



# **TSRC CORPORATION**

## **Annual Report 2012**

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The name of any exchanges where the company's securities are traded offshore, and the method by which to access information on said offshore securities: No

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## **A report to shareholders**

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## A report to the shareholders

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To all shareholders:

The NBR Plant, established in the form of a joint venture between the Company and Lanxess AG completed its commissioning successfully in 2012, and operated and engaged in product input formally, and also received recognition from customers. The TSRC (Nantong) Industries Ltd. SEBS extension project invested in by the Company wholly has entered the mechanical completion stage. The SSBR R&D Project involved highvalue materials and was honored with the National Innovation Prize by the Ministry of Economic Affairs, commercializing products and seeking recognition from customers. For environmental protection, the Company has completed the certification of carbon footprint and water footprint for products, inspection of greenhouse gasses for the energy industry, and guidance and promotion of reduction of gas emissions as required under ISO/DIS 14067, and was also awarded some incentives by the Bureau of Energy, Ministry of Economic Affairs. Meanwhile, the Company also completed the CSR report the first time and disclosed the same to the public, and thereby helped promotion of the Company's corporate identity.

### Review of Operation 2012

#### The result of operation and budget settlement, financial position, and analysis of profitability

Given the sluggish growth in the automobile market of Mainland China, the output of synthetic rubber increased drastically and thereby resulted in intensive competition in the synthetic rubber market. The price of the primary raw materials, butadiene, dropped due to the weakened demand. However, the price declination range could not keep up with the price declination of synthetic rubber. To deal with the rigid challenge in the operating environment, the management team worked very hard to control the marketing, production, and optimal portfolio of purchased raw materials, and the entire operating performance still prevailed in the same trade.

The consolidated operating revenue was NT\$45.364 billion in 2012, less than that by 18% in 2011. The gross profit was NT\$6.030 billion and net operating income NT\$3.836 billion, less than those by 51% and 62% in 2011. The net income after tax upon settlement was NT\$2.574 billion, less than that by 55% in the previous year, and less than the budget by 40%. The net income after tax ratio was 7.01%, and EPS NT\$3.27.

#### Status of Research and Development

In order to deal with the future global development trend of tires, the Company kept developing the high-functional SSBR materials needed by environmental-protection and energy-saving tires, and was awarded the Taiwan SMEs Innovation Award by the Ministry of Economic Affairs in 2012. This year, the Company will continue to meet the customers' needs to develop new specifications, provide application solutions and expand the business scale. Meanwhile, the Company will also improve the TPE production process technology, improve the product quality, develop new products, establish a global technical service network layout, and become the most reliable supplier of customers in the same trade rapidly.

### Summary of the Business Plan in 2013

The Company expects that the global economy might grow slightly in 2013 and thereby drive the mild growth of demand for automobiles and synthetic rubber-related industries. Notwithstanding, the excess output of synthetic rubber might not be solved soon. The supply still exceeds the demand in the market currently. The price of the raw material, butadiene, is expected to remain stable due to the increase in the supply. The Company will raise the sales ratio of differentiated products and maintain the high rate of operations, and will also enhance the control over the cost of raw materials and energy by means of the strategic procurement programs of raw materials, so as to save the operating expenses and achieve the goal of profit taking throughout the whole year successfully.

The new investment programs, including Nantong SIS and India ESBR, will successively start to operate this year. The new construction project for Taiwan Advanced Materials Corporation will be continued. These programs and project are expected to resulting in the increase of the Company's operating revenue and profit.

#### The development strategy of the Company in the future

The Company will continue adhering to the management philosophy about sustainable operation, perform its corporate social responsibility, expand its investment based on the original operation, and be dedicated to developing the environment-protection and energy-saving materials and high-value products, in order to seek higher operating efficiency and continue achieving excellent operating performance as the reward for support and encouragement from all of the shareholders.

Chairman : Shao Yu Wang

## Company's profile



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## Company's profile

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### I. Company's profile

#### (1) Date of incorporation

July 27, 1973

#### (2) Company history:

Nov. 1973 Taiwan Synthetic Rubber Corp. was incorporated formally. Working with B. F. Goodrich technically, the synthetic rubber plant was established at Tashe Petrochemical Industrial Park, Kaohsiung, Taiwan capable of production of 100,000 MT/Yr. Styrene Butadiene Rubber (SBR).

Feb. 1977 SBR plant was established and succeeded in test run.

Jan. 1980 Working with Japan-based UBE to establish the synthetic rubber plant with capacity of 40,000 MT/Yr. BR.

June 1982 BR plant was established and succeeded in test run.

Sept. 1982 TSRC was listed on Taiwan stock exchange.

May 1984 Introduction of production technology of Phillips Petroleum Company. Establishment of the plant with capacity of 20,000 MT/Yr. TPE

Apr. 1988 Establishment, incoming and test run of the TPE plant

Sept. 1991 Installation and test run of the pilot plant

Sept. 1993 Installation and test run of the co-generation facilities

Jan. 1994 Awarded the certificate of ISO-9002

June 1994 TPE capacity was expanded to 48,000 MT/Yr. Test run was carried out.

Sept. 1994 Capacity of the BR plant expanded to 54,000 MT/Yr. Establishment of the compound plant

Oct. 1995 Participate in the establishment project for 50,000 MT/Yr. BR capacity with holding the equity of 12% in Thailand

Jan. 1996 Expansion of the capacity of TPE plant to 54,000 MT/Yr. ready for commercialization

March 1996 Incorporation of Shen Hua Chemical Industrial Co., Ltd in Nantong of Mainland China, and establishment of a 100,000 MT/Yr. SBR plant

Oct. 1996 Reinvest in Asia Pacific Energy Development Co., Ltd. to engage in the development of power locally and overseas.

Jan. 1997 Awarded the certificate of ISO-9001

Oct. 1997 Joint venture in the BR plant of Thailand-based TSL company ready for commercialization

Feb. 1998 Awarded the certificate of ISO-14001

June 1998 Investment in Taiwan High Speed Rail project

Oct. 1998 Establishment, incoming and test run of the SBR plant of Shen Hua Chemical Industrial in Mainland China

Aug. 1999 Renamed as "TSRC Corporation"

Aug. 2000 Incorporate the joint venture, Atlantic Polymers GmbH, with the local expert in Germany to market the Company's products in Europe

March 2001 Establishment of rubber business division Rubber Business, TPR business division Applied Polymers Business and reinvestment division investment business to formulate a responsibility accounting mechanism.

Aug. 2001 Establishment of the reinvested TSRC Shanghai ready for commercialization

Feb. 2002 New product of TPE plant, SEBS, succeeded in test run

Oct. 2003 Capacity of the reinvested Shen Hua Chemical Industrial upgraded to 120,000 MT/Yr.

Apr. 2004 Operation of the reinvested Nantong Qix Storage Co., Ltd. in Nantong of Mainland China

July 2004 Incorporation of TPE application research center by TPR business division

Aug. 2004 Establishment of Kangshan plant of TPR business division

Oct. 2004 Operation of the new office in Taipei City

Apr. 2005 Kangshan plant of TPR business division ready for commercialization

June 2005 Capacity of the reinvested Shen Hua Chemical Industrial expanded to 180,000 MT/Yr.

Dec. 2005 Establishment and operation of TPE application research center of Kangshan plant

Sept. 2006 Incorporate TSRC (Nantong) Industrial Ltd. in Nantong, Mainland China scheduled to establish the SEBS plant with yearly capacity of 20,000 tons

Sept. 2006 Incorporate TSRC (Jinan) Industrial Ltd. in Jinan, Mainland China scheduled to establish the compound material plant with yearly capacity of 5,000 tons

Dec. 2006 Incorporate TSRC-UBE(Nantong) Chemical Industrial Limited Corporation in Nantong, Mainland China scheduled to establish the BR plant with yearly capacity of 72,000 MT/Yr.

Sept. 2007 TSRC (Jinan) Industrial Ltd. launched mass production formally.

Nev. 2007 Wind up investing subsidiary, Atlantic Polymers GmbH in Germany.

July 2008 TSRC (Nantong) Industrial Ltd. Mass production formally.

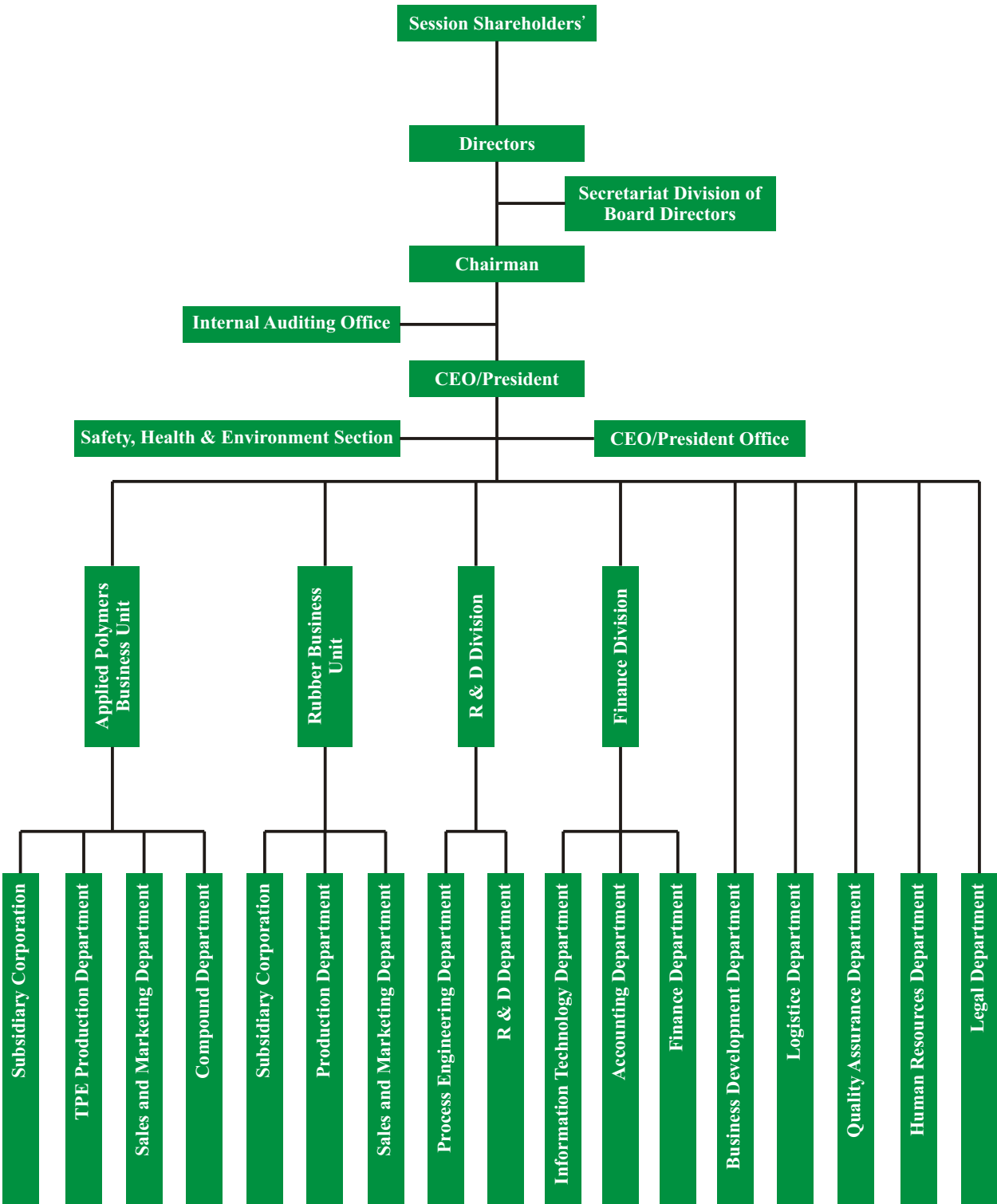
July 2008 Operation of the reinvested Polybus Corporation Pte.Ltd. in Singapore.  
 May 2009 Launched into mass production TSRC-UBE(Nantong) Chemical Industrial Company Limited  
 May 2009 Entered into an agreement on technology licensing with RUSTEP LLC/ OJSC SIBUR HOLDING of Russia.  
 Dec. 2009 Accredited with OHSAS 18001 & TOSHMS occupational safety and hygiene management system.  
 Apr. 2010 Launched an ESR joint venture project with capacity of 120,000 MT/Yr. in India together with Indian Oil Corporation Limited and Marubeni Corporation.  
 Jun. 2010 Launched the joint venture project to build Lanxess TSRC (Nantong) Chemical Industrial Co Ltd. (with yearly capacity of 30,000 MT/Yr. in Nantong of Mainland China Lanxess via a reinvested company.  
 Dec. 2010 The Company signed an agreement with Exxon Mobil to purchase all shares of the U.S. company Dexco Polymers. The Company has two main products: 32,000 MT of SIS and 30,000 MT of SBS.  
 Nov. 2011 The Company signed a joint venture agreement with the CPC Corporation and the Fubon Financial Holding Venture Capital Corp. to establish Taiwan Advanced Materials Corp. which produces the C-5 series of products.  
 Aug. 2012 Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd. Mass production.  
 Oct. 2012 Capacity of the reinvested SEBS TSRC (Nantong) Industrial Ltd. upgraded to 35,000 MT/Yr.

# Corporate governance report

# Corporate governance report

## I.Company's organization

Structure



## Operations of major departments/divisions

CEO/President Office	Set the overall management of the company long-term development strategy, integration and allocate resources and monitor the progress made in the implementation of each project, Promotion of corporate social responsibility and public relations matters.
Internal Auditing Office	Supervision, programming and execution of the company's internal control system
Safety, Health & Environment Section	Planning, development and implementation of comprehensive management of the health and safety and environmental protection management matters.
Rubber Business Unit	Responsible for planning and execution Rubber business development plans, SBR, BR, NBR products sales, and responsible for operating results and performance analysis.
Applied Polymers Business Unit	Responsible for the planning and execution of Applied Materials, business development plan, TPE and blending ingredients products production and sales, and responsible for the operating results and performance analysis.
Finance Division	Responsible for establishing financial policy and accounting principle and construct an information system integration planning.
R & D Division	Responsible for new product and new process development, planning and execution, product promotion services, patents and Know-How and responsible for process optimization, commercialization and standardization of engineering methods, planning and execution of the new project and production process improvement.
Human Resources Department	HR policies, development of organization, and administration of personnel and general affairs
Legal Department	Handle and maintain the legal affairs related to the company's interest and right
Finance Department	Planning and management of the business related to the company's funds, financing activities and reinvested enterprises and investors' activities
Accounting Department	Drafting of the company's accounting principle, management of tax affairs, costs and management of production of statement and planning of shareholders' affairs
IT Department	Information service, resource programming and development
Logistics Department	The development of the main raw material of global procurement strategy, extremely transnational optimal logistics design and integration of the Group's logistics supply power to create a cost-competitive, and strengthen the synergy of supply chain management.
Quality Assurance Department	Responsible for quality systems, customer complaint handling, and overall management of product safety laws and regulations, and industrial safety compliance.
Business Development Department	The implementation of the strategic plan developed by the Business Unit and responsible for the negotiations of business.
Rubber Business Unit Sales and Marketing Department	The development of medium-and long-term development strategy and implementation of the marketing strategy of the Company and its subsidiaries and other related products as SBR / BR sales plan.
Rubber Business Unit Production Department	Overall management of rubber business at domestic and abroad products factory manufacturing functions to establish the optimum production management system
Applied Polymers Business Unit Sales and Marketing Department	The development of medium-and long-term development strategy and execution of the Company and its subsidiaries TPE product marketing strategies and sales plans.

Applied Polymers Business Unit Sales TPE Production Department	The overall management of Taipol / the Vector / TPE factory manufacturing functions at domestic and abroad, to establish the optimum production management system.
Applied Polymers Business Unit Sales Compound Department	Planning and implementation of the T-Blend medium-and long-term sales strategies, development of new target markets, and production and marketing share Business, Supervision Gangshan Factory / Shanghai factory / the Jinan plant operations.
R & D Department	Core technology innovation and development of new opportunities for development, intellectual property management and patent management, and analytical instruments maintenance, management, and R & D related analysis.
Process Engineering Department	Process engineering & development, support or Since the implementation of the new plan project.

