to 20 years, with an option to renew the lease. The lease payment will be adjusted to reflect market price when renewing the contract.

For the years ended December 31, 2018 and 2017, lease expenses were \$103,860 thousand and \$99,299 thousand, respectively.

(ii) Lessor

The Group leases out its investment property under operating leases; please refer to note 6(k). The future minimum lease payment receivables under non-cancellable leases were as follows:

	December 31, 2018	December 31, 2017
Less than five years	\$ <u>68,626</u>	<u>123,408</u>

(q) Employee benefits

(i) Defined benefit plans

The following table shows a reconciliation between the present value of the defined benefit obligation and the fair value of plan assets:

	December 31, 2018	December 31, 2017
The present value of the defined benefit obligations	\$ 607,256	598,028
Fair value of plan assets	<u>(467,801)</u>	<u>(423,675)</u>
The net defined benefit liability	\$ <u>139,455</u>	<u>174,353</u>

The Group established the pension fund account for the defined benefit plan in Bank of Taiwan. The plan, under the Labor Standards Law, provides benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement.

1) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labors. Minimum annual distributions of the funds by the Bureau shall be no less than the earnings attainable from the two-year time deposits with the interest rates offered by local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$467,801 thousand at the end of the reporting period. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

2) Movements in present value of defined benefit plan obligation

The movements in present value of the Group's defined benefit plan obligation for the years ended December 31, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Defined benefit obligation as of 1 January	\$ 598,028	636,379
Current service costs and interest	14,742	14,510
Remeasurements of net defined benefit liability (asset)		
— Return on plan assets (excluding current interest expense)	21,429	10,500
— Due to changes in financial assumption of actuarial (losses) gains	12,848	(13,674)
Benefits paid by the plan	(39,791)	(49,687)
Defined benefit obligation as of 31 December	<u>\$ 607,256</u>	<u>598,028</u>

3) Movements in fair value of defined benefit plan assets

The movements in the fair value of the defined benefit plan assets for the years ended December 31, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Fair value of plan assets as of January 1	\$ 423,675	462,360
Remeasurements of net defined benefit liability (asset)		
— Return on plan assets (excluding current interest expense)	18,090	4,306
Contributions made	65,827	6,696
Benefits paid by the plan	(39,791)	(49,687)
Fair value of plan assets as of December 31	<u>\$ 467,801</u>	<u>423,675</u>

4) Expenses recognized in profit or loss

The expenses recognized on profit or loss for the years ended December 31, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Current service cost	\$ 6,710	7,526
Net interest on the defined benefit liability (asset)	2,365	1,931
	<u>\$ 9,075</u>	<u>9,457</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The Group recognized pension costs of the defined benefit plans in profit or loss as follows:

	<u>2018</u>	<u>2017</u>
Operating costs	\$ 5,555	4,155
Operating expenses	<u>3,520</u>	<u>2,651</u>
	<u><u>\$ 9,075</u></u>	<u><u>9,457</u></u>

- 5) Remeasurement of the net defined benefit liability (asset) recognized in other comprehensive income

The Group's remeasurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Balance of January 1	\$ (178,457)	(180,884)
Recognized during the period	<u>(21,854)</u>	<u>2,427</u>
Balance of December 31	<u><u>\$ (200,311)</u></u>	<u><u>(178,457)</u></u>

- 6) Actuarial assumptions

The following are the Group's principal actuarial assumptions:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Discount rate	1.125 %	1.375 %
Future salary increases rate	1.500 %	1.500 %

The Group expects to make contributions of \$4,535 thousand to the defined benefit plans in the next year starting from the reporting date of 2018.

The weighted average duration of the defined benefit plan is 11.22 years.

- 7) Sensitivity analysis

When calculating the present value of the defined benefit obligation, the Group uses judgments and estimations to determine the related actuarial assumptions, including discount rate, employee turnover rates and future salary changes, as of the balance sheet date. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligation.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

As of December 31, 2018 and 2017, the effects of the present value of the defined benefit obligation arising from changes in principal actuarial assumptions were as follows:

	<b>The impact of defined benefit obligation</b>	
	<b>Increase 0.25%</b>	<b>Decrease 0.25%</b>
December 31, 2018		
Discount rate	\$ (12,848)	13,291
Future salary increase rate	12,819	(12,450)
December 31, 2017		
Discount rate	(13,240)	13,674
Future salary increase rate	13,232	(12,877)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions remain constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of the pension liabilities in the balance sheets.

The method and assumptions used on current sensitivity analysis is the same as those of the prior year.

(ii) Defined contribution plans

The Group has made monthly contributions equal to 6% of each employee's monthly wages to the labor pension personal account at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Group contributes a fixed amount to the Bureau of the Labor Insurance without additional legal or constructive obligations.

The Group's pension costs under the defined contribution plan were \$101,634 thousand and \$100,426 thousand for the years 2018 and 2017, respectively. Payments were made to the Bureau of Labor Insurance and to local government for the overseas subsidiaries.

(iii) Short-term employee benefit liabilities

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Compensated absence liabilities	<u>\$ 39,821</u>	<u>36,057</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(r) Income tax

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing 2018.

(i) Income tax expenses

The amount of the Group's income tax for the years ended December 31, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Current income tax expense		
Current period	\$ 310,548	251,217
Adjustment for prior periods	<u>7,924</u>	<u>11,857</u>
	<u>318,472</u>	<u>263,074</u>
Deferred tax expense		
Origination and reversal of temporary differences	<u>78,301</u>	<u>24,344</u>
Income tax expenses on continuing operations	<u>\$ 396,773</u>	<u>287,418</u>

Reconciliations of the Group's income tax expense (benefit) and the profit before tax for 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Income before tax	\$ <u>1,630,443</u>	<u>1,137,135</u>
Income tax calculated on pretax accounting income at statutory rate	\$ 326,087	193,313
Effect of tax rates in foreign jurisdiction	42,714	80,799
Dividend income	(10,885)	(8,727)
Adjustment for prior periods	7,924	11,857
Domestic investment loss	(94,488)	21,022
Foreign investment income	(20,264)	(5,813)
R&D tax credits utilized	(7,900)	(6,163)
Withholding tax of revenue from overseas	35,076	34,551
Adjustment of tax rates	51,772	(61,765)
Current-year losses for which no deferred income tax asset was recognized	80,800	-
Change in unrecognized temporary differences	7,117	-
Others	<u>(21,180)</u>	<u>28,344</u>
Total	<u>\$ 396,773</u>	<u>287,418</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Recognized deferred tax assets and liabilities

1) Unrecognized deferred tax assets

The Group deferred tax assets have not been recognized in respect of the following items:

	December 31, 2018
Tax effect of deductible Temporary Differences	\$ 7,117
The carryforward of unused tax losses	<u>80,800</u>
	<u><u>\$ 87,917</u></u>

Under the income tax rate, tax losses can be carried forward for ten years to offset taxable income after permitted by domestic tax authority. Deferred income tax assets have not been recognized in respect of these items because it is not probable that the future taxable profit will be available, against which, the Group can utilize the benefits therefrom.

As of December 31, 2018, the amount of tax losses not yet recognized as deferred tax assets and their credit for the previous year is as follows:

Year	Amount	Year of expiration
2016	\$ 19,985	2026
2018	<u>60,815</u>	2028
	<u><u>\$ 80,800</u></u>	

2) Recognized deferred income tax assets and liabilities

Changes in the amount of deferred income tax assets and liabilities for 2018 and 2017 were as follows:

Deferred tax assets:

	Defined benefit plans	Allowance for inventory valuation	Loss carryforward	Others	Total
Balance at January 1, 2018	\$ 30,053	46,542	66,262	149,641	292,498
Recognized in profit or loss	(6,533)	6,672	(8,868)	(39,450)	(48,179)
Balance at December 31, 2018	<u>\$ 23,520</u>	<u>53,214</u>	<u>57,394</u>	<u>110,191</u>	<u>244,319</u>
Balance at January 1, 2017	\$ 19,704	45,655	135,889	120,469	321,717
Recognized in profit or loss	10,349	887	(69,627)	29,172	(29,219)
Balance at December 31, 2017	<u>\$ 30,053</u>	<u>46,542</u>	<u>66,262</u>	<u>149,641</u>	<u>292,498</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Deferred tax liabilities:

	Foreign investment income accounted for under equity method	Depreciation difference between financial and tax reporting	Land value increment tax	Others	Total
Balance at January 1, 2018	\$ 324,654	93,866	56,683	190,357	665,560
Recognized in profit or loss	102,821	1,390	-	(74,089)	30,122
Balance at December 31, 2018	<u>\$ 427,475</u>	<u>95,256</u>	<u>56,683</u>	<u>116,268</u>	<u>695,682</u>
Balance at January 1, 2017	\$ 311,287	170,383	56,683	132,082	670,435
Recognized in profit or loss	13,367	(76,517)	-	58,275	(4,875)
Balance at December 31, 2017	<u>\$ 324,654</u>	<u>93,866</u>	<u>56,683</u>	<u>190,357</u>	<u>665,560</u>

(iii) Examination and approval

The tax returns of the Company have been examined by the tax authorities through 2016.

(s) Capital and other equity

(i) Capital

In accordance with the Company's articles of incorporation amended on June 21, 2018, the capital share of the company amounted to \$12,000,000 thousand, divided into 1,200,000,000 shares, at NT\$10 per share.

In accordance with the original Company's articles of incorporation, the capital share of the company amounted to \$9,000,000 thousand, divided into 900,000,000 shares, at NT\$10 per share.

As of December 31, 2018 and 2017, 825,709,978 shares of ordinary were issued.

(ii) Additional paid-in capital

The components of additional paid-in capital as of December 31, 2018 and 2017, were as follows:

	December 31, 2018	December 31, 2017
Share premium	\$ 849	849
Overaging unclaimed dividends	44,309	40,194
	<u>\$ 45,158</u>	<u>41,043</u>

In accordance with the ROC Company Act, realized capital surplus can be used to increase share capital or to distribute as cash dividends after offsetting losses. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital surplus to increase share capital shall not exceed 10 percent of the actual share capital amount.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iii) Retained earnings

1) Legal reserve

The ROC Company Act stipulates that companies must retain 10% of their annual net earnings, as defined in the Act, until such retention equals the amount of issued share capital. When a company incurs no loss, it may, pursuant to a resolution to be adopted by the shareholders' meeting as required, distribute its legal reserve by issuing new shares or cash. Only the portion of legal reserve which exceeds 25% of the issued share capital may be distributed.

2) Special earnings reserve

By choosing to apply exemptions granted under IFRS 1 First-time Adoption of International Financial Reporting Standards during the Company's first-time adoption of the IFRSs endorsed by the FSC, unrealized revaluation gains recognized under shareholders' equity and cumulative translation adjustments (gains) were reclassified to retained earnings at the adoption date. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, an increase in retained earnings due to the first-time adoption of the IFRSs endorsed by the FSC shall be reclassified as a special earnings reserve during earnings distribution. However, when adjusted retained earnings due to the first-time adoption of the IFRSs endorsed by the FSC are insufficient for the appropriation of a special earnings reserve at the transition date, the Company may appropriate a special earnings reserve up to the amount of increase in retained earnings. Upon the use, disposal, or reclassification of related assets, the Company may reverse the special earnings reserve proportionately. As a result of elections made according to IFRS 1, the Company has reclassified \$(103,035) thousand to retained earnings and is not required to appropriate a special earnings reserve.

A portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current-period reduction of special earnings reserve resulting from the first-time adoption of IFRSs and the carrying amount of other shareholders' equity as stated above. Similarly, a portion of undistributed prior-period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods due to the first-time adoption of IFRSs. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

3) Distribution of retained earnings

In accordance with the Company's articles of incorporation amended on June 21, 2018, the profit of annual account, if any, shall deduct the tax and make up the loss carried from previous years, then appropriate 10% as legal reserve fund. The rest shall be distributed or reserved as special reserve pursuant to the Securities and Exchange Act. The distributable earnings shall be the balance after considering the above facts and accounting requirement by the relevant law, if any, plus the unappropriated earnings from the previous period; With regard to distribution of surplus, it is proposed to distribute the available surplus.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

With regard to the distribution of the dividends of the above-mentioned shareholders, their cash dividend must not be less than 20% of the total amount distributed.

In accordance with the original Company's articles of incorporation, the Company must retain 10% of its after-tax earnings as legal reserve (less deficits of prior years, if any) and then provide a special reserve. No less than 50% of distributable earnings shall be appropriated to shareholders.

If the dividends and bonuses mentioned above were to be distributed, distribution of cash dividends should not be less than 20% of total dividends, and the distribution of stock dividends should not be more than 80% of total dividends. If the dividends per share are less than \$0.5 (dollars), part or all of the remaining earnings can be retained.

In accordance with the revised ROC Company Act, remuneration for employees, directors and supervisors is no longer subject to earnings distribution. With respect to the items of earnings distribution, the stockholders' meeting on June 24, 2016, approved a resolution to amend the articles of the Company. Please refer to note 6(t).

The appropriations of 2017 and 2016 earnings as dividends to stockholders that were approved by the Company's shareholders during their meetings on June 21, 2018, and June 22, 2017, respectively, were as follows:

	<b>2017</b>		<b>2016</b>	
	<b>Amount per share (NT dollars)</b>	<b>Total amount</b>	<b>Amount per share (NT dollars)</b>	<b>Total amount</b>
Dividends distributed to common shareholders:				
Cash	\$ 0.96	<u>792,682</u>	1.00	<u>825,710</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iv) Other equities (net for tax)

	Foreign exchange differences arising from foreign	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Available-for- sale financial assets	Effective portion of cash flow hedges	Total
Balance as of January 1, 2018 (after adjustments of retrospective application)	\$ 512,008	-	623,809	11,721	1,147,538
Effects of retrospective application	-	593,961	(623,809)	-	(29,848)
Balance at January 1, 2018 after adjustments	512,008	593,961	-	11,721	1,117,690
Foreign exchange differences arising from foreign operation	24,421	-	-	-	24,421
Exchange differences on translation financial statements of foreign subsidiaries accounted for using equity method	(70,840)	-	-	-	(70,840)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	-	207,844	-	-	207,844
Share of other comprehensive income of associates and joint ventures accounted for under equity method, losses on effective portion of cash flow hedges	-	-	-	(79,855)	(79,855)
Balance as of December 31, 2018	<u>\$ 465,589</u>	<u>801,805</u>	<u>-</u>	<u>(68,134)</u>	<u>1,199,260</u>

	Foreign exchange differences arising from foreign	Available-for- sale financial assets	Effective portion of cash flow hedges	Total
Balance as of January 1, 2017	\$ 990,359	735,464	(23,562)	1,702,261
Foreign exchange differences arising from foreign operation	(534,213)	-	-	(534,213)
Share of other comprehensive income of associates accounted for under equity method, exchange differences on translation	55,862	-	-	55,862
Unrealized gains (losses) from available-for-sale financial assets	-	(111,655)	-	(111,655)
Share of other comprehensive income of associates and joint ventures accounted for under equity method, losses on effective portion of cash flow hedges	-	-	35,283	35,283
Balance as of December 31, 2017	<u>\$ 512,008</u>	<u>623,809</u>	<u>11,721</u>	<u>1,147,538</u>

(t) Earnings per share

The calculation of the Company's basic earnings per share and diluted earnings per share were as follows:

(i) Basic earnings per share

	2018	2017
Net income attributable to common shareholders of the Company	<u>\$ 1,192,186</u>	<u>874,107</u>
Weighted-average number of common shares	<u>825,710</u>	<u>825,710</u>
Basic earnings per share (in NT dollars)	<u>\$ 1.44</u>	<u>1.06</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Diluted earnings per share

	<b>2018</b>	<b>2017</b>
Net income attributable to common shareholders of the Company (diluted)	\$ <u><b>1,192,186</b></u>	<u><b>874,107</b></u>
Weighted-average number of common shares (basic)	825,710	825,710
Impact of potential common shares		
Effect of employees' bonuses	<u>2,683</u>	<u>1,603</u>
Weighted-average number of shares outstanding (diluted)	<u><b>828,393</b></u>	<u><b>827,313</b></u>
Diluted earnings per share (in NT dollars)	\$ <u><b>1.44</b></u>	<u><b>1.06</b></u>

(u) Employees' compensation and directors' remuneration

In accordance with the Company's articles of incorporation, if there is profit for the year, the Company should contribute more than 1% of its profit as employees' compensation, and less than 1% as directors' remuneration. The related regulations on distribution of employees' compensation and directors' remuneration were approved by the board of directors.

For the years ended December 31, 2018 and 2017, the estimated amounts of employees' bonuses were \$64,290 thousand and \$49,732 thousand, respectively, and the estimated amounts of directors' remuneration were \$14,064 thousand and \$9,558 thousand, respectively. The estimated amounts mentioned above were according to the Company's articles of incorporation, and were recorded as operating cost or operating expenses, in the respective periods. Related information would be available at the Market Observation Post System website. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2018 and 2017.