## II.Information on directors, supervisors, presidents, vice presidents and assitant vice presidents

### 1.Information on directors and supervisors(1)

Dec. 31, 2012

Job title	Name	Date of appointment	Term of office	Date of first appointment	Shares held when appointed		Shares currently held		Shares currently held by their spouses and children of minor age		Shares held in another person's name		Education degree	Position(s) concurrently held in the company and/or in any other companies	Other officers, directors or supervisors who are their spouses or relatives of 2 <sup>nd</sup> degree of relationship		
					Share(s)	Stake	Share(s)	Stake	Share(s)	Stake	Share(s)	Stake			Job title	Name	Relationship
Chairman	Hao Ran Foundation Statutory Representative: Shao Yu Wang	101.06.06	3	77.7.27	52,096,381 0	7.3% 0	57,306,019 0	7.3% 0	363,000	0.1%	0	0	Soochow University ROC/Fudan University PRC	Yung-an rental Corp. Taiwan insulation material industrial company. Director of BOA	No	No	No
Director	Hao Ran Foundation Statutory Representative: Liang Chang	101.06.06	3	77.7.27	52,096,381 0	7.3% 0	57,306,019 0	7.3% 0	0	0	0	0	Ph.D. Economics SUNY. USA	Chairman of Jardine Matheson Taiwan Central China Energy Development Co., Ltd. Vice Chairman of Global Financial Services Corporation. Director of Asia Pacific Energy Development co., Ltd. Taiwan Acceptance Corporation. Yulon Motor co., Ltd. Altek Corporation. Independent director of HSBC (Taiwan).	No	No	No
Director	Hao Ran Foundation Statutory Representative: Nita Ing	101.06.06	3	74.7.27	52,096,381 72,149	7.3% 0	57,306,019 79,363	7.3% 0	0	0	0	0	Economics, UCLA, USA	President of Hao RAN foundation. Continental Holdings Corp. GM of. CEC	No	No	No
Director	Hao Ran Foundation Statutory Representative: Tzu Wei Lee	101.06.06	3	91.9.2	52,096,381 907	7.3% 0	57,306,019 997	7.3% 0	0	0	0	0	M.Sc., Management Science National Chaotung University ROC	Director of Continental Land Development Limited and Tai Ho Development Investment Limited.	No	No	No
Director	Wei Dah Development Co., Ltd. Statutory Representative: Chiang, Chin-Shan	101.06.06	3	101.06.06	24,636,796 660	3.4% 0	27,100,475 726	3.4% 0	0	0	0	0	Master of Public Administration Institute National Chengchi University	Senior Advisor of Wei Dah Development Co., Executive director of Metropolis property management & maintenance Corporation. President of Metropolis Industry Co. Ltd.	No	No	No
Director	Wei Dah Development Co., Ltd. Statutory Representative :J. K. Loh	101.06.06	3	77.7.27	24,636,796 0	3.4% 0	27,100,475 0	3.4% 0	0	0	0	0	MLC SMU USA	President of Dah Chung Bills Finance Corp.	No	No	No
Director	Ching Shan Zhen Corporation Statutory Representative: D. Otto Cheng	101.06.06	3	77.7.27	572,906 362,166	0.1% 0.1%	630,196 398,382	0.1% 0.1%	100,099	0	104,500	0	Ph.D. Chemistry, MSU, USA	Independent supervisor of Ardentec Corporation Director of TSRC(USA) Investment Corporation	No	No	No
Independent Director	Robert Hung	101.06.06	3	101.06.06	0	0	0	0	0	0	0	0	Master Degree in Economics, Illinois Statement University United States	Independent Director of Wistron neweb Corp. Director of Coretronic Corporation	No	No	No
Independent Director	Ting Kai (Peter)Wu	101.06.06	3	92.7.27	0	0	0	0	0	0	0	0	M.Ph.D.Columbia U, HBS Exec ED USA	Chairman of IBT II Venture Capital Co., Ltd Independent Director of Taiwan Advanced Materials Corporation. Member of the Remuneration Committee Yung Zip Chemical Industries Co., Ltd. YungShin Global Holding Co., Ltd	No	No	No
Supervisor	Dragony Investment Corporation Statutory Representative : Miles Hsieh	101.06.06	3	92.7.27	21,864,438 0	3.1% 0	24,050,881 0	3.1% 0	0	0	0	0	BA, Soochow University ROC	Miles Hsieh CPA	No	No	No
Independent Supervisor	Chen, Tsai-Der	101.06.06	3	101.06.06	151	0	166	0	0	0	0	0	National Cheng Kung University statistics at the Department	Secretariat-General secretariat Division of Board of Continental Holdings Corporation	No	No	No

## Major shareholders of corporate shareholders

Dec. 31, 2012

Corporate shareholders	Major shareholders of corporate shareholders
Hao Ran Foundation Statutory	NA
Wei Dah Development Co.,Ltd.	Ching Shan Zhen Corporation (99.8%)
Ching Shan Zhen Corporation	Dugan Corp. BVI (99.8%)
Dragon Investment Corporation	Long Reign Holding Inc. BVI (99.8%)

## Major shareholders of major shareholders of corporate shareholders

Dec. 31, 2012

Corporate shareholders appellation	Major corporate shareholders
Ching Shan Zhen Corporation	Jode Fortune Enterprises Inc. (100%)
Dugan Corp. BVI	Long Reign Holdings Inc. (100%)
Long Reign Holding Inc. BVI	Auroral Limited. (100%)

## Independency of directors and supervisors(2)

Conditions  Name	Whether they possess work experience of more than five years and the following professional qualifications			Compliance with the circumstances for independency (Note)										Number of other public companies in which he/she assumes an independent director concurrently
	At least lecturers of business, law, finance or accounting departments or other relevant departments/divisions required by the Company's business of public and private colleges/universities	Judges, prosecutors, attorneys, CPAs, or other professional and technical personnel possessing licenses after passing national examinations as required by the Company's business	Experience in business, law, finance and accounting, and other work required by the Company's business	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
Shao Yu Wang	√	√	√	√		√	√	√	√	√	√	√		No
Liang Chang			√	√		√	√	√	√	√	√	√		1
Chiang, Chin-Shan			√	√		√	√	√	√	√	√	√		No
Nita Ing			√	√		√	√		√	√	√	√		No
Robert Hung			√	√	√	√	√	√	√	√	√	√	√	1
D. Otto Cheng			√	√		√	√	√	√	√	√	√		No
Ting Kai (Peter) Wu			√	√	√	√	√	√	√	√	√	√	√	1
Tzu Wei Lee			√	√		√	√	√	√	√	√	√		No
J. K. Loh	√	√	√	√		√	√	√	√	√	√	√		No
Miles Hsieh		√	√	√		√	√	√	√	√	√	√		No
Chen, Tsai-Der			√	√	√	√	√	√	√	√	√	√	√	No

(1) Who are not employees of the Company or its affiliates;

(2) Who are not directors/supervisors of the Company or its affiliates (excluding independent directors of the Company or its parent company, or subsidiaries in which the Company holds more than 50% of the shares with voting right directly and indirectly);

(3) Who are not directors/supervisors, or the directors'/supervisors' spouses or minor children, or natural person shareholders who possess more than 1% of the Company's total issued shares in the name of another person, or top ten natural person shareholders

(4) Who are not spouses, relatives within 2nd degree of relationship or lineal relatives within 3th degree of relationship of the personnel referred to in the preceding three subparagraphs;

(5) Who are not directors, supervisors or employees of corporate shareholders holding more than 5% of the Company total issued shares directly, or directors, supervisors or employees of top five corporate shareholders;

(6) Who are not directors, supervisors, managers or shareholders holding more than 5% of the shares of any specific companies or organizations which have financial or business transactions with the Company;

(7) Who are not the owners, partners, directors, supervisors, managers and spouses of the experts, proprietorship, partnership, companies or organizations that have provided financial, commercial and legal services and consultation to the company and its affiliates within the recent year; Excluding the remuneration committee referred to in Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.

(8) Who are not spouses or relatives within 2nd degree of relationship of the other directors

(9) Who are free from any of the circumstances referred to in Article 30 of the Company Act;

(10) Who are not the corporations or representatives defined in Article 27 of the Company Act;



## 2.Information on presidents, vice presidents and assistant vice presidents

Dec. 31, 2012

Job title	Name	Date of appointment	Shares held		Shares currently held by their spouses and children of minor age		Shares held in another person's name		Education degree and work experience	Position(s) concurrently held in the company and/or in any other companies	Managers who are their spouses or relatives of 2 <sup>nd</sup> degree of relationship		
			Share(s)	Stake	Share(s)	Stake	Share(s)	Stake			Job title	Name	Relationship
President	Wei-Hua Tu	95.09.15	440	0	0	0	0	0	TSRC Acting President, Marketing Dep. Asst. President. President of CBD / Accounting & Statistics, National Cheng Kung University ROC	President of Shen Hua chemical Industrial Ltd. TSRC(Nantong) Industrial Ltd. TSRC-UBE (Nantong) Chemical Industrial Limited Corporation Nantong Qix Sforage Co., Ltd. TSRC (Shanghai) Industrial Ltd., TSRC (Jinan) Industrial Ltd. Director of Polybus Corp. Pte. Ltd. TSRC (Hong Kong) Limited Trimurti Holding Corp. Hardison Int'l Corp. Dymas Corp. Triton Int'l Holdings Corp. TSRC Biotech Ltd. TSRC (USA) Investment Corp. Dexco Polymers Operating Company LLC TSRC(LUX.) Corporation S.'a.r.l.	No	No	No
Vice President Rubber Business Unit	Gino C. Y. Chen	98.04.01	337	0	0	0	0	0	TSRC Applied Polymers Business Div. President Kaohsiung factory manager. Marketing manager/National Central University ROC	Director of Shen Hua chemical Industrial Ltd. TSRC-UBE(Nantong) Chemical Industrial Limited Corporation. Taiwan Advanced Materials Corporation. Indian Synthtic Rubber Limited	No	No	No
Vice President Applied Polymers Business Unit	Hendrick Lam	93.07.16	0	0	0	0	0	0	Controller of Pacific industrial Co.,Ltd. Assistance president of First Pacific Co., Ltd. / Hong Kong Shan Kei Wan Indutrial School	Director of TSRC (Nantong) Industrial Ltd. TSRC (Shanghai) Industrial Ltd., TSRC (Jinan) Industries Ltd. Trimurti Holding Corp. Hardison International Corp. TSRC Biotech Ltd. TSRC (Hong Kong) Limited. Dymas Corporation. Dexco Polymers Operating Company LLC. TSRC(LUX.) Corporation S.'a.r.l. APED Taiwan Advanced Materials Corporation	No	No	No
Vice President Finance Division	John Chen	98.04.01	0	0	0	0	0	0	Asst VP, Wan Hai Lines Ltd. MBA, UC Irvine	Director of Shen Hua chemical Industrial Ltd. TSRC-UBE (Nantong) Chemical Industrial Limited Corporation. Polybus Corporation Pte. Ltd. Trimurti Holding Corp. Triton International Holdings Corporation. TSRC (Hong Kong) Limited. Dexco Polymers Operating Company LLC. TSRC(LUX.) Corporation S.'a.r.l.; Supervisor of TSRC (Nantong) Industrial Ltd. TSRC (Shanghai) Industrial Ltd. TSRC (Jinan) Industrial Ltd. Lanxess-TSRC(Nantong) Chemical Industrial Co., Ltd. Taiwan Advanced Materials Corporation	No	No	No
Vice President R & D Division.	Frank J. Chen	98.04.01	0	0	0	0	0	0	Deputy Director, Institute of Chemical Engineering, ITRI Project Leader, Exxon Chemical Co., PhD, High Molecular Science, Akron University, Ohio, USA	No	No	No	No
Asst. Vice President Applied Polymers Business Unit Sales and Marketing Department	Cheong Kow	98.09.01	0	0	0	0	0	0	Sika Corporation, Madison Heights, MI, Corporate Fellow / PhD, High Molecular Science, Akron University, Ohio, USA	No	No	No	No
Asst. Vice President Rubber Business Unit Production Department	R. L. Chiu	98.04.01	1,949	0	0	0	0	0	TSRC Kaohsiung factory manager. Vice President & Factory manager of Shen Hua Chemical Industrial Co., Ltd. / Dep.of CME, Chung Yuan Christian University ROC	No	No	No	No
Asst. Vice President Internal Auditing Office	Nick Lin	94.03.21	0	0	0	0	0	0	Assistant president of Prudential Life Insurance Company Graduated school of NTUST ROC	No	No	No	No
Asst. Vice President Applied Polymers Business Unit	Chin-Chang Ting	94.12.30	924	0	0	0	0	0	TSRC Kaohsiung factory manager President of Shen Hua chemical Industrial Ltd. Factory manager/ Chemical Industry, Tamkang University ROC	No	No	No	No

Job title	Name	Date of appointment	Shares held		Shares currently held by their spouses and children of minor age		Shares held in another person's name		Education degree and work experience	Position(s) concurrently held in the company and/or in any other companies	Managers who are their spouses or relatives of 2 <sup>nd</sup> degree of relationship		
			Share(s)	Stake	Share(s)	Stake	Share(s)	Stake			Job title	Name	Relationship
Asst. Vice President Applied Polymers Business Unit Compound Department Sales Section	Kuo Huang-Cheng	94.11.01	636	0	1,002	0	0	0	President of TSRC (Shanghai) Industrial Ltd. TSRC applied polymers manager / Chemistry, Tamkang University ROC	Director of TSRC (Shanghai) Industrial Ltd. TSRC (Jinan) Industries Ltd.	No	No	No
Asst. Vice President Information Technology Department	Eddy Chao	97.08.01	2,577	0	0	0	0	0	Director-General of Information Division, Siemens Telecommunication Systems Ltd./R&E Engineer of Alcatel Lucent Taiwan/Graduated from Department of Management Science of National Chiao Tung University	No	No	No	No
Asst. Vice President Rubber Business Unit Sales and Marketing Department	Alice Yuan	98.04.01	250	0	20	0	0	0	Manager of Tsrc Rubber Business Division Marketing & Sales Department/ Economics, Feng Chia University	Polybus Corporation Pte. Ltd. The sale and the market sell manager Director of Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd. Indian Synthetic Rubber Litimited	No	No	No
Asst. Vice President Quality Assurance Department	Justice Huang (Note)	98.04.01	12,608	0	0	0	0	0	Manager of Tsrc Quality Assurance Department / Dept of Chemical Engineering, ITRI.	No	No	No	No
Asst. Vice President Legal Department	Tsung-Han Lin	98.05.01	2,888	0	6,207	0	0	0	Legal Affairs Manager and acting Secretary General of the Board; LLM, Peoples' University of China, licensed attorney-at-law, passed the civil servant advanced level examination.	No	No	No	No
Asst. Vice President Business Development Department	Lee Pei (Lee) Chou,	98.09.10	1,260	0	0	0	0	0	Group manager, International Business Development, ITRI/PhD, High Molecular Science, Akron University, Ohio, USA	President of Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd. Director of Indian Synthetic Rubber Litimited	No	No	No
Asst. Vice President Research & Development Division	Jeff Tsai	100.12.01	20	0	4,818	0	0	0	Asst. Vice President of Walsin Technology Corporation, section chief of TSRC R&D, National Tsing Hua University Department of Chemical Engineering	No	No	No	No
Asst. Vice President Finance Department	Christine Liu	101.02.01	0	0	0	0	0	0	Special Assistant Financial Officer of Ubiquitous Corp. Shin Dah Development Corporation Limited /MBA of University of California Los Angeles	No	No	No	No
Asst. Vice President Human Resources Department	Alex Liu	101.04.01	0	0	0	0	0	0	Special Assistant to the General Manager of Taita Chemical Company, Ltd. Human Resources Director of Arima Photovoltaic & Optical Corp/Bachelor of Department of Labor Relations, Chinese Culture University	No	No	No	No

Note:Retired on January 2, 2013

(3) Remuneration paid to directors, supervisors, presidents and vice presidents

1. Directors' remuneration

Unit: NT\$1,000

Job title	Name	Directors remuneration								Percentage of the total of A, B, C and D accounting for income after tax	Relevant remuneration received by directors who are also employees								Acquisition Employee rights New shares equity (I)	Percentage of total of A, B, C, D, E, F and G accounting for income after tax	Whether remuneration from any reinvested companies other than subsidiaries is received?					
		Reward (A)		Pension fund (B)		Remuneration distributed from earnings (C)		Business execution expenses (D)			Salary, bonus and special allowance (E)		Pension fund (F)		Employees' distributed from earnings (G)							Acquisition of employee stock option certificates (H)				
		The company	Companies in Financial Report	The company	Companies in Financial Report	The company	Companies in Financial Report	The company	Companies in Financial Report		The company	Companies in Financial Report	The company	Companies in Financial Report	The company		Companies in Financial Report					The company	Companies in Financial Report			
															Cash dividend Amount	Stock dividend Amount	Cash dividend Amount	Stock dividend Amount								
Chairman	Hao Ran Foundation Statutory Representative: Shao Yu Wang	Total 7,500	Total 7,500	Total 0	Total 0	Total 17,835	Total 17,835	Total 3,395	Total 3,395	1.12%	1.12%	0	0	0	0	0	0	0	0	0	0	0	0	1.12%	1.12%	NO
Director	Hao Ran Foundation Statutory Representative: Nita Ing																									
Director	Hao Ran Foundation Statutory Representative: Tzu Wei Lee																									
Director	Hao Ran Foundation Statutory Representative: Liang Chang																									
Director	Hao Ran Foundation Statutory Representative																									
Director	Wei Dah Development Co., Ltd. Statutory Representative: Charles Huang																									
Director	Wei Dah Development Co., Ltd. Statutory Representative: Chiang Chin-Shan																									
Director	Wei Dah Development Co., Ltd. Statutory Representative: J. K. Loh																									
Director	Wei Dah Development Co., Ltd.																									
Director	Ching Shan Zhen Corporation Statutory Representative: D. Otto Cheng																									
Director	Ching Shan Zhen Corporation																									
Independent Director	Harry M. F. Huang																									
Independent Director	Robert Hung																									
Independent Director	Ting Kai (Peter) Wu																									

Remark: 1. Comprehensive re-election of directors and supervisors of the Company on June 6, 2012.