(v) Revenue from contracts with customers

	<b>2018</b>		
	<u><b>Synthetic rubber</b></u>	<u><b>Non-synthetic rubber</b></u>	<u><b>Total</b></u>
Primary geographical markets:			
Asia	\$ 19,476,346	1,675,761	21,152,107
America	4,444,409	15,632	4,460,041
Europe	3,314,608	-	3,314,608
Others	<u>824,410</u>	<u>52</u>	<u>824,462</u>
	<u><b>\$ 28,059,773</b></u>	<u><b>1,691,445</b></u>	<u><b>29,751,218</b></u>
Major product lines:			
Synthetic rubber / elastomers	\$ 27,112,256	-	27,112,256
Applied materials	-	1,689,317	1,689,317
Others	<u>947,517</u>	<u>2,128</u>	<u>949,645</u>
	<u><b>\$ 28,059,773</b></u>	<u><b>1,691,445</b></u>	<u><b>29,751,218</b></u>

For details on revenue for the year ended December 31, 2017, please refer to note 6(w).

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(w) Revenue

	<b>2017</b>
Sale of goods	\$ 31,745,601
Service income	<u>20,636</u>
	<b><u>\$ 31,766,237</u></b>

For details on revenue for the year ended December 31, 2018, please refer to note 6(v).

(x) Other income and expenses

	<b>2018</b>	<b>2017</b>
Rental income	\$ 80,276	76,870
Royalty income	131,530	101,540
Net service income	13,854	8,898
Depreciation of investment properties	(14,726)	(14,725)
Net other income	<u>41,579</u>	<u>46,453</u>
Other income and expenses	<b><u>\$ 252,513</u></b>	<b><u>219,036</u></b>

(y) Non-operating income and expenses

(i) Other gains

	<b>2018</b>	<b>2017</b>
Interest income	\$ 78,175	51,122
Dividend income	81,371	52,343
Gains from bargain purchase	<u>11,820</u>	<u>-</u>
Other gains	<b><u>\$ 171,366</u></b>	<b><u>103,465</u></b>

(ii) Other gains and losses

	<b>2018</b>	<b>2017</b>
Loss on disposal of property, plant and equipment, net	\$ (23,824)	(8,997)
Gains on disposals of investment	-	154,458
Foreign exchange gain, net	7,380	25,793
Gains (losses) on financial assets (liabilities) at fair value through profit or loss	23,685	(120)
Other income	<u>21,736</u>	<u>8,125</u>
Other gains and losses, net	<b><u>\$ 28,977</u></b>	<b><u>179,259</u></b>

(iii) Finance costs

	<b>2018</b>	<b>2017</b>
Interest expense	<b><u>\$ 169,434</u></b>	<b><u>188,149</u></b>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(z) Reclassification of components of other comprehensive income

The changes in components of other comprehensive income were as follows:

	<u>2018</u>	<u>2017</u>
Effective portion of cash flow hedges:		
Net gains (losses) for current year	\$ (86,325)	44,784
Less: Adjustment of reclassification included in profit or loss	(6,470)	9,501
Net gains (losses) recognized in other comprehensive income	<u>\$ (79,855)</u>	<u>35,283</u>
Available-for-sale financial assets		
Net change in fair value for current period	\$ -	(111,655)
Net change in fair value reclassified to profit or loss	-	-
Net changes in fair value recognized in other comprehensive income	<u>\$ -</u>	<u>(111,655)</u>

(aa) Financial instruments

(i) Credit risk

1) Credit risk exposure

The maximum credit risk exposure of the Group's financial assets is equal to their carrying amount. As of December 31, 2018 and 2017, the maximum credit risk exposure amounted to \$9,416,810 thousand, and \$8,591,408 thousand, respectively.

2) Concentration of credit risk

The Group's cash and cash equivalents and accounts receivable are the main source of potential credit risk. The Group deposits its cash and cash equivalents in different financial institutions and has no concentration of credit risk on an individual customer. Therefore, the Group concluded that it is not exposed to credit risk.

The Group guarantees bank loans for investees. The Group concluded that it is not exposed to credit risk for these transactions.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments but excluding the impact of netting agreements.

	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
<b>December 31, 2018</b>						
Non-derivative financial liabilities						
Short-term debts	\$ 4,173,699	3,936,374	237,325	-	-	-
Accounts payable (including related parties)	1,514,522	1,514,522	-	-	-	-
Other payables	997,500	997,500	-	-	-	-
Long-term debts (including other long-term borrowings and current portion)	5,286,619	468,567	466,625	628,261	3,723,166	-
Deposits received	49,266	49,266	-	-	-	-
Provision for guarantee liabilities -- non-current	4,159,941	732,738	797,995	898,940	1,730,268	-
Derivative financial liabilities						
Other forward contracts:						
Outflow	2,066	2,066	-	-	-	-
	<u>\$ 16,183,613</u>	<u>7,701,033</u>	<u>1,501,945</u>	<u>1,527,201</u>	<u>5,453,434</u>	<u>-</u>
<b>December 31, 2017</b>						
Non-derivative financial liabilities						
Short-term debts	\$ 6,403,311	5,941,195	462,116	-	-	-
Short-term commercial paper payable	349,975	349,975	-	-	-	-
Accounts payable (including related parties)	1,828,755	1,828,755	-	-	-	-
Other payables	882,853	882,853	-	-	-	-
Long-term debts (including current portion)	1,623,419	409,057	408,617	805,745	-	-
Deposits received	42,276	42,276	-	-	-	-
Provision for guarantee liabilities -- non-current	2,709,687	526,562	662,625	526,562	-	993,938
Derivative financial liabilities						
Other forward contracts:						
Outflow	226	226	-	-	-	-
	<u>\$ 13,840,502</u>	<u>9,980,899</u>	<u>1,533,358</u>	<u>1,332,307</u>	<u>-</u>	<u>993,938</u>

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

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iii) Currency risk

1) Risk exposure

The Group's financial assets and financial liabilities exposed to significant currency risk were as follows:

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
<b>December 31, 2018</b>			
Financial assets:			
Monetary assets:			
USD	\$ 39,364	30.7330	1,209,774
EUR	\$ 12,984	35.2047	457,098
JPY	\$ 77,582	0.2784	21,599
CNY	\$ 17,665	4.4742	79,037
Financial liabilities:			
Monetary liabilities:			
USD	\$ 56,225	30.7330	1,727,963
EUR	\$ 11,634	35.2047	409,571
JPY	\$ 24,691	0.2784	6,874
<b>December 31, 2017</b>			
Financial assets:			
Monetary assets:			
USD	\$ 38,486	29.8480	1,148,730
EUR	\$ 14,867	35.6743	530,370
JPY	\$ 130,957	0.2649	34,691
CNY	\$ 19,566	4.5788	89,589
Financial liabilities:			
Monetary liabilities:			
USD	\$ 75,539	29.8480	2,254,688
EUR	\$ 13,560	35.6743	483,744
JPY	\$ 109,006	0.2649	28,876

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

2) Sensitivity analysis

The Group's exposure to foreign currency risk arose from cash and cash equivalents, accounts and other receivables, loans and borrowings, and accounts and other payables that were denominated in foreign currencies. If the NTD against the USD, EUR, CNY and JPY had appreciated/depreciated by 1% the Group's net income before tax would have increase/decreased by \$3,769 thousand and \$9,639 thousand for the years ended December 31, 2018 and 2017, respectively, with all other variable factors remaining constant. The analysis was performed on the same basis for both periods.

3) Foreign exchange gain and loss on monetary item

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. In 2018 and 2017, foreign exchange gain (loss) (including realized and unrealized) amounting to \$7,380 thousand and \$25,793 thousand.

(iv) Interest rate risk analysis

Please refer to the note on liquidity risk management for the interest rate exposure of the Group's financial assets and liabilities.

The following sensitivity analysis is based on the risk exposure to interest rates of the non-derivative financial instruments on the reporting date. For floating-rate instruments, the sensitivity analysis assumes the floating-rate liabilities as of the reporting date are outstanding for the whole year.

If the interest rate had increased / decreased by 1%, the Group's net income before tax would have increased / decreased by \$92,158 thousand and \$79,653 thousand for the years ended December 31, 2018 and 2017, respectively, with all other variable factors remaining constant. This is mainly due to the Group's borrowing at floating rates.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(v) Fair value

1) Categories and fair value of financial instruments

Except for the followings, carrying amount of the Group's financial assets and liabilities are valued approximately to their fair value, and are not based on observable market data and the value measurements which are not reliable. No additional fair value disclosure is required in accordance to the regulations.

	December 31, 2018				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Derivative financial assets for hedging	\$ 679	-	679	-	679
Financial assets at fair value through other comprehensive income					
Listed stocks (domestic)	305,631	305,631	-	-	305,631
Unlisted stocks (domestic and overseas)	994,175	-	-	994,175	994,175
Subtotal	<u>1,299,806</u>	<u>305,631</u>	<u>-</u>	<u>994,175</u>	<u>1,299,806</u>
Financial assets measured at amortized cost					
Cash and cash equivalents	4,527,752	-	-	-	-
Accounts and notes receivables	3,432,837	-	-	-	-
Other receivables	91,395	-	-	-	-
Refundable deposit	64,341	-	-	-	-
Subtotal	<u>8,116,325</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,416,810</u>	<u>305,631</u>	<u>679</u>	<u>994,175</u>	<u>1,300,485</u>
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities for hedging	\$ 2,066	-	2,066	-	2,066
Financial liabilities measured at amortized cost					
Short-term borrowings	4,147,772	-	-	-	-
Long-term borrowings (including other long-term borrowings and current portion)	5,068,018	-	-	-	-
Notes and accounts payable	1,514,522	-	-	-	-
Other payables	997,500	-	-	-	-
Deposits received	49,266	-	-	-	-
Subtotal	<u>11,777,078</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$11,779,144</u>	<u>-</u>	<u>2,066</u>	<u>-</u>	<u>2,066</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	December 31, 2017				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Available-for-sale financial assets					
Listed stocks (domestic)	\$ 235,024	235,024	-	-	235,024
Unlisted stocks (domestic and overseas)	885,097	-	885,097	-	885,097
Subtotal	<u>1,120,121</u>	<u>235,024</u>	<u>885,097</u>	<u>-</u>	<u>1,120,121</u>
Loans and receivables					
Cash and cash equivalents	3,560,440	-	-	-	-
Accounts and notes receivable	3,817,055	-	-	-	-
Other receivables	76,088	-	-	-	-
Refundable deposit	17,704	-	-	-	-
Subtotal	<u>7,471,287</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 8,591,408</u>	<u>235,024</u>	<u>885,097</u>	<u>-</u>	<u>1,120,121</u>
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities for hedging	\$ 226	-	226	-	226
Financial liabilities measured at amortized cost					
Short-term borrowings	6,365,254	-	-	-	-
Short-term notes and bills payable	349,975	-	-	-	-
Long-term borrowings (including current portion)	1,600,000	-	-	-	-
Accounts payables (including related parties)	1,828,755	-	-	-	-
Other payables	882,853	-	-	-	-
Deposits received	42,276	-	-	-	-
Total	<u>\$11,069,339</u>	<u>-</u>	<u>226</u>	<u>-</u>	<u>226</u>

2) Valuation techniques and assumptions used in fair value determination

If the financial instruments held by the Group have the quoted market price in active market, the fair value of the assets is based on the quoted market price. However, if the instruments have no quoted market price in active market, the Group uses market comparison approach to evaluate the fair value. The main assumption is based on the investee's earnings after tax and the listed (over the counter) company's earnings used in computing the market price. The estimated price has been discounted due to the price of the securities lacks the liquidity. The liquidity discount is a significant unobservable input in valuing equity investment. Forward exchange contracts are normally priced based on the exchange rates provided by the world agencies.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

3) Reconciliation of Level 3 fair values

	<b>Unquoted equity instruments</b>
Balance at January 1, 2018	\$ 885,097
Total gains recognized:	
In other comprehensive income	109,078
Balance at December 31, 2018	<u>\$ 994,175</u>
Balance at January 1, 2017	\$ 968,406
Total losses recognized:	
In other comprehensive income	(83,309)
Balance at December 31, 2017	<u>\$ 885,097</u>

4) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through other comprehensive income equity investments without an active market	Comparative listed company	<ul style="list-style-type: none"> <li>· Multipliers of price-to-earnings ratios as of December 31, 2018 and 2017 were 13.20~17.32 and 14.81~15.13, respectively</li> <li>· Market illiquidity discount rate as of December 31, 2018 and 2017 was both 20%</li> </ul>	<p>The estimated fair value would increase (decrease) if</p> <ul style="list-style-type: none"> <li>· the multiplier were higher (lower)</li> <li>· the market illiquidity discount were lower (higher)</li> </ul>

5) Fair value measurements in Level 3— sensitivity analysis of reasonably possible alternative assumptions

For fair value measurements in Level 3, changing one or more of the assumptions would have the following effects on profit or loss and other comprehensive income:

	Input	Assumptions	<b>Other comprehensive income</b>	
			<b>Favourable</b>	<b>Unfavourable</b>
<b>December 31, 2018</b>				
Financial assets fair value through other comprehensive income				
Equity investments without an active market	Liquidity discount at 20%	1%	\$ 12,431	(12,431)

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

			<u>Other comprehensive income</u>	
	<u>Input</u>	<u>Assumptions</u>	<u>Favourable</u>	<u>Unfavourable</u>
<b>December 31, 2017</b>				
Available-for-sale financial assets				
Equity investments without an active market	Liquidity discount at 20%	1%	\$ 11,068	(11,068)

The favourable and unfavourable effects represent the changes in fair value, and the fair value is based on a variety of unobservable inputs calculated using a valuation technique. The analysis above only reflects the effects of changes in a single input, and it does not include the interrelationships with another input.

(ab) Financial risk management

(i) Overview

The Group is exposed to the following risks arising from financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

This note discloses information about the Group's exposure to the aforementioned risks, and its goals, policies, and procedures regarding the measurement and management of these risks. For additional quantitative disclosures of these risks, please refer to the notes regarding each risk disclosed throughout the financial report.

(ii) Risk management framework

The Group's finance department is responsible for the establishment and management of the Group's risk management framework and policies. It is overseen by and reports to management, the Audit Committee, and the Board of Directors regarding the framework's operations.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, 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 Group's activities. The Group, through its 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 Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit, with undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

1) Accounts receivable and Notes Receivable

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly during deteriorating economic circumstances. The Group's Accounts Receivable and Notes Receivable are mainly due from customers in China, accounting 43% and 50% of the total amount of the receivables as of December 31, 2018, and 2017, respectively.

The sales department and the finance department of the Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes the history of transactions with the counter-party, its financial position, and geographic considerations. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval; these limits are reviewed on a periodic basis. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

Goods are sold subject to a retention of title clause so that in the event of non-payment, the Group may have a secured claim. The Group otherwise does not require collateral in respect of trade and other receivables.

The Group has established an allowance for doubtful accounts to reflect its actual and estimated potential losses resulting from uncollectible accounts and trade receivables. The allowance for doubtful accounts consists primarily of specific losses regarding individual customers and estimates of potential losses based on the use of lifetime expected credit loss provision.

2) Investments

The credit risk exposure in the bank deposits and other financial instruments is measured and monitored by the Group's finance department. Since those who transact with the Group are banks and other external parties with good credit standing, financial institutions with a credit rating above investment grade, and government agencies, there are no non-compliance issues. With regard to investment in a financial institution with a credit rating above investment grade, an investment limit is set according to the long-term credit rating. Hence, there is no significant credit risk.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

3) Guarantees

The Group's policy allows it to provide financial guarantees to business partners or to related parties and jointly controlled entities according to its percentage ownership in these entities. Financial guarantees provided by the Group as of December 31, 2018 and 2017, are disclosed in note 7 "Related-party Transactions."

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

1) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currency of the Company. The currencies used in these transactions are NTD, EUR, USD, JPY and CNY.

Foreign exchange gains and losses resulting from account and trade receivables held by the Group in a currency other than the respective functional currencies are used to offset foreign exchange gains and losses resulting from short-term loans denominated in a foreign currency. Hence, the Group's risk exposure to foreign exchange risk is reduced.

Interest expenses are denominated in the same currency as that of the principal. Generally, the currency of loans matches that of the Group's operating cash flow, primarily consisting of NTD, EUR, USD, JPY, and CNY.

With regard to monetary assets and liabilities denominated in a foreign currency, when a short-term risk exposure exists, the Group relies on immediate foreign exchange transactions to ensure the net exposure to foreign exchange risk is maintained at an acceptable level.

The Group does not hedge against investments of related parties.

2) Interest rate risk

The interest rates of the Group's long-term and short-term borrowings are floating. Hence, changes in market conditions will cause fluctuations in the effective interest rate of the aforementioned loans. The Group's finance department monitors and measures potential changes in market conditions, entering into interest rate swaps to achieve a fixed interest rate on the Group's loans.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

3) Other market price risk

The Group does not enter into any commodity contracts other than to meet the Group's expected usage and sales requirements; such contracts are not settled on a net basis.

(ac) Capital management

The Group's goal of capital management is to ensure the Group's continuing operating capacity, and to continuously provide remuneration to the shareholders and benefits to other equity holders. To ensure that the above mentioned goal is achieved, the Group's management reviews its capital structure periodically. In consideration of the overall economic situation, financing cost and sufficiency of cash in-flows generated by operating activities, the Group will adjust its capital structure by paying dividends, issuing new stock, purchasing treasury stock, increasing or decreasing loans, and issuing or purchasing bonds.