2. One leased vehicle and one driver assigned to the Chairman. The yearly rent for the leased vehicle is NT\$ 948 thousand and the remuneration paid to the driver is NT\$ 830 thousand.

### Escalation of remuneration

Escalation of remuneration paid to the various directors	Name of directors			
	Total (A+B+C+D)		Total (A+B+C+D+E+F+G)	
	The company	Companies in Financial Report	The company	Companies in Financial Report
2,000,000 below	Nita Ing Liang Chang Tzu Wei Lee D. Otto Cheng J. K. Loh Charles Huang Harry M. F. Huang Robert Hung Chiang, Chin-Shan Ching Shan Zhen Corporation	Please refer to the left column.	Nita Ing Liang Chang Tzu Wei Lee D. Otto Cheng J. K. Loh Charles Huang Harry M. F. Huang Robert Hung Chiang, Chin-Shan Ching Shan Zhen Corporation	Please refer to the left column.
2,000,000 (inclusive of 2,000,000)-5,000,000(does not contain 5,000,000)	Ting Kai (Peter) Wu Wei Dah Development Co., Ltd.	Please refer to the left column.	Ting Kai (Peter) Wu Wei Dah Development Co., Ltd.	Please refer to the left column.
5,000,000 (inclusive of 5,000,000)-10,000,000(does not contain 10,000,000)	Shao Yu Wang Hao Ran foundation	Please refer to the left column.	Shao Yu Wang Hao Ran foundation	Please refer to the left column.
10,000,000 (inclusive of 10,000,000)-15,000,000(does not contain 15,000,000)	—	—	—	—
15,000,000 (inclusive of 15,000,000)-30,000,000(does not contain 30,000,000)	—	—	—	—
30,000,000 (inclusive of 30,000,000)-50,000,000(does not contain 50,000,000)	—	—	—	—
50,000,000 (inclusive of 50,000,000)-100,000,000(does not contain 100,000,000)	—	—	—	—
100,000,000 above	—	—	—	—
Total	11	11	11	11

Note: 1.Comprehensive re-election of directors and supervisors of the Company on June 6, 2012.

2.Remuneration distributed from earnings means the remuneration to be distributed to directors from earnings of 2012 subject to the resolution made by the directors' meeting on March 14, 2013 and calculated based on the proportion of the distribution to directors/supervisors in last year. The details about the distribution have not yet been resolved before the publication date of the financial statement.

### 2.Supervisors' remuneration

Unit: NT\$1,000

Job title	Name	Supervisors remuneration						Percentage of the total of A, B, and C accounting for income after tax		Whether remuneration from any reinvested companies other than subsidiaries is received?
		Reward (A)		Remuneration distributed from earnings (B)		Business execution expenses (C)				
		The company	Companies in Financial Report	The company	Companies in Financial Report	The company	Companies in Financial Report	The company	Companies in Financial Report	
Supervisor	Dragony Investment Corporation Statutory Representative: Dragon Tai	0	0	Total 3,243	Total 3,243	Total 887	Total 887	0.16%	0.16%	No
Supervisor	Dragony Investment Corporation Statutory Representative: Miles Hsieh									
Supervisor	Dragony Investment Corporation									
Independent Supervisor	Miles Hsieh									
Independent Supervisor	Chen, Tsai-Der									

Escalation of remuneration paid to the various supervisors (note)	Name of supervisors	
	Total (A+B+C)	
	The company	Companies in Financial Report
2,000,000 below	Dragon Tai Miles Hsieh Chen, Tsai-Der Dragony Investment Corporation	Please refer to the left column.
2,000,000 (inclusive of 2,000,000)- 5,000,000(does not contain 5,000,000)	—	—
5,000,000 (inclusive of 5,000,000)- 10,000,000(does not contain 10,000,000)	—	—
10,000,000 (inclusive of 10,000,000)- 15,000,000(does not contain 15,000,000)	—	—
15,000,000 (inclusive of 15,000,000)- 30,000,000(does not contain 30,000,000)	—	—
30,000,000 (inclusive of 30,000,000)- 50,000,000(does not contain 50,000,000)	—	—
50,000,000 (inclusive of 50,000,000)- 100,000,000(does not contain 100,000,000)	—	—
100,000,000 above	—	—
Total	3	3

Note: 1.Comprehensive re-election of directors and supervisors of the Company on June 6, 2012.

2.Remuneration distributed from earnings means the remuneration to be distributed to supervisors from earnings of 2012 subject to the resolution made by the directors' meeting on March 14, 2013 and calculated based on the proportion of the distribution to directors/supervisors in last year. The details about the distribution have not yet been resolved before the publication date of the financial statement.

### 3.Presidents' and vice presidents' remuneration

Unit: NT\$1,000

Job title	Name	Salary (A)		Pension fund (B)		Bonus, special allowance (C)		Employees' dividend distributed from earnings (D)				Percentage of the total of A, B, C and D accounting for income after tax (%)		Acquisition of employee stock option certificates		Acquisition Employee rights New shares equity		Whether remuneration from any reinvested companies other than subsidiaries is received ?
		The company	Companies in Financial Report	The company	Companies in Financial Report	The company	Companies in Financial Report	The company		Companies in Financial Report		The company	Companies in Financial Report	The company	Companies in Financial Report	The company	Companies in Financial Report	
								Cash dividend Amount	Stock dividend Amount	Cash dividend Amount	Stock dividend Amount							
President	Wei-Hua Tu	Total 18,253	Total 18,253	0	0	Total 10,864	Total 10,864	Total 1,942	0	Total 1,942	0	1.21%	1.21%	0	0	0	0	No
Vice President	Gino C. Y. Chen																	
Vice President	Hendrick Lam																	
Vice President	Frank J. Chen																	
Vice President	John Chen																	

Remark:One leased vehicle and one driver assigned to the President. The yearly rent for the leased vehicle is NT\$ 566 thousand and the remuneration paid to the driver is NT\$ 506 thousand.

Escalation of remuneration paid to presidents and vice presidents	Name of presidents and vice presidents	
	The company	Companies in Financial Report
2,000,000 below	–	–
2,000,000 (inclusive of 2,000,000)-5,000,000(does not contain 5,000,000)	Gino C. Y. Chen, John Chen, Frank J. Chen	Please refer to the left column.
5,000,000 (inclusive of 5,000,000)-10,000,000(does not contain 10,000,000)	Hendrick Lam	Please refer to the left column.
10,000,000 (inclusive of 10,000,000)-15,000,000(does not contain 15,000,000)	Wei-Hua Tu	Please refer to the left column.
15,000,000 (inclusive of 15,000,000)-30,000,000(does not contain 30,000,000)	–	–
30,000,000 (inclusive of 30,000,000)-50,000,000(does not contain 50,000,000)	–	–
50,000,000 (inclusive of 50,000,000)-100,000,000(does not contain 100,000,000)	–	–
100,000,000 above	–	–
Total	5	5

#### 4.Names of managers distributed employees' bonus, and distribution thereof

Dec. 31, 2012

	Job title	Name	Stock dividend amount	Cash dividend amount (NT\$1,000)	Total (NT\$1,000)	Percentage of the total income after tax (%)
Managers	President	Wei-Hua Tu	0	Total 4,604	Total 4,604	0.18%
	Vice President	Gino C. Y. Chen				
	Vice President	Hendrick Lam				
	Vice President	Frank J. Chen				
	Vice President	John Chen				
	Asst. Vice President	Alice Yuan				
	Asst. Vice President	R. L. Chiu				
	Asst. Vice President	Justice Huang				
	Asst. Vice President	Kuo Huang -Cheng				
	Asst. Vice President	Chin-Chang Ting				
	Asst. Vice President	Tsung-Han Lin				
	Asst. Vice President	Nick Lin				
	Asst. Vice President	Eddy Chao				
	Asst. Vice President	Lee Pei (Lee) Chou				
	Asst. Vice President	Cheong Kow				
	Asst. Vice President	Jeff Tsai				
	Asst. Vice President	Christine Liu				
	Asst. Vice President	Alex Liu				

Note 1:Employees' bonus plan is according to the resolution of directors' meeting on March 14, 2013. The detailed allocation is not resolved as the day when annual report published.

(4)The percentage of remuneration paid by the Company and companies included in the consolidated statements to directors, supervisors, presidents and vice presidents of the Company over income after tax in recent two years, and the policy, criteria, composition, and process to set the remuneration, and the correlation thereof with operational performance:

Unit: NT\$1,000

Job title	2012		2011	
	Total remuneration	Percentage of over income after tax	Total remuneration	Percentage of over income after tax
Director	28,730	1.12%	46,446	0.81%
Supervisor	4,130	0.16%	7,650	0.13%
President and Vice President	31,059	1.21%	32,897	0.57%
Total	63,919	2.49%	86,993	1.51%

This company pays the Director, the Supervisor, President and Vice President pays policy, criteria, composition, process, to set the remuneration, and the correlation thereof with operational performance.

The relevant remuneration payable by the Company to directors and supervisors shall be subject to the resolution of the shareholders' meeting, while the remuneration payable to President and Vice President shall be subject to Management Rules Governing Salary, in order to maintain the competitive salary and remuneration standards in the market. Meanwhile, it is necessary to take the salary position applicable to the relevant job ranks in the same trade, company's overall operational performance and personal performance to define the salary portfolio consisting of monthly salary (including base pay, allowance and additional pay) and year-end bonus; principle of this salary policy, has no risk in the future.

### III. Status of corporate governance implementation

#### (1) Operation of the Board of Directors:

The Board of Directors held 8 meetings in 2012. The attendance of directors in the meetings is specified as follows:

Job title	Name	Frequency of actual attendance	Frequency of proxy attendance	Actual attendance rate (%)	Remarks(Note)
Chairman	Hao Ran Foundation Statutory Representative: Shao Yu Wang	8	0	100.00%	Reelection
Director	Hao Ran Foundation Statutory Representative: Nita Ing	5	3	62.5%	Reelection
Director	Hao Ran Foundation Statutory Representative: Tzu Wei Lee	8	0	100.00%	Reelection
Director	Hao Ran Foundation Statutory Representative: Liang Chang	6	2	75.00%	Reelection
Director	Wei Dah Development Co., Ltd. Statutory Representative: J. K. Loh	8	0	100.00%	Reelection
Director	Wei Dah Development Co., Ltd. Statutory Representative: Chiang, Chin-Shan	5	0	100.00%	New appointed
Director	Ching Shan Zhen Corporation Statutory Representative: D. Otto Cheng	8	0	100.00%	Reelection
Director	Wei Dah Development Co., Ltd. Statutory Representative: Charles Huang	2	1	66.67%	Leaving office
Independent Director	Ting Kai (Peter) Wu	8	0	100.00%	Reelection
Independent Director	Robert Hung	5	0	100.00%	New appointed
Independent Director	Harry M. F. Huang	3	0	100.00%	Leaving office

Other matters to be noted:

1. Matters referred to in Article 14.3 of the Securities and Exchange Act, and other matters resolved by the directors' meeting against which any independent director shows dissent or qualified opinion, which is included in a record or written statement - None.
2. Directors' avoidance of motions with conflict of interest - None.
3. Objectives for enhancement of functions of the Board of Directors in the current year and recent years and evaluation of execution thereof - None.
4. Comprehensive re-election of directors and supervisors of the Company on June 6, 2012.

#### (2) Information about supervisors' participation in the operation of the board of directors

The Board of Supervisor held 8 meetings in 2012. The attendance of supervisor in the meetings is specified as follows:

Job title	Name	Frequency of actual attendance	Frequency of proxy attendance	Actual attendance rate (%)	Remarks(Note)
Supervisor	Dragony Investment Corporation Statutory Representative: Miles Hsieh	5	0	100.00%	New appointed
Independent Supervisor	Chen, Tsai-Der	5	0	100.00%	New appointed
Supervisor	Dragony Investment Corporation Statutory Representative: Dragon Tai	3	0	100.00%	Leaving office
Independent Supervisor	Miles Hsieh	3	0	100.00%	Leaving office

Other matters to be noted:

#### 1. Formation and job responsibilities of supervisors:

- i. The communication between supervisors and the Company's employees and shareholders:

The Company's employees may communicate with supervisors via phone or email.

- ii. Communication between supervisors and the internal auditing supervisor and CPA:

Supervisors may communicate with the CPA about the Company's financial statements. The internal auditors may issue the auditor's report for supervisors' review irregularly.

2. If supervisors attending a directors' meeting state their opinion at the meeting, it is necessary to specify the date, session, motions and resolutions of the directors' meeting, and The Company's response to the supervisors' opinion - None.

Note: Comprehensive re-election of directors and supervisors of the Company on June 6, 2012.



(3) Status of implementation of corporate governance, reasons and remedies to nonconformity to the Corporate Governance Best-Practice Principles for TSE/OTC Listed Companies:

Items	Status	Reasons and remedies to nonconformity to the Corporate Governance Best-Practice Principles for TSE/OTC Listed Companies
<p>1. Equity structure and shareholders right</p> <p>(1) Handling suggestions and disputes from shareholders.</p> <p>(2) Control of the list of major shareholders and ultimate holders.</p> <p>(3) The establishment of risk control mechanism and firewall between the company and its affiliates.</p>	<p>(1) The list of major shareholders and the major parties behind such shareholders is disclosed pursuant to laws.</p> <p>(2) The company's board of directors has the auditing commission responsible for auditing the implementation of personnel, assets and finance between the company and affiliates. The inspecting unit will enforce relevant measure for internal audit and control, to ensure the control of risk and compliance with laws.</p>	No
<p>2. The organization of the Board of Directors and their duties</p> <p>(1) The position of independent director.</p> <p>(2) Regular review and assessment on the impartiality and independence of the certifying CPA.</p>	<p>(1) The Board has 2 independent directors. An independent director will convene the auditing commission.</p> <p>(2) The company will retain a new certifying CPA each year and replace the certifying CPA periodically to ensure the impartiality and independence of the CPA.</p>	No
3. Communication channels with stakeholders.	The company's relevant business departmental personnel will keep in touch with stakeholders. The supervisory management of the board of directors will take care of the stakeholders' opinion.	No
<p>4. Disclosures</p> <p>(1) The company has installed a website for the disclosure of its financial position and status of corporate governance.</p> <p>(2) The company also adopts other means for disclosure. (i.e. English web site, personnel dedicated to collect and disclose company information, establishment of a spokesperson policy, disclosure of the process of investor conference on company web site, etc.)</p>	<p>(1) The company's related information and annual reports will be posted on the company's website periodically, and important message will be released by the company's spokesman pursuant to laws.</p> <p>(2) The said enhancement of transparency of information and investors' services includes the expansion of links with revenue, quarterly statement, annual report and shareholders' relationship by means of public information system and the company's website.</p>	No
5. The establishment nominator or remuneration Commission and its Other function	The Board of Directors has established the corporate governance commission dedicated to promoting and programming the various corporate governance principles and to examining the Company's nomination and salary policies.	No

Items	Status	Reasons and remedies to nonconformity to the Corporate Governance Best-Practice Principles for TSE/OTC Listed Companies
<p>6.The company has instituted internal rules for corporate governance in accordance with the “Corporate Governance Best-practice Principles for TSE/OTC Listed Companies” , please explain clearly its operation with to subscribe the company to govern difference of the practice rules Different situation</p> <p>According to the “Corporate Governance Best-Practice Principles for TSE/OTC Listed Companies” , the company has instituted the various functional commissions such as independent directors, independent supervisors and audit commission. Meanwhile, the functions referred to in the Principles with respect to the functions of the various commissions are also fulfilled in the rules for institution of the various commissions subject to the job responsibility of the various commissions. The company also continues researching and promoting the various measures related to the corporate governance in accordance with the relevant requirements provided in the Principles.</p>		
<p>7.Other information essential for the understanding of corporate governance: “Like the staff rights and interests, the employee show loving care for, the investor to relate, the supplier to relate, right, the trustee and the supervisor, the risk management policy and the risk measurables, the customer policy, the company the formidable sponsor for the trustee and situation of the supervisory purchase liability insurance”</p> <p>(1)In order to enhance the safety performance, the Company continues holding education &amp; training and safety meetings to enable such interested parties as employees and interested parties to verify and thoroughly execute the safe working procedure. Meanwhile, in order to comply with the laws and policies, the Company strictly fulfills the internal operating procedures and the relevant environmental management systems to pursue the enhancement of the environmental performance with respect to R&amp;D, raw material, production process, equipment, storage and sale.</p> <p>(2)The company's directors and supervisors will take part in the relevant educational training courses held by the SFI and CGA irregularly. The Secretariat of Board of Directors will provide the directors and supervisors with the relevant educational training information to help them apply for continuing education);</p> <p>(3)The company's directors and supervisors will attend the directors' meetings on time. Where they fail to attend the meetings with reasons, they shall issue proxies to appoint other directors to attend the meetings on behalf of them.</p>		
<p>8.Explanation about the Company's self-assessment report or the corporate governance assessment report of any other commissioned professional organization, Should explain clearly it from to comment (either outside committee appraisal) the result, the main flaw (or suggestion) the item and the improvement situation:</p> <p>The Company strives to promote the various corporate governance principles; however, the Company has not yet conducted any self-assessment or appointed any external organizations to conduct the assessment.</p>		

(4)The salary reward committee information:

(i)Information on salary reward committee

The identity	Conditions	Whether they possess work experience of more than five years and the following professional qualifications			Compliance with the circumstances for independency (Note 2)								Number of other public companies in which he/she assumes an independent director concurrently	Remarks (Note 3)
		At least lecturers of business, law, finance or accounting departments or other relevant departments/divisions required by the Company's business of public and private colleges/universities	Judges, prosecutors, attorneys, CPAs, or other professional and technical personnel possessing licenses after passing national examinations as required by the Company's business	Experience in business, law, finance and accounting, and other work required by the Company's business	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)		
Director	Nita Ing			✓	✓		✓	✓		✓	✓	✓		No
Independent Director	Robert Hung			✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Independent Director	Ting Kai (Peter) Wu			✓	✓	✓	✓	✓	✓	✓	✓	✓	3	

Note1:Please identify the director, independent director, or others.

Note2:Please tick “ √ ” in the following blank boxes, if the member meets the following conditions within two years prior to the appointment and in the duration of the appointment.

- (1)Who are not employees of the Company or its affiliates;
- (2)Who are not directors/supervisors of the Company or its affiliates (excluding independent directors of the Company or its parent company, or subsidiaries in which the Company holds more than 50% of the shares with voting right directly and indirectly);
- (3)Who are not directors/supervisors, or the directors'/supervisors' spouses or minor children, or natural person shareholders who possess more than 1% of the Company's total issued shares in the name of another person, or top ten natural person shareholders
- (4)Who are not spouses, relatives within 2nd degree of relationship or lineal relatives within 3th degree of relationship of the personnel referred to in the preceding three subparagraphs;
- (5)Who are not directors, supervisors or employees of corporate shareholders holding more than 5% of the Company total issued shares directly, or directors, supervisors or employees of top five corporate shareholders;
- (6)Who are not directors, supervisors, managers or shareholders holding more than 5% of the shares of any specific companies or organizations which have financial or business transactions with the Company;
- (7)Who are not the owners, partners, directors, supervisors, managers and spouses of the experts, proprietorship, partnership, companies or organizations that have provided financial, commercial and legal services and consultation to the company and its affiliates within the recent year;
- (8)Who are free from any of the circumstances referred to in Article 30 of the Company Act;

Note3:If the member is a director, please specify whether the requirements referred to in Paragraph 5, Article 6 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter are met.

(ii)The operation of salary reward situation information

The Company's Remuneration Committee consists of 3 members. The term of office to be fulfilled by the existing members starts from June 13, 2012 until June 12, 2015. The Remuneration Committee has held 6 meetings in the latest year (B). The members' qualifications and attendance are stated as following:

Job title	Name	Frequency of actual attendance (B)	Frequency of proxy attendance	Actual attendance rate (%) (B/A)(Note)	Remarks
Convener	Ting Kai (Peter) Wu	6	0	100.00%	Reelection
Members	Nita Ing	6	0	100.00%	Reelection
Members	Robert Hung	3	0	100.00%	New appointed
Members	Harry M. F. Huang	3	0	100.00%	Leaving office

Other matters to be noted:

- 1.If the board of directors will decline to adopt, or will modify, a recommendation of the remuneration committee, please specify the date of the directors' meeting, session, contents of the motion, resolution of the directors' meeting and the Company's response action against the recommendation of the remuneration committee (if the remuneration passed by the directors' meeting exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified). -None.
- 2.Where a member has expressed a dissenting opinion or reservation with respect to a material resolution passed by the remuneration committee, and said dissenting opinion or reservation has been recorded or prepared as a written declaration, please specify the date of the committee meeting, session, contents of the motion, all members opinion and the response action against the members' opinion.-None.

(5)Fulfillment of social responsibility

Items	Status	Differences from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons therefor
<p>1.Implementation of Corporate governance</p> <p>(1)The Company established CSR policies or systems and reviewed the implementation status.</p> <p>(2)The Company established a specific/concurrent CSR function, implemented CSR tasks and reviewed the implementation status.</p> <p>(3)The Company organized regular training courses and promotion activities on corporate ethics for directors, supervisors and employees. The Company also combined the training with the employee performance evaluation system and established an effective and definite system of rewards and penalties.</p>	<p>(1)The company establishment through the Corporate Social Responsibility (CSR) Committee, continued to promote CSR activities and regularly convened Steering Committee meetings, to review the promotional status and strategy of CSR.</p> <p>(2)CSR the preparation is as follows: Under the Steering Committee headed by the President /CEO, five committees were established: the “Promotion Secretariat” , “Corporate Governance Committee” , “Employee Caring Committee” , “Environmental Protection and Energy Saving Committee” , “External Communications Committee” and “Social Caring Committee” , actively facing and controlling the CSR management benchmarks of the three aspects: economic, environmental and social.</p> <p>(3)In order to implement a corporate culture emphasizing good quality and maintain Company's image and enterprise ethics, the Company established the “Code of Dutiful Conduct “ for employees and the “Code of Ethical Conduct” for directors, supervisors and managers. And regularly reviewed the “Enterprise Mission, Objective and Values” and the “Core Functions” and “Management Functions” , requiring relevant staff to comply with them and including such rules into the employee annual performance review table. Any violation of a relevant rule will be subject to the rules for rewards and sanctions.</p>	<p>(1)No difference</p> <p>(2)No difference</p> <p>(3)No difference</p>
<p>2.Development of sustainable environment</p> <p>(1)We contributed to improving the utilization of all resources and used recycled material that brought minimum load to the environment.</p> <p>(2)We established a suitable environment management system according to the feature of the industry.</p> <p>(3)We set up a specific function or personnel to take the responsibility for the management of the environment.</p> <p>(4)We paid attention to the impact of the climate change on the operation of the company and established energy saving, carbon reduction and greenhouse gas minimization strategies.</p>	<p>(1)In terms of the manufacturing process, the concept of “maximizing energy resource” is introduced. Through the design of manufacturing process, the increase in efficiency and the recycling of raw materials, energy consumption required for production is minimized. We also successfully developed and produced new green products.</p> <p>(2)The Company continues to operate effectively, under the certifications of ISO 1400, environmental management system. the Company passed QC 080000 certification (hazardous material process flow management system).</p> <p>(3)The Company established dedicated environmental management organization in accordance with the law, with dedicated environmental management staff in charge of air pollution, waste water, waste and toxic materials.</p> <p>(4)Regarding greenhouse gas reduction planning, the Company supports the national reduction target and follows the relevant policies of the competent authority. In 2011, the Company passed 2005-2010 ISO 14064-1 certification ( greenhouse gas emission verification) , and the Company has passed the ISO/DIS 14067 (product carbon footprint) of three representative products and the certification of the product's water footprint, and defined and continued implementing certain energy-saving and carbon-reduction policies. Additionally, by establishing the carbon/water footprint inspection system, the Company was able to control the greenhouse gas emission ratio at the various stages during the life circle of a product to seek the chance to reduce carbon and also to mitigate the environmental burden by selecting low-carbon raw materials, supplies and spare parts when engaging in producing or developing any product.</p>	<p>(1)No difference</p> <p>(2)No difference</p> <p>(3)No difference</p> <p>(4)No difference</p>

Items	Status	Differences from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons therefor
<p>3. Protection of social commonweal</p> <p>(1) Whether the Company complied with the labor-related laws and regulations and also respected the basic principles for labors' human rights recognized internationally, protected employees' legal interest and right and employment policy from discrimination, and established the adequate management method and procedure, and fulfillment thereof.</p> <p>(2) We provided the employees with safe and healthy working environment and carried out regular training courses regarding safety and health of the employees.</p> <p>(3) Whether the Company established the periodic communication mechanism for employees, and notified employees of any changes in operation that might materially affect employees in reasonable manners.</p> <p>(4) We established and published consumer interest policies and provided consumers with a transparent and effective complaint procedure regarding our product and service.</p> <p>(5) We cooperated with our suppliers to enhance CSR jointly.</p> <p>(6) We participated in the community development as well as charity and public welfare activities by commercial activities, donation in-kind, corporate volunteer service, and other free professional services.</p>	<p>(1) The Company established labor conditions and implemented related business according to the Labor Standards Act. The Company hired new employees in accordance with its internal SOP and also gave comprehensive consideration about the job-seekers' expertise and work experience according to the requirements about job titles/qualifications, and never discriminated toward gender in the remuneration standard.</p> <p>(2) In addition to implementing related business according to applicable safety and health regulations, we went beyond the scope of the regulations and carried out regular health examination and for a health lecture for employees every year.</p> <p>(3) Group bargaining (about once per three years), labors and employer meeting (per quarter), labor union members communication meeting (whenever needed), strategic company development meeting (per year), presidents' symposium (whenever needed), workers welfare committee meeting (per quarter), responsible care committee meeting (once per two months), labor, safety &amp; health committee meeting (per quarter), employees unit safety communication meeting (per quarter), labor pension overseeing committee (per quarter), collaboration agreement organization (whenever needed), health promotion workshop (whenever needed), and employees' forum at the internal Portal site.</p> <p>(4) The Company is a supplier of synthetic rubber material. It is not a producer of end-user consumer products. Relevant customer complaints are handled through the customer complaint procedure, and official feedback is provided.</p> <p>(5) The Company carried out the QC 080000 (hazardous material process flow management system) project. Suppliers must provide raw materials and packages with concentrations of hazardous materials that are consistent with legislative requirements for the Company's production. Investigation of the suppliers' execution of CSR and the greenhouse gas project is also completed.</p> <p>(6) The Company spent a of neighboring fees and community fees, subsidizing water and electricity fees for the community residents, school scholarships and school lunches. In addition, the Company also regularly makes donations to public interest organizations to assist members of disadvantaged communities.</p> <p>In the future, the "Social Caring Committee" under the CSR Committee will actively reinforce the following:</p> <ol style="list-style-type: none"> <li>1. Sponsor and promote cultural, art and academic exchanges.</li> <li>2. Caring for disaster areas.</li> <li>3. Cooperation between companies and industries.</li> <li>4. Caring for disadvantaged communities.</li> <li>5. Green holidays or relevant official events.</li> </ol>	<p>(1) No difference</p> <p>(2) No difference</p> <p>(3) No difference</p> <p>(4) No difference</p> <p>(5) No difference</p> <p>(6) No difference</p>

Items	Status	Differences from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons therefor
<p>4.Enhancing the disclosure of information</p> <p>(1)We disclosed the information on the social responsibility with relevance and reliability.</p> <p>(2)We compiled CSR reports to disclose CSR implementation status.</p>		
<p>5.Where the company has established the CSR implementation policy according to the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies, describe the difference between the actual implementation and the regulations of the Principle.</p> <p>The Company established the CSR Committee in 2010. in the Company fully strengthened the depth of CSR activities in accordance with the Corporate Social Responsibilities Best Practice Principles for Publicly Listed Companies.</p>		
<p>6.Other important in formation that is helpful to understand the operation of CSR (e.g. the system, measure and their implementation that the company used for environmental protection, community participation, social contribution, social service, social commonweal, consumer's interests, human rights, safety and health, and other social reasonability activities):</p> <p>(1)External consultants establishing the Corporation Social Responsibility mechanism .</p> <p>(2)Continued Solution Styrene Butadiene Rubber (SSBR) is used in tire manufacturing. It can reduce oil consumption and waste gas emission by cars, reducing the impact on the environment.</p> <p>(3)Participating in the Taiwan Responsible Care Association and Chemical Awareness and Emergency Response Association, Taiwan, fulfilling member obligations and ensuring the safety and health of the community/society.</p> <p>(4)The Manufacturing Process Safety Management Guidelines, Product Management Guidelines, Contractor Safety Management Guidelines, Distribution Management Guidelines, Waste Management and Reduction Management Guidelines and Emergency Reaction Management Guidelines are established based on the safety standards of Taiwan Responsible Caring Association. The established sub-committees of “Manufacturing Process Safety” , “Product Regulations and Rules” , “Contractor Safety” , “Distribution Safety” , “Energy Saving and Reduction” , “Emergency Reaction” and “Legislation and Discipline” continued to operate. Plant “Safety, Health, Environmental Protection and Green” policies are implemented with a reinforced “Technology, Equipment, Staff and Community” policy.</p> <p>(5)Environmental accounting was established in 2010 (including safety, health and environmental protection expense). Statistics of several environmental accounting expenses for 2010 and 2011 have also been completed for the purpose of management and continuous improvement in environmental safety and health.</p> <p>(6)The Company continued to purchase Mid-autumn Festival gift boxes from the Children Are Us Foundation to help disadvantaged communities.</p> <p>(7)Through the association of companies in the industrial sector, the Company continues to promote neighboring and community support development events.</p>		
<p>7.If any product or CSR report of the company has passed the certification criteria of any certification body, please describe:</p> <p>The Company has passed the ISO/DIS 14067 (product carbon footprint) of three representative products and the certification of product water footprint. The B+CSR report 2012 was also certified by a fair third entity and released in public.</p>		