The Group's capital structure at the end of the reporting period were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Total liabilities	\$ 13,348,328	12,555,895
Total equity	16,881,841	16,443,446
Total assets	<u>\$ 30,230,169</u>	<u>28,999,341</u>
Debts ratio	<u>44 %</u>	<u>43 %</u>

As of December 31, 2018, there were no material changes in the Group's debts ratio.

(ad) Investing and financing activities not affecting current cash flow

The Group did not have any non-cash flow transactions on investing and financing activities for the years ended December 31, 2018 and 2017.

(ae) Investing and financing activities not affecting current cash flow

Reconciliation of liabilities arising from financing activities were as follows:

	<div>Non-cash changes</div>				
	January 1, 2018	Cash flows	Foreign exchange movement	Amortization of commercial paper discount	December 31, 2018
Long-term borrowings (including current portion)	\$ 1,600,000	2,953,662	14,663	-	4,568,325
Other long-term borrowings	-	494,940	-	4,753	499,693
Short-term borrowings	6,365,254	(2,525,355)	307,873	-	4,147,772
Short-term commercial paper payable	349,975	(350,477)	-	502	-
Total liabilities from financing activities	\$ 8,315,229	572,770	322,536	5,255	9,215,790

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(7) Related-party Transactions**

**(a) Names and relationship with related parties**

In this consolidated financial report, the related parties having transactions with the consolidated group are listed as below:

<u>Name of related party</u>	<u>Relationship with the Group</u>
Indian Synthetic Rubber Private Limited	The Group recognized joint venture under equity method (reclassified from associate to joint venture since April 2018)
ARLANXEO-TSRC (Nantong) Chemical Industries Co., Ltd.	The Group recognized associates under equity method
Asia Pacific Energy Development Co., Ltd	"
Taiwan Advanced Material Corp	The Group recognized joint venture under equity method
Nantong Qix Storage Co., Ltd.	"
Marubeni Corporation	Corporate investor of the consolidated entity
UBE Industrial Ltd.	"
Nantong Chemical & Light Industry Co., Ltd.	The ultimate controlling party of the investor, which recognized joint venture under equity method
Nantong Benny Petrochemicals Harbour Storage Co., Ltd.	The controlling party of the investor, which recognized joint venture under equity method
UBE (Shanghai) Ltd.	Subsidiary of corporate investor of the consolidated entity

**(b) Significant transactions with related parties**

**(i) Operating revenue**

The amounts of significant sales by the Group to related parties were as follows:

	<u>2018</u>	<u>2017</u>
Associates	\$ <u>17,149</u>	<u>6,724</u>

The sales price with related parties is not significantly different from normal transactions, and the payment terms were about one month.

**(ii) Purchases**

The amounts of purchase transactions with related parties were as follows:

	<u>2018</u>	<u>2017</u>
Associates	\$ -	820
Others	<u>212,465</u>	<u>569,766</u>
	\$ <u>212,465</u>	<u>570,586</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

There were no significant differences between the pricing of purchase transactions with related parties and that with other suppliers. The payment terms ranged from one to two months, which were similar to other suppliers.

(iii) Service income and expenses

The Group provided and received management, technologies and IT services to associates, joint ventures, and other related parties. The amounts recognized as other income and expenses were as follows:

	<u>2018</u>	<u>2017</u>
Associates		
Indian Synthetic Rubber Private Limited	\$ 15,197	45,830
ARLANXEO-TSRC (Nantong) Chemical Industries Co., Ltd.	174,309	115,073
Joint ventures		
Indian Synthetic Rubber Private Limited	47,455	-
Others	3,786	1,512
Other related parties		
Others	(3,206)	(2,298)
	<u>\$ 237,541</u>	<u>160,117</u>

(iv) Receivable from related parties

The details of the Group's receivable from related parties were as follows:

<u>Account</u>	<u>Type of related parties</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other receivable	Associates		
	Indian Synthetic Rubber Private Limited	\$ -	32,707
	ARLANXEO-TSRC (Nantong) Chemical Industries Co., Ltd.	21,365	22,167
Other receivable	Joint ventures		
	Indian Synthetic Rubber Private Limited	20,820	-
	Others	242	246
		<u>\$ 42,427</u>	<u>55,120</u>

(v) Payable to related parties

The details of the Group's payable to related parties were as follows:

<u>Account</u>	<u>Type of related parties</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts payable	Other related parties	\$ -	35,663
Other payable	Other related parties	908	703
		<u>\$ 908</u>	<u>36,366</u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(vi) Guarantees

The credit limits of the guarantees the Group had provided on the bank loans of related parties were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Associates		
Indian Synthetic Rubber Private Limited	\$ -	1,656,563
ARLANXEO-TSRC (Nantong) Chemical Industries Co., Ltd.	1,530,733	1,053,124
Joint ventures		
Indian Synthetic Rubber Private Limited	1,461,354	-
	<u><u>\$ 2,992,087</u></u>	<u><u>2,709,687</u></u>

Accordingly, the amounts of the Group increased provision liabilities and investments accounted for under equity method were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Associates		
Indian Synthetic Rubber Private Limited	\$ -	26,350
ARLANXEO-TSRC (Nantong) Chemical Industries Co., Ltd.	4,428	649
Joint ventures		
Indian Synthetic Rubber Private Limited	24,761	-
	<u><u>\$ 29,189</u></u>	<u><u>26,999</u></u>

(c) Key management personnel transactions

The compensation of the key management personnel comprised the following:

	<b>2018</b>	<b>2017</b>
Short-term employee benefits	\$ 108,307	108,228
Post-employment benefits	1,288	1,078
	<u><u>\$ 109,595</u></u>	<u><u>109,306</u></u>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(8) Pledged Assets**

The carrying values of pledged assets were as follows:

Pledged assets	Object	December 31, 2018	December 31, 2017
Restricted savings deposits (recorded as other non-current assets)	Deposit for safety production	\$ -	4,175
Machinery etc. (recorded property, plant and equipment)	Guarantee for long-term borrowings	361,731	-
		<u>\$ 361,731</u>	<u>4,175</u>

**(9) Commitments and Contingencies**

- (a) As of December 31, 2018 and 2017, the Group's unused letters of credit outstanding for purchases of materials were \$2,050,872 thousand and \$1,653,768 thousand, respectively.
- (b) As of December 31, 2018 and 2017, the Group's signed construction and design contracts with several factories totaled \$1,717,411 thousand and \$129,184 thousand, respectively, of which \$466,392 thousand and \$101,616 thousand, respectively, were paid.

**(10) Losses Due to Major Disasters: None.**

**(11) Subsequent Events: None.**

**(12) Others**

- (a) A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

By function By nature	Year ended December 31, 2018			Year ended December 31, 2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	935,385	633,012	1,568,397	712,007	472,347	1,489,037
Labor and health insurance	84,622	55,575	140,197	63,508	42,046	135,194
Pension	73,865	36,844	110,709	59,295	30,203	109,883
Directors' remuneration	-	40,402	40,402	-	33,016	23,250
Others (note 1)	162,922	88,733	251,655	103,243	48,548	220,158
Depreciation (note 2)	743,685	116,164	859,849	555,026	87,011	854,045
Amortization	6,422	146,218	152,640	4,490	108,903	149,004

Note 1: Others personnel expenses included meals, employee welfare, training expenses and employees' bonus.

Note 2: Depreciation expenses for investment property recognized under other income and expenses amounting to \$14,726 thousand and \$14,725 for the years ended December 31, 2018 and 2017 were excluded.

(Continued)

## TSRC CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (13) Other Disclosures

##### (a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group:

##### (i) Loans to other parties:

Unit: thousand NTD

No.	Name of lender	Name of borrower	Financial statement account	Related party	Highest balance of financing to other parties during the year	Ending balance	Amount actually drawn	Range of interest rates	Purposes of fund financing for the borrowers (Note 5)	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Financing limit for each borrowing company	Maximum financing limit for the lender
													Item	Value		
1	TSRC (Shanghai) Industries Ltd.	TSRC (Nantong) Industries Ltd.	Loan	Yes	154,592	147,649	-	3.915%	2	-	Operating capital	-		-	213,302 (Note 1)	426,603 (Note 2)
2	TSRC (Nantong) Industries Ltd.	ARLANXEO-TSRC (Nantong) Chemical Industries Co., Ltd.	Loan	Yes	328,028	313,194	-	5.11%	2	-	Operating capital	-		-	434,858 (Note 3)	1,739,431 (Note 4)

Note 1: The loan limit extended per party of TSRC (Shanghai) Industries Ltd. should not be over 10% of total equity. However, if the counterparty is a subsidiary 100% owned, directly or indirectly by TSRC, the loan limit extended per party should not be over 50% of the total equity of the most recent financial statements audited or reviewed by a CPA.

Note 2: The maximum loan extended to all parties of TSRC (Shanghai) Industries Ltd. should not be over 40% of total equity. However, if the counterparty is a subsidiary 100.00% owned, directly or indirectly by TSRC, the total loan limit should not be over 100% of total equity of the most recent financial statements audited or reviewed by a CPA.

Note 3: The loan limit extended per party of TSRC (Nantong) Industries Ltd. should not be over 10% of total equity.

Note 4: The maximum loan extended to all parties of TSRC (Nantong) Industries Ltd. should not be over 40% of total equity.

Note 5: TSRC (Shanghai) Industries Ltd. and TSRC (Nantong) Industries Ltd. are 100.00% owned by TSRC. ARLANXEO-TSRC (Nantong) Chemical Industries Co., Ltd. is a foreign company with TSRC holding 50% of its equity.

Note 6: Credit period: The financing period should not be over one year.

Note 7: Loans to other parties numbering is as follows:

- (1) if it's ordinary business relationship, the number is "1".
- (2) if it needs short-term financial funds, the number is "2".

Note 8: The transactions within the Group were eliminated in the consolidated financial statements.

##### (ii) Guarantees and endorsements for other parties:

Unit: thousand NTD

No.	Name of company	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for one party	Highest balance for guarantees and endorsements during the year	Ending balance of guarantees and endorsements	Amount actually drawn	Property pledged on guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum allowable amount for guarantees and endorsements (Note 3)	Parent company endorsement / guarantees to third parties on behalf of subsidiary	Subsidiary endorsement / guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of company in Mainland China
		Name	Relationship with the company										
0	TSRC	TSRC (USA) Investment Corporation	4	(Note 2)	464,520	460,995	460,995	-	3.01 %	(Note 3)	Y		
0	TSRC	ARLANXEO-TSRC (Nantong) Chemical Industries Co., Ltd.	6	(Note 2)	1,530,733	1,530,733	425,950	-	10.00 %	(Note 3)			Y
0	TSRC	Indian Synthetic Rubber Private Limited	6	(Note 2)	1,622,265	1,461,354	1,461,354	-	9.54 %	(Note 3)			
0	TSRC	TSRC (Vietnam) Co., Ltd.	4	(Note 2)	402,584	399,529	-	-	2.61 %	(Note 3)	Y		
0	TSRC	Dexco Polymers L.P.	4	(Note 2)	308,550	307,330	307,330	-	2.01 %	(Note 3)	Y		

Note 1: The guarantee's relationship with the guarantor is as follows:

- (1) A company with which it does business.
- (2) A company in which the public company directly and indirectly holds more than 50 percent of the voting shares.
- (3) A company that directly and indirectly holds more than 50 percent of the voting shares in the public company.
- (4) A company in which the public company holds, directly or indirectly, 90% or more of the voting shares.
- (5) A company that fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project.
- (6) A company that all capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages.
- (7) Companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 2: The guaranteed amount is limited to 50% of total equity amounting to \$7,655,502 thousand.

Note 3: The aggregate amount of guarantee by the Company is limited to 1.5 times its stockholders' equity, amounting to \$22,966,505 thousand.

Note 4: The transactions within the Group were eliminated in the consolidated financial statements.

(Continued)

## TSRC CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(iii) Securities held as of December 31, 2018 (excluding investment in subsidiaries, associates and joint ventures):

Unit: thousand NTD

Name of holder	Nature and name of security	Relationship with the security issuer	Account name	Ending balance				Maximum investment in 2018	Remarks
				Number of shares	Book value	Holding percentage	Market value		
TSRC	Taiwan High Speed Rail Corporation	-	Financial assets at fair value through other comprehensive income—non-current	10,001,000	305,631	0.18 %	305,631	100,010	
TSRC	Evergreen Steel Corporation	-	Financial assets at fair value through other comprehensive income—non-current	12,148,000	366,991	3.00 %	366,991	209,878	
TSRC	Thai Synthetic Rubbers Co., Ltd.	-	Financial assets at fair value through other comprehensive income—non-current	599,999	146,220	5.42 %	146,220	65,143	
TSRC	Hsin-Yung Enterprise Corporation	-	Financial assets at fair value through other comprehensive income—non-current	5,657,000	276,853	3.90 %	276,853	64,296	
Dymas Corporation	Thai Synthetic Rubbers Co., Ltd.	-	Financial assets at fair value through other comprehensive income—non-current	837,552	204,111	7.57 %	204,111	58,674	
					<u>1,299,806</u>		<u>1,299,806</u>	<u>498,001</u>	

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock:

Unit: thousand NTD

Name of company	Counter-party	Relationship	Transaction details				Status and reason for deviation from arm's-length transaction		Account / note receivable (payable)		Remarks
			Purchase / Sale	Amount	Percentage of total purchases / sales	Credit period	Unit price	Credit period	Balance	Percentage of total accounts / notes receivable (payable)	
TSRC (Lux.) Corporation S.'a r.l.	TSRC	Related parties	Purchase	178,675	6.37 %	70 days	-		(17,076)	(5.19) %	
TSRC	TSRC (Lux.) Corporation S.'a r.l.	Related parties	Sale	(178,675)	(1.65) %	70 days	-		17,076	1.52 %	
Shen Hua Chemical Industries Co., Ltd.	Marubeni Corporation	A director of Shen Hua Chemical Industries Co., Ltd.	Purchase	116,398	2.04 %	14 days	-		-	-	
Polybus Corporation Pte Ltd.	TSRC (Nantong) Industries Ltd.	Related parties	Purchase	427,649	70.56 %	40 days	-		(10,392)	(34.66) %	
TSRC (Nantong) Industries Ltd.	Polybus Corporation Pte Ltd.	Related parties	Sale	(427,649)	(9.18) %	40 days	-		10,392	1.97 %	
TSRC (Lux.) Corporation S.'a r.l.	Dexco Polymers L.P.	Related parties	Purchase	998,093	35.59 %	90 days	-		(46,980)	(14.29) %	
Dexco Polymers L.P.	TSRC (Lux.) Corporation S.'a r.l.	Related parties	Sale	(998,093)	(22.94) %	90 days	-		46,980	10.21 %	
TSRC (Lux.) Corporation S.'a r.l.	TSRC (Nantong) Industries Ltd.	Related parties	Purchase	1,625,167	57.96 %	70 days	-		(263,933)	(80.27) %	
TSRC (Nantong) Industries Ltd.	TSRC (Lux.) Corporation S.'a r.l.	Related parties	Sale	(1,625,167)	(34.87) %	70 days	-		263,933	50.01 %	
Dexco Polymers L.P.	TSRC (Nantong) Industries Ltd.	Related parties	Purchase	237,940	8.39 %	70 days	-		(14,115)	(6.26) %	
TSRC (Nantong) Industries Ltd.	Dexco Polymers L.P.	Related parties	Sale	(237,940)	(5.11) %	70 days	-		14,115	2.67 %	

Note 1: The transactions within the Group were eliminated in the consolidated financial statements.

(Continued)

## TSRC CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Name of related party	Counter-party	Relationship	Balance of receivables from related party	Turnover rate (Note 1)	Overdue amount		Amounts received in subsequent period (Note 2)	Allowances for bad debts
					Amount	Action taken		
TSRC (Nantong) Industries Ltd.	TSRC (Lux.) Corporation S.'a r.l.	Related parties	263,933	6.22	-		108,614	-

Note 1: Transactions within the Group were eliminated in the consolidated financial statements.

Note 2: Until March 14, 2019.

(ix) Trading in derivative instruments: Please refer to notes 6(b).