(6)Fulfillment of operation in good faith and measures taken

Fulfillment of operation in good faith

Items	Status	Differences from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons therefor
<p>1. Define the policy and program for operation in good faith</p> <p>(1) The Company has expressly stated the policy for operation in good faith in its regulations and public documents, as well as the undertaking of the board of directors and management rank to fulfill the same.</p> <p>(2) The status of the program for prevention of dishonest conduct as defined by the Company, and the status of SOPs under the program, ethical guidance and educational training.</p> <p>(3) The status of the preventive actions taken by the Company against offering and acceptance of bribery and provision of illegal political contributions in the operating activities involving high risk over dishonest conduct, when defining the preventive action against dishonest conduct.</p>	<p>All of the Company's directors/supervisors and employees complied with the "Ethical Code" and "Code of Professional Conduct" promulgated by the Company when performing their duty. Meanwhile, the Company also highlighted its determination to fulfill the operation in good faith in its enterprise cultural declarations about enterprise mission, enterprise view and core competency, and expressly defined the disciplinary procedure for violations in said codes in accordance with the Company's "Reward &amp; Punishment Policy".</p>	No
<p>2. Fulfillment of operation in good faith</p> <p>(1) The Company's business activities shall avoid trading with any person who had dishonest conduct record, and shall expressly provided the clauses about honest conduct in business contracts.</p> <p>(2) Status of the unit dedicated to (concurrent engaged in) boosting the enterprise's operation in good faith, and the status of supervision of the board of directors.</p> <p>(3) The status of the policy against conflict of interest defined by the Company and operation of the adequate complaining channels provided by the Company.</p> <p>(4) The valid accounting system established by the Company to fulfill the operation in good faith, operation of the internal control system, and audit of the internal auditors.</p>	<p>The Company ensured the transactions only with qualified suppliers according to the "Vendor Evaluation Management Rules", and stated when inquiring price with the suppliers that the Company would not trade with the company who has engaged in dishonest conduct.</p> <p>All of the Company's directors/supervisors and employees complied with the "Ethical Code" and "Code of Professional Conduct" promulgated by the Company when performing their duty. Meanwhile, the Company also highlighted its determination to fulfill the operation in good faith in its enterprise cultural declarations about enterprise mission, enterprise view and core competency, and expressly defined the reporting and disciplinary procedures for violations in said codes in accordance with the Company's "Reward &amp; Punishment Policy". The Company defines the audit plan pursuant to laws on a yearly basis to audit the Company's accounting system and internal control system.</p>	No
<p>3. The operation of the complaining channels and disciplinary/reporting systems against violations of the requirements about operation in good faith established by the Company.</p>	<p>The Company's "Reward and Punishment Policy" has expressly defined the reporting and disciplinary procedures for the violations.</p>	No



Items	Status	Differences from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons therefor
<p>4.Enhance the disclosure of information</p> <p>(1)The Company set up its official website to disclose the information about operation in good faith.</p> <p>(2)The Company adopted other ways to disclose information (e.g. set-up of an English website, and designation of person dedicated to collecting and disclosing the Company's information to be posted on the Company's website).</p>	The Company's intranet (EIP) has disclosed the "Code of Professional Conduct", which may be followed by all employees when performing their job duty.	No
<p>5.If the Company has defined its ethical corporate management practice in accordance with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies, please state the operation thereof and difference between the Principles and the practice defined by the Company: The Company executed the operation in accordance with the "Ethical Code" and "Code of Professional Conduct", and there is no difference between them and said Principles.</p>		
<p>6.Any other important information helpful to comprehend the Company's operation in good faith (e.g. the Company's determination and policy to propagate the Company's operation in good faith to trading counterparts, and the Company's invitation of the trading counterparts to attend the educational training programs and to discuss the amendments to the ethical corporate management practice defined by the Company): None</p>		

(7)Whether the Company defines any corporate governance principles and relevant rules-None.

(8)Other important information sufficient to enhance the corporate governance

#### 1.Advanced study of directors/supervisors

Job title	Name	Date of advanced study	Hosted by	Programs	Hours
Independent Director	Ting Kai (Peter) Wu	May 11, 2012	Corporate Governance Association (CGA)	Explanation and Workshop for Functions of Independent Directors of Listed Companies	3
Independent Director	Robert Hung	Dec. 27, 2012	Corporate Governance Association (CGA)	Financial Information and Management Decision Making	3
Corporate Director Representative	D. Otto Cheng	Nov. 19, 2012	Corporate Governance Association (CGA)	Directors/Supervisors and Cross-Border Remittance Taxation Analysis	3
Supervisors	Chen, Tsai-Der	Dec. 18, 2012	The TCGA	Normal Dispute Over Corporate Governance Upon Enterprise Merger and Acquisition	3
		Dec. 14, 2012	Corporate Governance Association (CGA)	Promotion Presentation for Compliance with Laws by Insider Equity Trading of Companies Engaged in Initially Public Offering	3
		Jul. 18, 2012	The TCGA	Best Introduction Course of Corporate Governance	3
		Aug. 15, 2012	Chinese National Association of Industry and Commerce, Taiwan (CNAIC)	Important Clauses in Company Law, Directors'/ Supervisors' Legal Liability and Risk Control and Liability Insurance, Financial Risk	9
		Nov. 23, 2012	Corporate Governance Association (CGA)	Effect and Response to Latest Amendments to Company Law and Securities and Exchange Act	3

#### 2.Important information treatment procedure

For setting up a viable system for handling materiality and disclosure, the Company has instituted the Procedure for Handling Materiality and release for the review of the public. The scope covers the directors, supervisors, managers, employees and other parties who access to material information of the Company due to his/her identity, occupation, or control relation to the Company. In addition, education on applicable laws or related education and training programs are provided.



(9)Information about enforcement of internal control system

1.Declaration of Internal Control

**TSRC Corporation**

Declaration of Internal Control System

Date: March 14, 2013

TSRC Corporation has conducted internal audit in accordance with its Internal Control System covering the period from 2012, and hereby declares as follows:

1.The company acknowledges and understands that, the establishment, enforcement and preservation of internal control system is the responsibility of the Board and managers, and that the company has already established such system. The mission is to reasonably ensure the effect and efficiency of operation (including profitability, performance and security of assets), the reliability of financial reporting and the compliance with relevant legal rules.

2.There is limitation inherent to internal control system, no matter how perfect the design is. As such, effective internal control system may only reasonably ensure the achievement of the aforementioned goals. Further, the operation environment and situation may vary, and hence the effectiveness of the internal controls system. The internal control system of the company features the self-monitoring mechanism. Once identified, any shortcomings will be corrected immediately.

3.The company judges the effectiveness of the internal control system in design and enforcement in accordance with the “Criteria for the Establishment of Internal Control System of Public Offering Companies” (hereinafter referred to as “the Criteria”) promulgated by the Securities and Futures Commission of the Ministry of Finance. The Criteria is instituted for judging the effectiveness of the design and enforcement of internal control system. There are five components of effective internal control as specified in the Criteria with which the procedure for effective internal control are composed by five elements, namely, 1.Control Environment 2. Risk Evaluation 3. Control Operation 4. Information and Communication and 5. Monitoring. Each of the elements in turn contains certain audit items, and shall be referred to the Criteria for detail.

4.The company has adopted the aforementioned internal control system for internal audit on the effectiveness of the design and enforcement of the internal control system.

5.Based on the aforementioned audit findings, the company holds that has reasonably preserved the achievement of the aforementioned goals within the aforementioned period of internal control (including the monitoring over the subsidiaries), including the effectiveness and efficiency in operation, reliability in financial reporting and compliance with relevant legal rules, and that the design and enforcement of internal control are effective.

6.This statement of declaration shall form an integral part of the annual report and prospectus on the company and will be announced. If there is any fraud, concealment and illegal practice discovered in the content of the aforementioned information, the company shall be liable to legal consequences under Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchanges Act.

7.This statement of declaration has been approved by the Board on March 14, 2013 with presence of 9 directors at unanimous consent

TSRC Corporation  
Chairman: Shao Yu Wang  
Acting President: Wei-Hua Tu

2.Public accountants retained to review the internal control system: No

(10)Where any penalties have been imposed in accordance with the laws, or the company has taken disciplinary action against its in-house personnel for violations of the company's internal control regulations, please specify the principal problems and correction actions taken in 2012 and until the annual report being published: No

(11) the major resolutions made by shareholders' regular meetings and directors' meetings in 2012 and until the annual report being published.

**1.The important resolutions made by shareholders' regular meetings in 2012:**

- (1) Recognition of the Company's business report and financial statements for 2011.
- (2) Recognition of the allocation of earnings for 2011.
- (3) Approved the Company's issuance of new shares pursuant to conversion of profit into capital.
- (4)Approval of the Company's TSRC's "Procedure for Asset Acquisition and Disposition" amendment.
- (5)Approval of the Company's "Loaning of Funds to Others Conducting Guideline" amendment.
- (6)Approved amendment to the Company's articles of association.
- (7)Re-elects 9 of directors (including 2 of independent directors) and 2 of supervisors.
- (8)Approval of limit of non-competition restrictions imposed on the Company's director should be lifted.

**2.Implementation of the resolutions made by shareholders' regular meetings:**

- (1) With respect to the allocation of earnings for 2011, the directors' meeting resolved that July 23, 2012 should be the ex-dividend record date and the cash dividends should and new share capital increase be allocated on August 30, 2012.

**3.Important resolutions made by directors' meetings**

proposal (April 25, 2012)Shareholders' regular meeting.

Resolved the Additional publication of the shareholders' meeting resolved to be called by the board of directors.

proposal (June 13, 2012)Shareholders' regular meeting.

Resolved the through elects Shao Yu Wang the trustee is chairman.

Resolved the Appointment of Remuneration Committee.

proposal (June 29, 2012)Shareholders' regular meeting.

Resolved the recording date for the distribution of shareholder dividends.

proposal (August 24, 2012)Shareholders' regular meeting.

Resolved the 2012 half-year financial report.

proposal (March 14, 2013)Shareholders' regular meeting.

Resolved that the shareholders' regular meeting for 2013 should be called.

Resolved that allocation of earnings for 2012 should be approved.

Resolved to pass the financial statement for 2012.

Resolved that the non-competition restrictions imposed on the Company's managers should be lifted.

(12)Whether any director or supervisor has shown dissent against any important resolution made by the Board of Directors, which is also included in a record or written statement in 2012 and until the annual report being published : None

(13)In 2012 and until the annual report being published the chairman, general manager, accounting manager, chief financial officer, internal audit officer and director of research and development and other Dismissal: None

## IV.Information about public expenses of CPA

### (1)Information about public expenses paid to certified public accountants and accounting firms

Unit: NT\$1,000

Name of the accounting firm	Name of the certified public accountant		Audited public expenses	Non-audited public expenses					CPA's audit period	Remarks
				System design	Industrial & commercial registration	Human resource	Other	Subtotal	Audit period	
KPMG Taiwan	Yang Mei Hsueh	Chen Ya Ling	4,891	0	60	0	1,055	1,115	From Jan. 1, 2012 to Mar. 31, 2012	Other non-audit fees mainly pay IFRS and tax-related services.
KPMG Taiwan	Yang Mei Hsueh	Chen, Chia-Hsiu	4,891	0	60	0	1,055	1,115	From Apr. 1, 2012 to Dec. 31, 2011	

Note:Personnel transfer of the CPA firm on April 1, 2012

Unit: NT\$1,000

Escalation of remuneration		Project	Audited public expenses	Non-audited public expenses	Total
1	2,000,000 below		0	1,115	1,115
2	2,000,000 (inclusive of 2,000,000)-4,000,000		0	0	0
3	4,000,000 (inclusive of 4,000,000)-6,000,000		4,891	0	4,891
4	6,000,000 (inclusive of 6,000,000)-8,000,000		0	0	0
5	8,000,000 (inclusive of 8,000,000)-10,000,000		0	0	0
6	10,000,000 above		0	0	0

(2)The Corporation information about public expenses paid to certified public accountants and accounting firms and audit and the non-audit government expense related information the relational enterprise has not reached 1/4th audit government expense.-No.

(3)Because the Company did not replace the CPA in the last two years.-No.

(4)Do audited public expenses decrease by more than 15% compared with those in the previous year? -No.

## V.Information about change of CPA

### (1)About former CPA

Date of change	Apr. 1, 2012
Cause and explanation	Internal personnel transfer of the CPA firm
Specify whether appointer or CPA terminates or rejects the appointment	Internal personnel transfer of the CPA firm: Not applicable.
The comments and causes for the issue of the audit report other than those with unqualified opinions within the latest two years	The unqualified opinion subsequent to revision was issued in 2011 due to the changes of accounting policy (changes of the pricing of inventory cost and adoption of the requirements about subsequent valuation of receivable accounts referred to in the amended Statement of Financial Accounting Standards No. 34).
Disagreement with the issuer	No
Other information to be disclosed (to be disclosed according to Item (1).4 of Article 10-5 of the Principles)	No

**(2)About succeeding CPA**

Firm	KPMG
CPA's name	Yang Mei Hsueh, Chen, Chia-Hsiu
Date of appointment	April 1, 2012
Accounting methods or principles with respect to certain transactions prior to the appointment, and inquiries and results as to the comments likely to be issued with respect to the financial statement	No
Succeeding CPA's written opinion towards the disagreement with the former CPA	No

(3)The former CPA's response to the issues referred to in Article 10.5.1 and Item 3 of Article 10.5.2 of the Regulations: Not applicable.

**VI.Chairman, president, or manager in charge of the company's finance or accounting who has within the previous year held a position at the accounting firm of a certified public accountant or any of its affiliated enterprises-No.**

**VII.Information on equity of directors, supervisors, managers and shareholders holding more than 10% of the shares**

Job title	Name	2012		February 28, 2013	
		Increase (decrease) in shares held	Increase (decrease) in pledged shares	Increase (decrease) in shares held	Increase (decrease) in pledged shares
Chairman	Shao Yu Wang	-	-	-	-
Director	Hao Ran Foundation Statutory	5,209,638	-	-	-
Corporate representative of the director	Nita Ing	7,214	-	-	-
Corporate representative of the director	Tzu Wei Lee	90	-	-	-
Corporate representative of the director	Shao Yu Wang	-	-	-	-
Corporate representative of the director	Liang Chang	-	-	-	-
Director	Wei Dah Development Co., Ltd.	2,463,679	-	-	-
Corporate representative of the director	J. K. Loh	-	-	-	-
Corporate representative of the director	Chiang, Chin-Shan	66	-	-	-
Director	Ching Shan Zhen Corporation	58,000	-	-	-
Corporate representative of the director	D. Otto Cheng	36,216	-	-	-
Independent Director	Ting Kai (Peter) Wu	-	-	-	-
Independent Director	Robert Hung	-	-	-	-
Supervisor	Dragony Investment Corporation	2,186,443	(6,500,000)	-	-
Corporate representative of the supervisor	Miles Hsieh	-	-	-	-
Independent Supervisor	Chen, Tsai-Der	15	-	-	-

Job title	Name	2012		February 28, 2013	
		Increase (decrease) in shares held	Increase (decrease) in pledged shares	Increase (decrease) in shares held	Increase (decrease) in pledged shares
President	Wei-Hua Tu	(50,821)	–	–	–
Vice President	Gino C. Y. Chen	(11,970)	–	–	–
Vice President	Hendrick Lam	–	–	–	–
Vice President	John Chen	–	–	–	–
Vice President	Frank J. Chen	–	–	–	–
Asst. Vice President	Chin-Chang Ting	84	–	–	–
Asst. Vice President	Kuo Huang-Cheng	60	–	–	–
Asst. Vice President	Nick Lin	–	–	–	–
Asst. Vice President	R. L. Chiu	177	–	–	–
Asst. Vice President	Eddy Chao	234	–	–	–
Asst. Vice President	Lee Pei (Lee) Chou	(5,340)	–	–	–
Asst. Vice President (Note 2)	Justice Huang	1,146	–	–	–
Asst. Vice President	Alice Yuan	22	–	–	–
Asst. Vice President	Tsung-Han Lin	262	–	–	–
Asst. Vice President	Cheong Kow	–	–	–	–
Asst. Vice President	Jeff Tsai	1	–	–	–
Asst. Vice President	Christine Liu	–	–	–	–
Asst. Vice President	Alex Liu	–	–	–	–

Note: 1.Comprehensive re-election of directors and supervisors of the Company on June 6, 2012.

2.Retired on January 2, 2013

3.The trading counterparts to whom the equity of the said directors, supervisors, managers and major shareholders is transferred and pledged are not related parties; therefore, no information about equity transfer and pledge may be disclosed.