(x) Business relationships and significant intercompany transactions:

No.	Name of company	Name of counter-party	Existing relationship with the counter-party	Transaction details			
				Account name	Amount	Trading terms	Percentage of the total consolidated revenue or total assets
0	TSRC	TSRC (Nantong) Industries Ltd.	1	Sales revenue	49,236	The transaction is not significantly different from normal transactions, and the collection terms were about two months	0.17 %
0	TSRC	TSRC (Nantong) Industries Ltd.	1	Other income and expenses	49,882	"	0.17 %
0	TSRC	TSRC (Lux.) Corporation S.'a r.l.	1	Sales revenue	178,675	"	0.60 %
0	TSRC	Polybus Corporation Pte Ltd	1	Sales revenue	83,982	"	0.28 %
0	TSRC	TSRC (Nantong) Industries Ltd.	1	Other income and expenses	30,231	"	0.10 %
0	TSRC	Dexco Polymers L.P.	1	Accounts receivable	36,031	"	0.12 %
1	TSRC (Nantong) Industries Ltd.	TSRC (Shanghai) Industries Ltd.	3	Sales revenue	76,593	The transaction is not significantly different from normal transactions, and the collection terms were about two months	0.26 %
1	TSRC (Nantong) Industries Ltd.	Polybus Corporation Pte Ltd.	3	Sales revenue	427,649	"	1.44 %
1	TSRC (Nantong) Industries Ltd.	TSRC (Lux.) Corporation S.'a r.l.	3	Sales revenue	1,625,167	"	5.46 %
1	TSRC (Nantong) Industries Ltd.	TSRC (Lux.) Corporation S.'a r.l.	3	Accounts receivable	263,933	"	0.87 %
1	TSRC (Nantong) Industries Ltd.	TSRC-UBE (Nantong) Industries Ltd.	3	Other income and expenses	200,566	"	0.67 %
1	TSRC (Nantong) Industries Ltd.	Dexco Polymers L.P.	3	Sales revenue	237,940	"	0.80 %
2	Dexco Polymers L.P.	TSRC (Lux.) Corporation S.'a r.l.	3	Sales revenue	998,093	The transaction is not significantly different from normal transactions, and the collection terms were about three months	3.35 %
2	Dexco Polymers L.P.	TSRC (Lux.) Corporation S.'a r.l.	3	Accounts receivable	46,980	"	0.16 %
3	Shen Hua Chemical Industries Co., Ltd.	Polybus Corporation Pte Ltd.	3	Sales revenue	57,427	The transaction is not significantly different from normal transactions, and the collection terms were about two months	0.19 %

(Continued)

## TSRC CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

No.	Name of company	Name of counter-party	Existing relationship with the counter-party	Transaction details			
				Account name	Amount	Trading terms	Percentage of the total consolidated revenue or total assets
4	TSRC (Lux.) Corporation S'á r.l.	TSRC	2	Other income and expenses	47,643	The transaction is not significantly different from normal transactions, and the collection terms were about six months	0.16 %
5	TSRC (Shanghai) Industries Ltd.	TSRC (Nantong) Industries Ltd.	3	Sales revenue	38,155	The transaction is not significantly different from normal transactions, and the collection terms were about two months	0.13 %
0	TSRC	TSRC(USA) Investment Corporation	1	Note 4	460,995	-	-
0	TSRC	TSRC (Vietnam) Co., Ltd.	1	Note 4	399,529	-	-
0	TSRC	Dexco Polymers L.P.	1	Note 4	307,330	-	-

Note 1: Company numbering is as follows:

- (1) Parent company - 0.
- (2) Subsidiary starts from 1.

Note 2: The number of the relationship with the transaction counterparty represents the following:

- (1) 1 represents downstream transactions.
- (2) 2 represents upstream transactions.
- (3) 3 represents midstream transactions.

Note 3: For balance sheet items, over 0.1% of total consolidated assets, and for profit or loss items, over 0.1% of total consolidated revenue were selected for disclosure.

Note 4: TSRC's guarantees for bank loans of investees.

Note 5: The transactions within the Group were eliminated in the consolidated financial statements.

(b) Information on investees:

The following is the information on investees for the year ended December 31, 2018 (excluding information on investees in Mainland China):

Unit: thousand NTD/thousand USD/thousand EUR											
Name of Investor	Name of Investee	Address	Scope of business	Original cost		Ending balance		Maximum investment amount in 2018	Net income (losses) of investee	Investment income (losses)	Remarks
				December 31, 2018	December 31, 2017	Shares	Percentage of ownership				
TSRC	Trimurti Holding Corporation	Palm Grove House, P.O. BOX 438, Road Town, Tortola, D.V.I	Investment corporation	1,005,495	1,005,495	86,920,000	100.00 %	13,133,229	1,005,945	994,253	Subsidiary
TSRC	Hardison International Corporation	Palm Grove House, P.O. BOX 438, Road Town, Tortola, D.V.I	Investment corporation	109,442	109,442	3,896,305	100.00 %	860,521	109,442	66,590	Subsidiary
TSRC	Dymac Corporation	Palm Grove House, P.O. BOX 438, Road Town, Tortola, D.V.I	Investment corporation	38,376	38,376	1,161,004	19.48 %	174,404	38,376	73,827	Subsidiary (note 2)
TSRC	Taiwan Advanced Materials Corp	No 39, Dengong 1st Rd., Gangshan Dist., Keelung City, Taiwan (R.O.C.)	Production and sale of TPE	-	720,000	-	-	-	720,000	(4,523)	(note 3)
TSRC	TSRC (Vietnam) Co., Ltd.	8 VSIP II-A Street 31, Vietnam Singapore Industrial Park II-A, Tan Uyen Town, Binh Duong Province, Vietnam	Production and processing of rubber color masterbatch, thermoplastic elastomer and plastic compound products	278,280	-	-	100.00 %	274,395	278,280	(2,160)	Subsidiary
Trimurti Holding Corporation	Polybus Corporation Pte Ltd	100 Peck Seah Street #09-16 Singapore 079333	International commerce and investment corporation	2,007,749 (USD65,101)	2,007,749 (USD65,101)	105,830,000	100.00 %	8,026,341	2,007,749	684,472	Indirectly owned subsidiary
Trimurti Holding Corporation	TSRC (Hong Kong) Limited	15/F Boc Group Life Assurance Tower 136 Dies Voest Road Central	Investment corporation	2,392,564 (USD77,850)	2,392,564 (USD77,850)	77,850,000	100.00 %	3,233,983	2,392,564	107,041	Indirectly owned subsidiary
Trimurti Holding Corporation	Indian Synthetic Rubber Private Limited	Room No 702, Indian Oil Bhawan, 1 Sri Aurobindo Marg, Yusuf Sarai, New Delhi 110016, India	Production and sale of synthetic rubber products	905,794 (USD29,473)	861,907 (USD28,043)	222,861,375	50.00 %	363,141	905,794	450,083	200,977 -
TSRC (Hong Kong) Limited	TSRC (Lux.) Corporation S'á r.l.	34-36 avenue de la Liberte, L-1930, Luxembourg	International commerce and investment corporation	1,788,399 (EUR50,800)	1,788,399 (EUR50,800)	50,800,000	100.00 %	2,689,129	1,788,399	46,818	Indirectly owned subsidiary
TSRC (Lux.) Corporation S'á r.l.	TSRC (USA) Investment Corporation	2711 Centerville Road, Suite 400, County of New Castle, Wilmington, Delaware, USA	Investment corporation	2,152,847 (USD70,050)	2,152,847 (USD70,050)	100	100.00 %	2,617,903	2,152,847	43,108	Indirectly owned subsidiary
TSRC (USA) Investment Corporation	Dexco Polymers L.P.	12012 Wickchester Lane, Suite 280, Houston, TX, USA	Production and sale of TPE	5,919,698 (USD192,617)	5,919,698 (USD192,617)	-	100.00 %	1,560,956	5,919,698	230,238	Indirectly owned subsidiary
Hardison International Corporation	Trilon International Holdings Corporation	Palm Grove House, P.O. BOX 438, Road Town, Tortola, D.V.I	Investment corporation	1,537 (USD50)	1,537 (USD50)	50,000	100.00 %	115,984	1,537	7,580	Indirectly owned subsidiary

(Continued)

## TSRC CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Name of Investor	Name of Investee	Address	Scope of business	Original cost		Ending balance			Maximum investment amount in 2018	Net income (losses) of investee	Investment income (losses)	Remarks
				December 31, 2018	December 31, 2017	Shares	Percentage of ownership	Book value				
Hardison International Corporation	Dymax Corporation	Palm Grove House, P.O. BOX 438, Road Town, Tortola, B.V.I.	Investment corporation	147,488 (USD4,799)	147,488 (USD4,799)	4,798,566	80.52 %	742,210	147,488	73,827	59,446	Indirectly owned subsidiary
Dymax Corporation	Asia Pacific Energy Development Co., Ltd.	Cayman Islands	Consulting for electric power facilities management and electrical system design	346,822 (USD11,285)	346,822 (USD11,285)	7,522,337	37.78 %	408,632	346,822	139,268	52,616	-

Note 1: Amounts in foreign currencies were translated based on the exchange rate at the reporting date (USD1 to NTD30.733; EUR1 to NTD15.2047).

Note 2: TSRC directly owns 19.48% of Dymax's equity and indirectly owns 80.52% via Hardison International Corporation.

Note 3: Taiwan Advance Material Corp. has been liquidated in December, 2018.

Note 4: Transactions within the Group were eliminated in the consolidated financial statements.