# VIII.Information about top ten shareholders being the related party as defined in Statement of Financial Accounting Standards No. 6

July 23, 2012

Name	Share(s) held personally		Shares currently held by their spouses and children of minor age		Shares held in another person's name		Names and relationship of any of the top ten shareholders and their spouses or relatives of 2 <sup>nd</sup> degree of relationship who are related parties defined in the Statement of Financial Accounting Standard No. 6		Remarks
	Share(s)	Stake	Share(s)	Stake	Share(s)	Stake	Name/name	Relationship	
Panama Banco industrial company	66,213,731	8.4%	0	—	0	—	N0	N0	
Hao Ran Foundation Statutory	57,306,019	7.3%	0	—	0	—	Nita Ing	Chairman of the Foundation	
Hao Ran Foundation Statutory Chairman: Shao Yu Wang	0	—	363,000	0.1%	0	—	N0	N0	
Hao Ran Foundation Statutory Chairman:Liang Chang	0	—	0	—	0	—	N0	N0	
Hao Ran Foundation Statutory Chairman:Nita Ing	79,363	—	0	—	0	—	Hao Ran foundation Statutory	Chairman of the Foundation	
Hao Ran Foundation Statutory Chairman:Tzu Wei Lee	997	—	0	—	0	—	N0	N0	
Cathay life insurance Co. Ltd. Chairman: Cai Hong Tu	35,773,424	4.5%	0	—	0	—	N0	N0	
Tamerton Group Limited	32,931,565	4.2%	0	—	0	—	N0	N0	
Metacity Development Corproation Chairman: Zeng Wang Mei-Xiang	28,982,289	3.7%	0	—	0	—	N0	N0	
Fubon Life Insurance Co. Ltd. Chairman: Cheng Pen Yuan	28,501,000	3.6%	0	—	0	—	N0	N0	
Wei Dah Development Co., Ltd.	27,100,475	3.4%	0	—	0	—	N0	N0	
Wei Dah Development Co., Ltd. Chairman: Chiang, Chin-Shan	726	—	0	—	0	—	N0	N0	
Wei Dah Development Co., Ltd. Chairman: J. K. Loh	0	—	0	—	0	—	N0	N0	
Dragony Investment Corporation	24,050,881	3.1%	0	—	0	—	N0	N0	
Dragony Investment Corporation Chairman: Miles Hsieh	0	—	0	—	0	—	N0	N0	
Labor Insurance Fund	15,709,826	2.0%	0	—	0	—	N0	N0	
Miriton Investment Limited	13,477,284	1.7%	0	—	0	—	N0	N0	

## IX. Shares and shareholdings of the Company, Directors, Supervisors, Managerial Staff, and Direct and Indirect Investments of the Company in Affiliated Companies

Reinvested enterprises (Note 1)	Investment by the company		Investment by directors, supervisors, managers and enterprises directly or indirectly controlled by the company		Total investment	
	Share(s)	Stake	Share(s)	Stake	Share(s)	Stake
Thai Synthetic Rubbers Co., Ltd.	599,999	5.42%	837,552	7.57%	1,437,551	12.99%
Taiwan High Speed Rail Corporation	50,000,000	0.77%	4,405,147	0.07%	54,405,147	0.84%
Trimurti Holding Corporation	86,920,000	100.00%	–	–	86,920,000	100.00%
Hardison International Corporation	3,896,305	100.00%	–	–	3,896,305	100.00%
Dymas Corporation	1,161,004	19.48%	4,798,566	80.52%	5,959,570	100.00%
Evergreen Steel Corporation	12,148,000	2.97%	12,823,245	3.14%	24,971,245	6.11%
Hsin-Yung Enterprise Corp.	5,657,000	3.90%	1,256,652	0.87%	6,913,652	4.77%
Taiwan Advanced Materials Corp.	72,000,000	48.00%	–	–	72,000,000	48.00%

Note 1: the company's long-term investment

## **Status of Fundraising**



## Status of Fundraising

### I. Company's capital and shares

#### (1) Source of capital and types of shares

March 22, 2012

Year/ month	Issue price (NT\$)	Authorized stock capital		Paid-in capital		Remarks		
		Shares(s) (1,000 shares)	Amount (NT\$1,000)	Shares(s) (1,000 shares)	Amount (NT\$1,000)	Source of stock capital	Property other than cash offset against capital	Other
July 1973	10	20,000	200,000	5,100	51,000	Incorporation of company		
Jun 1974	10	20,000	200,000	13,200	132,000	Increase of 51,000,000 NTD	Technical cooperation remuneration transferred to capital stock 30,000,000 NTD	
Feb 1975	10	20,000	200,000	20,000	200,000	Increase of 61,928,000 NTD	Technical cooperation remuneration transferred to capital stock 6,072,000 NTD	
Nov 1975	10	40,000	400,000	30,000	300,000	Increase of 100,000,000 NTD		
Dec 1975	10	40,000	400,000	40,000	400,000	Increase of 100,000,000 NTD		
Jul 1976	10	60,000	600,000	50,000	500,000	Increase of 100,000,000 NTD		
Apr 1977	10	60,000	600,000	54,000	540,000	Increase of 40,000,000 NTD		
Jul 1980	10	110,000	1,100,000	73,238	732,380	14,000,000 NTD transferred from earnings 52,380,000 NTD transferred from capital		
Sep 1981	10	110,000	1,100,000	92,300	923,000	Increase of 16,980,000NTD 173,640,000 NTD transferred from earnings		Issue date: May 17, 1981
Apr 1982	10	120,000	1,200,000	116,000	1,160,000	Increase of 135,470,000 NTD 101,530,000 NTD transferred from capital		Listed date: September 25, 1982
Oct 1983	10	121,800	1,218,000	121,800	1,218,000	58,000,000 NTD transferred from capital		
Sep 1984	10	145,000	1,450,000	127,890	1,278,900	60,900,000 NTD transferred from capital		
Aug 1985	10	145,000	1,450,000	140,679	1,406,790	63,945,000 NTD transferred from earnings 63,945,000 NTD transferred from capital		
Sep 1986	10	164,200	1,642,000	164,200	1,642,000	Increase of 80,463,000NTD 119,577,000 NTD transferred from earnings 35,170,000 NTD transferred from capital		
Jul 1987	10	201,966	2,019,660	201,966	2,019,660	344,820,000 NTD transferred from earnings 32,840,000 NTD transferred from capital		
Aug 1988	10	238,319	2,383,199	238,319	2,383,199	363,539,000 NTD transferred from earnings		
Aug 1989	10	274,068	2,740,679	274,068	2,740,679	357,480,000 NTD transferred from earnings		
Oct 1991	10	306,956	3,069,560	306,956	3,069,560	328,881,000 NTD transferred from earnings		
Aug 1995	10	550,000	5,500,000	369,700	3,697,000	627,440,000 NTD transferred from earnings		
Jul 1997	10	550,000	5,500,000	502,900	5,029,000	1,332,000,000 NTD transferred from earnings		
Jul 1998	10	750,000	7,500,000	580,487	5,804,870	775,870,000 NTD transferred from earnings		Authorized stock capital includes convertible cor- porate bonds totaling 10 million shares
Jul 1999	10	750,000	7,500,000	609,511	6,095,114	290,244,000 NTD transferred from earnings		June 29, 1999 Approved by the official letter under (88) Tai-Tsai-Cheng (1) No. 59287

Year/ month	Issue price (NT\$)	Authorized stock capital		Paid-in capital		Remarks		
		Shares(s) (1,000 shares)	Amount (NT\$1,000)	Shares(s) (1,000 shares)	Amount (NT\$1,000)	Source of stock capital	Property other than cash offset against capital	Other
Jun 2006	10	750,000	7,500,000	649,909	6,499,095	403,981,000 NTD transferred from earnings		Approval by letter under Chin-Kuan-Cheng-Yi-Tze No. 0950124967 dated June 20, 2006
Jun 2011	10	900,000	9,000,000	714,900	7,149,004	649,909,000 NTD transferred from earnings		Approval by letter under Chin-Kuan-Cheng-Yi-Tze No. 1000028593 dated June 22, 2011
Jun 2012	10	900,000	9,000,000	786,390	7,863,904	714,900,000 NTD transferred from earnings		Approval by letter under Chin-Kuan-Cheng-Yi-Tze No. 1010027239 dated June 19, 2012

March 20, 2013

Type of shares	Authorized stock capital (shares)			Remarks
	Listed Shares	Non-listed shares	Total	
Common stocks	786,390,456	113,609,544	900,000,000	—
Preferred stocks	—	—	—	=

Information related to general report system-not applicable

## (2)Shareholders' structure

July 23, 2012

Shareholder's Structure Quantity	Government Agencies	Financial Institutions	Other juridical persons	Individual	Foreign Institutions & Natural Persons	Total
Number of persons	9	24	195	60,453	416	61,097
Share(s)	28,980,827	86,764,833	188,476,063	229,162,207	253,006,526	786,390,456
Stake(%)	3.69	11.03	23.97	29.14	32.17	100.00

**(3)Equity diffusion**

Par value NT\$10/ July 23, 2012

Range of shares held	Number of shareholders	Shares held	Stake (%)
1-999	26,359	8,125,015	1.03
1,000-5,000	24,083	50,576,424	6.43
5,001-10,000	5,227	34,932,059	4.44
10,001- 15,000	2,375	28,160,931	3.58
15,001- 20,000	752	12,896,161	1.64
20,001- 30,000	897	21,497,527	2.73
30,001- 50,000	602	22,906,010	2.91
50,001- 100,000	378	25,346,395	3.22
100,001-200,000	199	27,536,113	3.50
200,001-400,000	98	27,473,542	3.49
400,001-600,000	38	18,682,534	2.38
600,001-800,000	23	15,694,135	2.00
800,001-1,000,000	11	9,793,911	1.25
1,000,001 above	55	482,769,699	61.40
Total	61,097	786,390,456	100.00

Preferred stocks shares- The company does not issue preferred stocks shares.

**(4)Major shareholders**

July 23, 2012

Shareholders	Shares	Shares held	Stake (%)
Panama Banco industrial company		66,213,731	8.4%
Hao Ran foundation Statutory		57,306,019	7.3%
Cathay life insurance Co. Ltd.		35,773,424	4.5%
Tamerton Group Limited		32,931,565	4.2%
Metacity Development Corproation		28,982,289	3.7%
Fubon Life Insurance Co. Ltd.		28,501,000	3.6%
Wei Dah Development Co., Ltd.		27,100,475	3.4%
Dragony Investment Corporation		24,050,881	3.1%
Labor Insurance Fund		15,709,826	2.0%
Miriton Investment Limited		13,477,284	1.7%

**(5)Market price per share, net worth per share, earnings per share, dividends per share and related information**

Unit: NT

Item		Fiscal year	2012	2011	As of Feb. 28, 2013
Market price per share	Maximum		81.70	91.00	62.80
	Minimum		51.50	57.60	55.60
	Average		68.70	76.57	59.20
Net worth per share	Before distribution		20.10	24.01	–
	After distribution		(Note 1)	19.01	–
Earnings per share	Weighted average share(s)		786,390,456	714,900,415	786,390,456
	EPS	Before adjustment	3.27	8.03	–
		After adjustment	–	7.30	–
Dividends per share	Cash dividend (Note 1)		2.60	5.00	–
	Dividends (Note 1)	Dividend distributed from earnings	–	1.00	–
		Dividend distributed from additional paid-in capital	–	–	–
	Cumulative outstanding dividends (Note 2)		–	–	–
Cash dividend yield (note 5)	Price-earnings (P/E) ratio (Note 3)		21.01	9.54	–
	Price-dividend (P/D) ratio (Note 4)		26.42	15.31	–
	Cash dividend yield (note 5)		3.8%	6.5%	–

Note 1:The dividends for 2012 have not yet resolved by the shareholders' meeting.

Note 2:Requirements for issue of securities provide that the unappropriated dividends in the current year may be cumulative and distributed in the year of earnings, and only the outstanding cumulative dividends in the current year shall be disclosed.

Note 3:P/E ratio=average closing price per share/EPS

Note 4:P/D ratio=average closing price per share/Cash dividend per share

Note 5:Cash dividend yield=cash dividend per share/average closing price per share

**(6)Dividend policy and implementation status**

**1.Dividend policy**

The business operated by the company has matured and been stable, and the company is orienting itself towards globalization and diversification. In order to cope with the company's long-term programming to ensure the perpetual growth of the enterprise, the company sets the dividend policy as following: the profit of annual final account, if any, shall deduct the tax and make up the loss in past years, then withdraw 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, if any, plus the unappropriated earnings in the previous period, which shall be distributed in the following manners:

- 1)97% for shareholders' dividend
- 2)1% for directors'/supervisors' remuneration
- 3)2% for employees' bonus

The cash dividend distributed, if any, shall not less than 20%. Share dividend shall not exceed 80%. If the shareholders' dividends are less than 0.5 per share based on the above calculation, the Company may keep the distributable profit without distribution.

The proposal for the said distribution of earning shall be submitted by the board of directors to the shareholders' meeting for ratification.

The rules for directors'/supervisors' remuneration and employees' bonus shall be subject to the resolution of the directors' meeting.

**2.Distribution of dividends scheduled at the shareholders' regular meeting**

Cash dividends to be distributed are NT\$2.6 per share.

**(7)Effect upon business performance and EPS of stock dividend distribution plans drafted at the shareholders' regular meeting:Not applicable.**

**(8)Employees' bonus and directors'/supervisors' remuneration**

1.Percentage or scope of employees' bonus and directors'/supervisors' remuneration referred to in the company's articles of incorporation Please refer to the dividend policy.

2.The Company determined to pay cash dividends for fiscal year 2012. The basis of, and the actual estimation of employee bonus, remuneration to directors and supervisors are in compliance with the Articles of Incorporation. There is no difference in the amount between the actual and the projected payment.

3.Information on resolution of the Board on payout of employee bonus:

(1) The Company shall pay NT\$42,157,000 to employees as cash dividends, NT\$21,079,000 to directors and supervisors as remunerations for fiscal year 2012, the stated amount is identical with the actual amount paid.

(2) The proposed distribution of employees' stock bonus and accounted for the issue of individuals or individual financial reporting net income and staff bonus total aggregate number of proportion - this provision of notapplicable.

(3) The estimated EPS net of the payout of employee bonus, remunerations to directors and supervisors under consideration not applicable, the Company has no plan to pay out employee stock dividends.

3.Employees' bonus and directors'/supervisors' remuneration distributed from earnings of the previous year:

Unit: NT\$

	Distribution after shareholders' meeting	Distribution plan drafted at the directors' meeting	Variance
Employees' bonus	88,441,288	88,441,288	0
Director'/supervisors' remuneration	44,220,644	44,220,644	0

**(9)Repurchase of the company's shares: None**

**II. Corporate bonds**

**III. Preferred shares - none**

**V. Overseas depository receipts - none**

**VI. Employee stock options and to limit employees' rights to the new shares - none**

**VI. New shares issued upon merger or acquisition of other company's shares - none**

**VII. Implementation of funds utilization plans**

1. Description of plans - Article 18 of the "Criteria Governing Information to be published in Annual Reports of Public Companies" is not applicable.

2. Status of implementation - Article 18 of the "Criteria Governing Information to be published in Annual Reports of Public Companies" is not applicable.

## Overview of business operations

# Overview of business operations

## I. Description of businesses

### (1) Business Scope

#### 1. Major business and product lines:

The company is engaged in the production and sales of synthetic rubber products. The product lines include E-SBR, S-SBR, BR, TPE and TPR.

#### 2. Product Portfolio

Unit: NT\$1,000

Items	Revenue in 2012	Percentage of Total Turnover %
SBR、BR、TPE	16,738,855	98.14%
TPR	243,705	1.43%
Other (trading, etc.)	73,876	0.43%
Total	17,056,436	100.00%

### 3. New developments

Item
(1) High-performance and energy-saving SSBR for the tire industry.
(2) Upgrade process technology to provide product with higher quality.
(3) Continue developing NBR products used for automobiles.
(4) Develop new environmental-protection recycled flexible TPE materials and applications thereof.
(5) Develop SIS-related product application scope.
(6) Develop high-value added materials related to the optical industry.

### (2) Industry Overview:

The sales volume of automobiles amounted to 19.3 million in China in 2012, i.e. the annual growth rate of 4.1%, ranking 1<sup>st</sup> place in the sales volume globally for consecutive four years. The growth rate was more than that in 2011 by 2.5%, but less than the annual growth rate of 46% in 2009 and high growth rate of 32% in 2010. In 2012, the passenger car market grew by 6.9% in China in 2012, while the commercial vehicle market declined by 5.7%. The latter primarily resulted in the remarkable declination of the sales volume of BR applied to the tires of commercial vehicles.

Notwithstanding, the poor downstream demand in 2012 resulted in the drastic fluctuation of market value of the primary raw material of synthetic rubber, BD. The market value declined from US\$4,000 per ton at the beginning of the year, the highest, to US\$1,500 per ton at the end of the year, the lowest, i.e. the sectional declination by 63%, and thereby increased the difficulty in operation and operating risk of synthetic rubber suppliers. Fortunately, the Company has already controlled more low-price sources of materials at the end of 2011 and, therefore, was exempted from the effect of high-price raw materials in Q1, and also agreed with many primary customers on the pricing contract 2012 at the beginning of the year and adjusted the ratio of operation and procurement of raw materials subject to the market condition, thereby preventing the following three quarters from the inventory price declination risk and maintaining the annual profit no less than the basic standard.