(c) Information on investment in Mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

Name of Investee in Mainland China	Scope of business	Issued capital	Method of investment (Note 1)	Cumulative investment (amount) from Taiwan as of January 1, 2018	Investment flow during current period		Cumulative investment (amount) from Taiwan as of December 31, 2018	Net income (losses) of investee	Direct / indirect investment holding percentage	Maximum investment in 2018	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Remittance amount	Repatriation amount							
Shen Hua Chemical Industries Co., Ltd.	Production and sale of synthetic rubber products	1,266,814 (USD41,220)	(2)a	-	-	-	-	47,654	65.44 %	829,003	30,792 (note 2)	1,767,378	4,579,389
Changzhou Asia Pacific Co-generation Co., Ltd.	Power generation and sale of electricity and steam	709,932 (USD23,100)	(2)c	117,769 (USD3,832)	-	-	117,769 (USD3,832)	243,514	28.34 %	201,195	69,012 (note 3)	488,307	-
TSRC (Shanghai) Industries Ltd.	Production and sale of compounding materials	169,032 (USD5,500)	(2)b	120,473 (USD3,920)	-	-	120,473 (USD3,920)	63,134	100.00 %	169,032	63,134 (note 2)	426,603	-
Nantong Qix Storage Co., Ltd.	Storehouse for chemicals	92,199 (USD3,000)	(2)d	46,100 (USD1,500)	-	-	46,100 (USD1,500)	13,392	50.00 %	46,100	6,696 (note 2)	75,770	-
TSRC-JUBE (Nantong) Industries Ltd.	Production and sale of synthetic rubber products	1,229,320 (USD40,000)	(2)a	30,733 (USD1,000)	-	-	30,733 (USD1,000)	56,049	55.00 %	676,126	30,827 (note 2)	790,189	-
TSRC (Nantong) Industries Ltd.	Production and sale of TPE	3,230,807 (USD105,125)	(2)a	204,313 (USD6,648)	-	-	204,313 (USD6,648)	578,533	100.00 %	3,230,807	578,533 (note 2)	4,348,577	-
ARLANOXO-TSRC (Nantong) Chemical Industries Co., Ltd.	Production and sale of NBR	1,376,638 (USD44,800)	(2)a	-	-	-	-	79,204	50.00 %	688,419	39,602 (note 3)	219,835	-

Note 1: The method of investment is divided into the following four categories:

- (1) Remittance from third-region companies to invest in Mainland China.
- (2) Through the establishment of third-region companies then investing in Mainland China.
  - a. Through the establishment of Polybus Corporation Pte. Ltd. then investing in Mainland China.
  - b. Through the establishment of TSRC (HONG KONG) Limited then investing in Mainland China.
  - c. Through the establishment of Asia Pacific Energy Development Co., Ltd. then investing in Mainland China.
  - d. Through the establishment of Triton International Holdings Corporation then investing in Mainland China.
- (3) Through transferring the investment to third-region existing companies then investing in Mainland China.
- (4) Other methods: EX: delegated investments.

Note 2: The investment income (losses) were recognized under the equity method and based on the financial statements audited by the auditor of the Company.

Note 3: The investment income (losses) were recognized under the equity method and based on the financial statements audited by international accounting firms.

Note 4: Amounts in foreign currencies were translated based on the exchange rate at the reporting date (USD1 to NTD30.733).

Note 5: The transactions within the Group were eliminated in the consolidated financial statements.

(ii) Limitation on investment in Mainland China:

Company name	Accumulated investment amount in Mainland China as of December 31, 2018	Investment (amount) approved by Investment Commission, Ministry of Economic Affairs	Maximum investment amount set by Investment Commission, Ministry of Economic Affairs
TSRC	519,388 (USD16,900)	5,757,367 (USD187,335) (Note 2)	- (Note 1)

Note 1: In accordance with the "Regulations on Permission for Investment or Technical Cooperation in Mainland China" and the "Principles for Examination of Applications for Investment or Technical Cooperation in Mainland China" amended and ratified by the Executive Yuan on August 22, 2008, the Company met the criteria for operational headquarters under the Statute for Industrial Innovation and obtained approval from the Industrial Development Bureau, Ministry of Economic Affairs, on August 23, 2018. As it has an operational headquarters status, the Company is not subject to the limitation as to the amount of investment in Mainland China during the period from August 20, 2018 to August 19, 2021.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Note 2: This amount includes capital increase out of earnings, approved by the Investment Commission, MOEA.

Note 3: Amounts in foreign currencies were translated based on the exchange rate at the reporting date (USD1 to NTD30.733).

(iii) Significant transactions:

Related information is provided in note 13(a)x.

**(14) Segment Information**

(a) General information

There are three segments which should be reported: synthetic rubber, non-synthetic rubber, and others. The synthetic rubber segment produces and sells synthetic rubber and TPE products. The non-synthetic rubber segment produces and sells applied materials. The others segment provides storage service.

A reportable department is a strategic business unit providing different products and services. Because each strategic business unit requires different kinds of techniques and marketing tactics, it should be separately managed.

(b) Information on income and loss, assets, liabilities, basis of measurement, and the reconciliation for reportable segments

The Group uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The internal management report includes profit before taxation, but not including any extraordinary activity. Because taxation and extraordinary activity are managed on a group basis, they are not able to be allocated to each reportable segment. In addition, not all profit or loss from reportable segments includes significant non-cash items such as depreciation and amortization. The reportable amount is consistent with that in the report used by the chief operating decision maker.

The operating segment accounting policies are consistent with those described in note 4 "Significant Accounting Policies".

The Group treated intersegment sales and transfers as third-party transactions. They are measured at market price.

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Information on reportable segments and reconciliation for the Group is as follows:

	2018				
	Synthetic rubber	Non-synthetic rubber	Others	Adjustments or elimination	Total
Revenue:					
Revenue from external customers	\$ 28,059,773	1,691,445	-	-	29,751,218
Interest revenue	63,495	4,093	10,587	-	78,175
<b>Total revenue</b>	<b>\$ 28,123,268</b>	<b>1,695,538</b>	<b>10,587</b>	<b>-</b>	<b>29,829,393</b>
Interest expenses	\$ 161,061	9,216	-	(843)	169,434
Depreciation and amortization	\$ 948,506	52,729	30,444	(4,464)	1,027,215
Share of profit of equity-accounted investees (associates and jointly controlled entities)	\$ 1,305,978	-	59,312	(1,067,570)	297,720
<b>Reportable segment profit or loss</b>	<b>\$ 1,226,488</b>	<b>332,391</b>	<b>25,183</b>	<b>46,381</b>	<b>1,630,443</b>
<b>Reportable segment assets and liabilities (note)</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	2017				
	Synthetic rubber	Non-synthetic rubber	Others	Adjustments or elimination	Total
Revenue:					
Revenue from external customers	\$ 30,913,807	831,794	20,636	-	31,766,237
Interest revenue	42,302	2,729	6,091	-	51,122
<b>Total revenue</b>	<b>\$ 30,956,109</b>	<b>834,523</b>	<b>26,727</b>	<b>-</b>	<b>31,817,359</b>
Interest expenses	\$ 186,803	2,454	(1,108)	-	188,149
Depreciation and amortization	\$ 951,413	40,478	34,066	(8,183)	1,017,774
Share of profit of equity-accounted investees (associates and jointly controlled entities)	\$ 727,642	-	31,085	(918,693)	(159,966)
<b>Reportable segment profit or loss</b>	<b>\$ 938,391</b>	<b>7,590</b>	<b>166,096</b>	<b>25,058</b>	<b>1,137,135</b>
<b>Reportable segment assets and liabilities (note)</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Note: As the information on segment assets and liabilities was not provided to the chief operating decision maker, the information on segment assets and liabilities is not disclosed.

(c) **Geographical information**

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers, and segment assets are based on the geographical location of the assets.

<b>Geographical information</b>	<b>2018</b>	<b>2017</b>
Revenue from external customers:		
China	\$ 12,567,753	14,660,428
United States	3,887,293	3,737,572
Taiwan	2,975,814	3,624,916
Thailand	1,868,240	2,071,247
Japan	596,790	694,139
Other countries	7,855,328	6,977,935
<b>Total</b>	<b>\$ 29,751,218</b>	<b>31,766,237</b>

(Continued)

**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

<u>Geographical information</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Non-current assets:		
China	\$ 6,216,425	5,874,971
Taiwan	4,494,372	4,719,125
United States	2,295,249	2,408,113
Other countries	818,840	670,886
Total	<u>\$ 13,824,886</u>	<u>13,673,095</u>

Non-current assets include investment accounted for under the equity method, property, plant and equipment, investment property, intangible assets, and other assets, not including financial instruments, deferred tax assets, pension fund assets, and rights arising from insurance contract (non-current).

(d) Information about major customers

For the years 2018 and 2017, the Group had no major customer who constituted 10% or more of net sales.