Due to the European Debt Crisis and sluggish economic recovery in the U.S.A. in 2012, the various industrial demand and productivity declined accordingly. The TPE market was also affected by the downward adjustment of the adhesive industry and plastic modification industry and thereby the sales volume of TPE declined. In the second half of 2012, the supply exceeded demand in the SIS/SBS/SEBS market and thereby affected the profitability thereof. Following the economic improvement, the sales volume of TPE is expected to recover gradually in 2013.

In the recent years, TPR has gradually replaced PVC, which was considered a pollutant thus restricted imports by European countries. TPR's characteristics include non-toxicity, low pollution, and environmentally friendly. Based on primary objective extended producer responsibility, TPR is now widely used in industries such as non-PVC electrical wires, products for children, personal care, top-level foam footwear, tool grips and Drinks market with the polymer synthesis plug.

### (3) Overview of technology and R&D

#### 1.R&D expenses

Unit: NT\$1,000

Item	Fiscal year
	2012
R&D expenses	260,554

#### 2.Successfully developed technology or products

Item	Result
Patents	Awarded with 10 patents and filed 4 patent applications.
Develop High-function S-SBR Used by Environmental-Protection and Energy-Saving Tires	The development result was awarded the National Innovation Prize by Ministry of Economic Affairs in 2012.
NBR Development	Completion of the NBR development and successful production.
Manufacturing process technology integration:	Utilize the high-rank production process technology to upgrade TPE product quality and performance.

### (4) Long-term and short-term business development plans

In response to the increasing awareness of Corporation Social Responsibility (CSR), we remain focused on the development of high value-added products and technologies with advanced environment-friendly processes. The purpose of this R&D orientation is to ensure that we can meet the requirements of customers with our products and services, to provide solutions for our customers regarding rubber applications, to create a win-win scenario. Business development plans are described below:

#### Long-term plans:

- 1.Continue to develop new process, equipment, and raw material sources to reduce production and investment costs;
- 2.Continue to improve processing technology by exchanging ideas with the academic sector and customers, to create additional value;
- 3.Continue to enhance technical service capability, to further explore industry applications;
- 4.Continue to review business procedures and promote a procedure improvement plan research;
- 5.Continue to keep track the changes in upstream and downstream sectors of the rubber industry world-wide, and the needs of the customers for seeking the development of new products or opportunity of new markets
- 6.Maximize resource allocation internally and externally, improving the weight of sales and profitability of innovative products.
- 7.Combine TSRC's research and development team and that of the customers and develop high-quality, innovative products together with customers.
- 8.Develop the potential market business in emerging countries in Asia/Latin America to look for new production bases or expand the existing TPE factory productivity and develop special application products to meet the future business development trend.
- 9.Develop the TPE technology platform application to deal with the downstream industrial development and needs for environmental protection; continue developing new high-value added products and technologies, and innovate, research and develop the production method to upgrade the existing product quality and orient toward establishment of product application technology, and keep innovating products and integrating the development of customers in the object industries to create a win-win situation.

#### Short-term plans:

- 1.Establish the global business intelligence system (BI) to rapidly control the real-time sales of parent company and subsidiaries and adjust the Group's optimal management decision making in a timely manner.
- 2.In response to the EU's promotion of environment-friendly tire logos, continuously develop and promote S-SBRs featuring low rolling resistance and evaluate investment opportunities in Nd-BR.
- 3.Development and promotion of high-oil resistant NBR rubber applicable to car components.
- 4.To respond to the completion and launch of the newly built E-SBR plant in India in 2012, we will keep developing local potential customers and meeting the requirements of key customers.



5. We will expand our global business territory steadily and assess the best investment opportunity for additional SBR and NBR capacity in merging nations.
6. Actively visit the main tire customers in the world, and promote SSBR product application under our own brand, TAIPOL.
7. Develop the TPE technology platform application to deal with the downstream industrial development and needs for environmental protection; continue developing new high-value added products and technologies, and innovate, research and develop the production method to upgrade the existing product quality and orient toward establishment of product application technology; continue to invest R&D manpower and resource to enable the Company's products and services to satisfy customers' needs and solve any problems in application of rubber for customers.
8. Develop the application of functional high-quality shoe materials to deal with the needs of international renowned sport shoe brands: TPR materials are vibrant-resistant, ultra-light and abrasion-resistant. Among the multiple materials, SEBS is of the optimal performance. This market will effectively shorten the supply chain and increase the profit from high-value added products.

## II. Analysis of the market as well as production and marketing situation

### (1) Market Analysis

#### 1. Major product distribution areas

Unit: NT\$1,000/ton

Name of product	2012		Exported territories
	Sales volume	Sales amount	
SBR、BR、TPE	175,388	16,738,855	Japan, Thailand, Mainland China, Malaysia, Vietnam, U.S.A., Germany, India
TPR	2,490	243,705	Mainland China, South East Asia

#### 2. Market share:

- E-SBR : Domestic sales volume percentage is 26%, representing a decrease of 4% from 2011. Domestic sales value percentage is 27%, representing a decrease of 4% from 2011. Overseas sales are concentrated in India, Thailand, Indonesia, Japan, Vietnam, and Mainland China.
- S-SBR : Mainly for export 2012. Overseas sales are concentrated in Japan, and Mainland China.
- BR : Domestic sales volume percentage is 32%, representing an decrease of 7% from 2011. Domestic sales value percentage is 32%, representing an decrease of 8% from 2011. Overseas sales are concentrated in Japan, Thailand, Mainland China, Malaysia, Vietnam, U.S.A., Germany, and India.
- TPE : Domestic market demand is lower compared to others, at 9%, representing an increase of 1% from 2011. Overseas business represents 91%. Among overseas markets, Asia is the largest, representing 48%. Europe and the United States represent 52%. TSRC on Dexco plant mainly sells to Europe and the United States. serve main customers in the neighboring service area.
- TPR : Domestic sports product business represents 15%. The China market represented the majority of the export market at 80%. For other export market, South East Asia represents 5%.

#### 3. Demand and supply conditions for the market in the future, and the market's potential growth

According to the estimate of 2012 by the IRSG research organization, the global demand for rubber in 2013 will be 27,310,000 tons, synthetic rubber will yearly grow by 5.3%. The growth recovers significantly, compared with the plateaued growth in the market in 2012. However, following the expansion of the major production area of natural rubber in Asia, the supply will be plentiful in next few years. Besides, the new suppliers of synthetic rubber are increasing rapidly in Mainland China. The E-SBR and BR industries have faced the challenge of market saturation.

In the TPE product series, SBS still has more supply than demand. Given the optimistic market growth in the future, the productivity of SIS/SEBS grows increasingly in Asia in 2012. The demand for SEBS products also grows increasingly. In 2012, complete the SEBS Mainland Nantong plant expansion, hoping to increase the market share.

#### 4. Niche for competition, and positive and negative factors for future development, and countermeasures

In recent years, TSRC has actively developed overseas sales locations, completing the Asian operational footprint through joint ventures throughout Mainland China in East Asia, Thailand in South East Asia and India in South Asia. The successful management experience of TSRC in the investment of the Shenhua Plant and the Nantong Plant in Nantong City, Jiangsu Province of Mainland China will attract joint venture opportunities from large specialty rubber operators for new products, such as the joint venture for NBR with the German Lanxess Group in Nantong City. Production is start in 2012. In the future, we will continue to seek similar cooperation to cut into other niche rubber product markets, e.g. the functional reforming Nd-BR.

Given the latest breakthrough of the Shale Gas, most of the petrochemical cracking plants might tend to adopt the Shale Gas, which has the strengthen in cost price, to replace Naphtha to produce ethylene and, therefore, might result in the shortage of supply of the primary raw material for synthetic rubber, BD. The Company plans the adequate production bases through the Group's optimal resource layout, and also works hard to strive for the international alliance with the upstream petrochemical raw material suppliers to secure the successful supply of raw materials and to re-evaluate the possible investment in new markets.

Many major TPE manufacturers are building new factories in China and continuously expand their capacities. The competition in the staple products such as footwear material, plasticization and asphalt modifie will be fierce. Ordinary TPE products are abundant and we will focus on the applications in the adhesive and plasticization fields, the introduction of TSRC United States Dexco company advanced process technology development of high value-added products, improve product quality, enhance customized production and expand TPE application ranges to drive the sales volume of high value-added TPE products.

Given the impact produced by the entire market economy and European Debt Crisis, multiple competitors adopted the low-price strategy to deal with it and thereby resulted in the drastic reduction of the purchase orders for exportation to Europe and the U.S.A. Recently, the PMI index of the manufacturing industry in China has recovered stably, suggesting that the economic condition was solidified and recovered mildly. In the future, the Company will upgrade the productivity of production process and reduce the stock, and will also be dedicated to developing the new markets in South East Asia and cooperating with brand-ed customers in new technology platform and new products in order to increase the profit and sales volume of product.

## **(2) Important application and production process of major products**

### **Main product important use:**

E-SBR: general type of car tires, soles, conveyor belts, hoses, sport facilities, toys and other industrial products.

S-SBR: Primarily apply to energy-saving (low rolling resistance) tires, high-function tires, snow tires and all-season tires.

BR: high-speed tires, soles, sport facilities, polyethylene modifier (HIPS) and other industrial products.

TPE: soles, adhesives, hot-melt rubber, plastic modifier, asphalt modifier and other special applications industrial products.

TPR: electronic wires and cables, toys, Synthetic leather, functional shoes, tool handles, sports goods and stationery.

### **Outline of production process:**

SBR:

E-SBR: Rubber is made through emulsification and polymerization Emulsion SBR, soap liquid is taken as the medium. Macromolecular emulsion is made after polymerization of butadiene and styrene, and rubber is made (by solidification) after the addition of anti-oxidant (and also extender oil for oily rubber products), and then be dehydrated and packed.

S-SBR: Rubber is made through solution and polymerization Emulsion SBR, in the solvent macromolecular glue liquid is made after polymerization of butadiene and styrene, and rubber is made (by solidification) after the addition of anti-oxidant (and also extender oil for oily rubber products), Separation recovery of the solvent is stripped colloidal particle and then be dehydrated and packed.

BR: Rubber is made through polymerization of liquid. Macromolecular rubber liquid is made after polymerization of butadiene (BD), and be condensed into pallets, wash off ash content and then dehydrated and packed.

TPE: Rubber is made through polymerization of liquid. Rubber liquid is made after polymerization of butadiene and after beingsteamed to recall solvent, is dehydrated, cut and dried and then packed.

TPR: TPR blended and mixing granulation.

## **(3) Supply of major raw materials**

The SBR, BR and TPE produced by the company are made by polymerization of butadiene and styrene.

1. Butadiene is primarily supplied by the CPC and FPCC, and imported, in the case of the short supply.

2. Styrene is primarily supplied by the TSMC, FCFC and GPPC, and imported in part.

## **(4) Customers accounting for 10 % or more of the company's total procurement (sales) amount in either of the most recent two fiscal years, the amounts sold to each, and the percentage of total procurement (sales) respectively, and reasons for increase/decrease**

## 1. Major Suppliers with 10 % or more in procurement

Unit: NT\$1,000

Item	2012				2011			
	Suppliers	Amount	Percentage of total net procurement (%)	Relation to the issuer	Suppliers	Amount	Percentage of total net procurement (%)	Relation to the issuer
1	CPC	4,639,647	34%	No	CPC	5,958,266	37%	No
2	FPCC	2,741,399	20%	No	FPCC	2,101,856	13%	No
3		—	—	—	Mitsubishi Corporation (Taiwan) Ltd.	1,916,490	12%	No
	Others	6,446,553	46%		Others	6,051,797	38%	
	Total	13,827,599	100%		Total	16,028,409	100%	
Causes	1.China Petroleum Corporation mainly supplied butadiene, because of the reduction in supply resulting from the shutdown of the third naphtha cracking plant, so the purchase amount in 2012 was less than the 2011. 2.Formosa Petrochemical mainly supplied butadiene. the increase the supply the purchase amount in 2012 was higher than 2011. 3.Recession, to 2011, the market price of butadiene decreased by about 2011 by about 16.7%.							

## 2. Not applicable because we had no customers that occupied more than 10% of the total sales amount in the past two years.

### (5) Output by product

NT\$1,000/ton

Product	2012			2011		
	Capacity	Output	Output value	Capacity	Output	Output value
SBR、BR、TPE	210,000	175,695	14,366,835	210,000	193,882	16,571,305
TPR	8,000	2,585	201,837	8,000	2,270	190,955
Total	218,000	178,280	14,568,672	218,000	196,152	16,762,260

### (6) Sales by product

NT\$1,000/ton

Product	2012				2011			
	Domestic		Export		Domestic		Export	
	Volume	Amount	Volume	Amount	Volume	Amount	Volume	Amount
SBR、BR、TPE	43,174	4,079,886	132,214	12,658,969	54,897	6,161,189	132,410	14,140,164
TPR	812	80,117	1,678	163,588	807	83,389	1,344	130,040
Others (trading, etc.)	—	2,827	—	71,049	—	3,236	—	94,140
Total	43,986	4,162,830	133,892	12,893,606	55,704	6,247,814	133,754	14,364,344

### III. Employees' information

Fiscal year		2012	2011	February 28, 2013
Item				
Direct workers		280	283	279
Indirect workers		353	310	350
Total of employees		633 (persons)	593 (persons)	629 (persons)
Average age		43.4(years old)	43.6(years old)	43.8(years old)
Average seniorities		14.6(years)	14.9(years)	14.6(years)
Education level (%)	Ph.D.	2%	2%	2%
	Master	24%	22%	24%
	Bachelor	55%	57%	56%
	Senior High School	15%	17%	15%
	Below senior high school	4%	4%	3%

### IV. Expenses of environmental protection

#### (1) Loss for environmental pollution

	2011	February 28, 2013
Pollution (Type and degree)	Environmental Protection Bureau/Kaohsiung City Government spot-check "VOCs", "RATA", "emission channel" and "odor": compliance with laws and regulations.	No significant event took place.
Counterpart, or authority imposing fines	No	No
Compensation and fines	No	No
Other loss	No	No

#### (2) Countermeasures

1. Improvement actions to be taken	
1) Environmental protection capital expenditure to be spent in the following three years	
Pollution prevention equipments to be purchased, or contents of the expenditure	<ul style="list-style-type: none"> <li>Add waste gas incinerators to treat waste gas emitted from production process to replace the waste gas incineration tower into which the waste gas was emitted.</li> <li>Reduction use of solvent and release of volatile organic compounds.</li> <li>Replacement of old boilers and chimneys.</li> <li>Survey and measurement of soil and underground water.</li> <li>Repairing, maintenance and operation of pollution prevention equipments.</li> <li>Decrease and recycling of waste articles.</li> <li>Energy saving, carbon reduction and decrease of greenhouse gas emission.</li> </ul>
Estimated improvement	<ul style="list-style-type: none"> <li>Compliance with the added provisions in the new environmental protection laws and regulations.</li> <li>Production of green products to mitigate the environmental impact.</li> <li>Production equipment free from abnormal leakage and establishment of fair communication channels with the community to achieve the purpose of promoting goodwill with neighborhood.</li> <li>Ensure the sustainable utilization of land and water resources.</li> <li>Normal operation of prevention equipment and maintenance of life environment quality.</li> <li>Maintenance of environmental sanitation and effective recycling of resources.</li> <li>Reduction of the contribution to global warming</li> </ul>

2)Influence after improvement	
Influence on income	· Avoid being fined by the competent authority or loss of reduction in production resulting from appealing
Influence on competitive status	· Take the corporate social responsibility and upgrade the Company's corporate identity and competitiveness
2.Parts where no countermeasures have been taken	
1)Causes	No
2)Status of pollution	No
3)Potential loss and compensation	No

## V.Labor relations

### **(1)Employees' beneficiary policies, on-the-job training, staff training and retirement, and the implementation status, and contracts between employer and employees, and policies to maintain the various employees' interests and rights:**

#### **1.Beneficiary policies, on-the-job training, staff training and retirement, and the implementation status:**

On welfare measures, through our operation of the Employee Welfare Committee, in addition to providing employees (Dragon Boat Festival, Mid-Autumn Festival, Chinese New Year), birthdays, Labour Day and other gifts outside, the “optional beneficiary policies” are implemented. According to the policies, the employees may combine the “benefits that comply” with their own requirement by means of their benefit credit tickets, including traveling and recreation activities, children's educational reimbursement, optional purchase of employees' welfare daily necessities purchase of movie tickets, and leisure requisites to fulfill the benefits substantially.

With respect to the insurance, the company provides employees with labor and health insurances pursuant to the laws, and also the group insurance free of charge, which is also applicable to employees' family members. With respect to labors' retirement, the company applies the Labor Standard Law and labors' retirement system to ensure the retired employees' interest and right.

The company also holds large-scale events for celebration of plants and year-end party to enhance the interaction with employees. The company also provides employees with cash gifts for marriage, birth and injury/sickness, Funeral establishes restaurants for employees and reimburses employees' meal expenses, and designates a dedicated nurse in the medical center, and also provides doctor's diagnosis and medical nursing services.

With respect to employees' training, the rules for employees' training are followed. The training plans are set based on the company's business policies, units' requirements and relevant laws/regulations, and the general knowledge, professional skill and management ability programs for the newly recruited and employees are handled according to the plans. Meanwhile, the “life-time learning” goal is fulfilled through such training modes as OJT, Off-JT and SD., including the training fees in 2012 in the amount of NT\$8,258 thousand. There were about 3,934 trainees. The average training fees per person were NT\$13,000 and the training hours per person were 15 hours.

#### **2.Contracts between employer and employees, and policies to maintain the various employees' interests and rights:**

Since the incorporation of the labor union, the Company has held meetings between employer and labor periodically, and negotiated for the laborers' interests and rights through formal meetings. In 2012, the Company held 2 meetings in total, Discussion about completing the improvement of meal boxes for employees on duty and one free breakfast provided by the Company to compensate staff working at midnight.

Furthermore, according to the Labor Standard Law and Accounting Handling Rules on Pension, the Company will contribute the pension fund to the employees' personal account in the Bank of Taiwan and Bureau of Labor Insurance on a monthly basis. Meanwhile, the “Reserve Labor Pension Fund Supervisory Commission” will hold meetings to review the utilization of pension funds periodically to protect the retired employees' interests and rights.

### **(2)No loss resulting from dispute over labors has been suffered by the company in 2012 and until February 28, 2013.**

### **(3)Estimated loss suffered by the Company due to labor disputes currently and in the future, and countermeasures thereof**

Since the company's incorporation with the union, the relationship between employees and the company has remained fair through the good interaction and communication between employees and the company. Therefore, no significant dispute over labors has occurred, let alone the loss thereof. Therefore, the company and employees will abide by the communication models to create a win-win situation when proceeding with communication, and there is no likelihood of any monetary loss resulting from dispute over labors.

## VI. Material contracts

Nature	Concerned party	Duration	Contents	Restrictive terms
Joint venture contract for BR	TPI Tailand, UBE Japan, Marubeni Corporation	Oct. 20, 1995 until termination of the cooperative relationship	Joint venture contract for establishment, production, sale and operation of the BR plant with a capacity of 50,000 MT/Yr. In Thailand	
Butadiene Rubber Joint Venture	TSRC Corporation UBE Japan, Marubeni Corporation	Oct. 10, 2006 until termination of the cooperative relationship	Joint Venture for production of BD with 72,000 MT/Yr.	
Technology License Agreement	TSRC (Jinan) Industrial Ltd.	July 1, 2008 December 31, 2020	License the TSRC (Jinan) Industrial Ltd. To apply the mixing production technology	
Thermoplastic elastomer technique license agreement	JSC VORONEZHSYNTHETZK AUCHUK	May 27, 2009 until 10 years after the official production termination	Technique license agreement for production of thermoplastic elastomers with 50,000 MT/Yr.	
Joint venture agreement for annual production of 120 thousand-ton styrene-butadiene (E-SBR) rubber.	Indian Oil, Marubeni Corporation	Apr. 3, 2010 until termination of the cooperative relationship	Joint venture agreement for building, production, sale and operation of a styrene-butadiene (E-SBR) plant in India with a capacity of 120,000 MT/Yr.	
Styrene -butadiene (E-SBR) technique license agreement	Indian Synthetic Rubber Limited	Sep. 1, 2010 until termination of the cooperative relationship	A license for India Synthetic Rubber Co., Ltd. to use styrene -butadiene (E-SBR) production technique.	
Shareholders Agreement	Lanxess Hong Kong Limited Lanxess AG	May 7, 2010 until termination of the cooperative relationship	An production of acrylonitrile -butadiene rubber (NBR) with 30,000 MT/Yr.; an joint venture contract for facility construction, production, sale and operation in China	
Acrylonitrile -butadiene rubber (NBR) technique license agreement	Lanxess-TSRC(Nantong) Chemical Industrial Co., Ltd.	Dec. 1, 2010 until termination of the cooperative relationship	A license for Lanxess TSRC (Nantong) Chemical Industrial Co Ltd. to use acrylonitrile -butadiene rubber (NBR) production technique	
Share purchase agreement	Exxon Equity Holding Company, ExxonMobil Chemical Company, ExxonMobil Chemical SBC Investment LLC, The Dow Chemical Company, DW Dexco Investment LLC	Dec. 23, 2010 until The two sides agreed to termination	Acquiring 100% shares of Dexco Polymers Operating Company LLC and Dexco Polymers L.P.	

## Overview of financial status

## Overview of financial status

### I. Condensed balance sheet and Consolidated income statement recent five years

(1) Condensed balance sheet and Consolidated income statement – Not applicable, because the Company has not yet adopted the IFRS in 2012.

(2) Condensed balance sheet and income statement – The financial accounting principles generally accepted in this country.

Condensed balance sheet – The financial accounting principles generally accepted in this country. Unit: NT\$1,000

Fiscal year Item		Financial information for the recent five years				
		2012	2011	2010	2009	2008
Current assets		5,257,379	6,970,348	5,640,790	5,552,412	6,355,702
Funds and investment		11,684,596	11,605,591	7,650,768	6,408,934	5,863,406
Fixed assets		2,260,060	2,087,607	1,753,248	1,669,871	2,015,627
Intangible assets		100,145	71,442	34,536	–	–
Other assets		1,886,340	1,901,065	1,915,790	1,892,530	1,709,751
Total assets		21,188,520	22,636,053	16,995,132	15,523,747	15,944,486
Current liability	Before distribution	4,106,642	3,955,914	2,981,578	2,280,537	2,659,197
	After distribution	(Note)	7,530,416	5,256,261	4,360,247	4,478,944
Long-term liability		–	–	100,000	350,000	900,000
Other liability		1,272,110	1,512,689	954,884	764,922	446,012
Total liability	Before distribution	5,378,752	5,468,603	4,036,462	3,395,459	4,005,209
	After distribution	(Note)	9,043,105	6,311,145	5,475,169	5,824,956
Capital stock		7,863,904	7,149,004	6,499,095	6,499,095	6,499,095
Additional paid-in capital		69,003	69,003	69,003	69,003	69,003
Retained earnings	Before distribution	7,269,599	8,984,752	6,167,579	4,968,128	4,456,296
	After distribution	(Note)	5,410,250	3,242,987	2,888,418	2,636,549
Unrealized gain (loss) on financial products		–	–	5,980	5,468	(39,232)
Cumulative translation adjustment		688,778	1,002,365	257,903	579,328	951,184
Net loss not recognized as pension cost		(88,782)	(44,940)	(48,156)	–	(4,335)
Total shareholders' equity	Before distribution	15,809,768	17,167,450	12,958,670	12,128,288	11,939,277
	After distribution	(Note)	13,592,948	10,683,987	10,048,578	10,119,530

Note: The earnings in 2012 will be distributed subject to the resolution of the shareholders' meeting in 2013.



Condensed income statement – The financial accounting principles generally accepted in this country.

Unit: NT\$1,000

Item \ Fiscal year	Financial information for the recent five years				
	2012	2011	2010	2009	2008
Operating revenue	17,056,436	20,612,158	15,264,239	10,265,923	17,382,310
Gross profit	2,312,355	4,519,028	2,631,609	2,125,800	3,118,370
Operating profit/loss	1,217,126	3,331,817	1,747,421	1,485,292	2,292,302
Non-operating income	1,691,310	3,892,623	2,174,943	1,490,389	782,875
Non-operating expenses and loss	161,940	189,139	137,725	94,117	235,928
Gain (loss) before tax	2,746,496	7,035,301	3,784,639	2,881,564	2,839,249
Cumulative effect of changes in accounting principles	–	4,914	–	–	–
Gain (loss) in the current period	2,574,249	5,741,765	3,279,162	2,331,579	2,768,369
EPS (loss) (NT\$)(note)	3.27	7.30	4.17	2.96	3.52

Note: EPS (loss) is computed by income (loss) after tax divided by weighted average outstanding shares. The shares increased after earnings or additional paid-in capital transferred to capital should be computed retroactively.

### (3) CPA's name and auditing opinion

Fiscal year	CPA's name	Auditing opinion
2012	Yang Mei Hsueh Chen, Chia-Hsiu	Unqualified opinion
2011	Yang Mei Hsueh Chen Ya Ling	No reservation for amended version.
2010	Yang Mei Hsueh Chen Ya Ling	Unqualified opinion
2009	Chen Ya Ling Chang Huei-Chen	Unqualified opinion
2008	Chen Ya Ling Chang Huei-Chen	Unqualified opinion

## II. Financial analysis for the recent five years

(1) Financial analysis – Not applicable, because the Company has not yet adopted the IFRS in 2012.

(2) Financial analysis – The financial accounting principles generally accepted in this country.

Fiscal year Item		Financial analysis for the recent five years				
		2012	2011	2010	2009	2008
Financial structure (%)	Debt ratio	25.39	24.16	23.75	21.87	25.12
	Percentage of long-term funds in fixed assets	699.53	822.35	744.83	747.26	636.99
Solvency %	Current ratio	128.02	176.20	189.19	243.47	239.01
	Quick ratio	73.18	117.35	128.39	182.03	197.60
	Interest Coverage ratio	94	363	205	105	31
Operating performance	Receivables turnover (time)	6.70	8.20	8.03	5.15	8.10
	Average number of days receivables outstanding	54	45	45	71	45
	Inventory turnover (time)	6.34	7.66	7.77	6.00	10.67
	Account payable turnover (time)	15.32	14.97	15.42	15.26	22.24
	Average number days of sales	58	48	47	61	34
	Fixed assets turnover (time)	7.55	9.87	8.71	6.15	8.62
	Total assets turnover (time)	0.80	0.91	0.90	0.66	1.09
Profitability	Return on assets ( % )	11.44	29.06	20.26	14.95	17.53
	Return on shareholders' equity ( % )	15.61	38.12	26.14	19.38	23.40
	Percentage in additional paid-in capital %	Operating income	15.48	46.61	26.89	22.85
		Income before tax	34.93	98.41	58.23	44.34
	Net profit ratio ( % )	15.09	27.86	21.48	22.71	15.93
	EPS(loss) (NT\$)(Note)	3.27	7.30	4.17	2.96	3.52
Cash flow	Cash flow ratio ( % )	65.37	60.01	54.09	96.10	125.83
	Cash flow adequacy ratio ( % )	80.21	92.50	77.74	102.26	99.89
	Cash flow reinvestment ratio ( % )	(3.66)	0.39	(2.21)	1.84	2.44
Leverage	Operating leverage	2.77	1.99	4.57	2.49	2.39
	Financial leverage	1.02	1.01	1.01	1.02	1.04

1. The current ratio and quick ratio reduced due to the reinvestment and decrease of the receivable accounts this year.

2. The interest protection multiples reduced due to the pre-tax net profit and decrease of the interest cost.

3. The fixed assets turnover reduced due to the decrease of net sales this year.

4. Asset rate of return is reduced due to an reduced of net profit after tax of the year.

5. Stockholders' equity ROE reduced due to the reduced in post-tax profit this year.

6. Percentage of operating profit over paid-in capital is reduced due to an reduced of operating net profit of the year.

7. Percentage of net profit over paid-in capital is reduced due to an reduced of net profit before tax of the year.

8. The net profit ratio reduced due to the increase of the income after tax less than the decrease of net sales this year.

9. EPS reduced due to the reduced in operating revenue this year.

10. The cash flow reinvestment ratio reduced due to the increase of cash dividend allocated this year.

11. Operating leverage is increase due to an reduced of operating profit of the year.

(Note): Profit (loss) per ordinary share is calculated based on net profit (loss) after tax, divided by the weighted average number of outstanding ordinary shares. Calculation will be adjusted retrospectively if the number of shares is increased due to conversion of profit or capital reserve into capital.

**(2)Financial analysis – (consolidated) The financial accounting principles generally accepted in this country.**

Fiscal year Item			Financial analysis for the recent five years (consolidated)				
			2012	2011	2010	2009	2008
Financial structure (%)	Debt ratio		49.04	46.31	39.53	37.07	38.87
	Percentage of long-term funds in fixed assets		240.89	295.54	231.92	211.79	200.62
Solvency %	Current ratio		167.40	198.28	174.21	193.34	203.30
	Quick ratio		110	135	128	133	163
	Interest Coverage ratio		18	52	33	21	12
Operating performance	Receivables turnover (time)		6.42	8.06	8.28	5.88	10.45
	Average number of days receivables outstanding		57	45	44	62	35
	Inventory turnover (time)		5.75	7.69	8.32	5.59	10.43
	Account payable turnover (time)		18.07	18.99	17.16	16.23	28.56
	Average number days of sales		63	47	44	65	35
	Fixed assets turnover (time)		4.67	6.31	5.25	2.90	3.61
	Total assets turnover (time)		1.28	1.43	1.46	0.98	1.37
Profitability	Return on assets ( % )		9.09	24.05	17.77	13.17	15.31
	Return on shareholders' equity ( % )		16.38	41.72	27.90	20.34	22.72
	Percentage in additional paid-in capital %	Operating income	48.78	144.08	77.40	57.06	60.91
		Income before tax	49.94	146.02	80.84	58.26	52.90
	Net profit ratio ( % )		7.01	13.58	11.15	12.88	10.15
	EPS (loss) ( NT\$)(Note)		3.27	7.30	4.17	2.96	3.52
Cash flow	Cash flow ratio ( % )		55.73	50.63	43.05	53.17	72.77
	Cash flow adequacy ratio ( % )		76.69	80.62	77.93	83.82	85.25
	Cash flow reinvestment ratio ( % )		1.67	6.82	1.77	3.04	(0.26)
Leverage	Operating leverage		2.31	1.75	4.26	1.85	7.23
	Financial leverage		1.06	1.02	1.03	1.05	1.06

- 1.The interest protection multiples decrease due to the decrease in combined pre-tax net profit.
- 2.The receivable turnover reduced due to the decrease of average unit selling price and sales volume from the previous period.
- 3.The inventory turnover reduced due to the decrease of consolidated operating cost resulting from the average procurement price of raw materials this year less than that in the previous period.
- 4.The turnover rate of fixed assets decrease due to the decrease in combined sales revenue this year.
- 5.ROA decrease due to the decrease in combined post-tax net profit this year.
- 6.Stockholders' equity decrease due to the decrease in combined post-tax profit this year.
- 7.The operating income/paid capital decrease due to the decrease in combined operating net profit.
- 8.he pre-tax income/paid capital decrease due to the decrease in combined operating revenue.
- 9.Net rate of return is decrease due to a higher increase rate of net consolidated profit after tax over the decrease of consolidated net sales of the year.
- 10.EPS decrease due to the decrease in combined operating revenue this year.
- 11.The cash flow reinvestment ratio reduced due to the increase of cash dividend allocated this year.
- 12.Operating leverage is reduced due to an decrease of consolidated operating profit of the year.

(Note): Profit per ordinary share is calculated based on net profit after tax, divided by the weighted average number of outstanding ordinary shares. Calculation will be adjusted retrospectively if the number of shares is increased due to conversion of profit or capital reserve into capital.

**1. Financial structure:**

- 1) Debt ratio of liabilities in assets =  $\text{total liability} / \text{total assets}$
- 2) Percentage of long-term funds in fixed assets =  $(\text{net shareholders' equity} + \text{long-term liability}) / \text{net fixed assets}$

**2. Solvency:**

- 1) Current ratio =  $\text{current assets} / \text{current liability}$
- 2) Quick ratio =  $(\text{current assets} - \text{inventory} - \text{prepayment}) / \text{current liability}$
- 3) Interest Coverage ratio =  $\text{income tax and interest expenses net profit before tax} / \text{interest expenses in the current period}$

**3. Operating performance:**

- 1) Receivables (including account receivable and notes receivable resulting from operation) turnover =  $\text{Net sales} / \text{balance of average account receivable (including account receivable and notes receivable resulting from operation)}$
- 2) Average number of days receivable outstanding =  $365 / \text{Receivable turnover}$
- 3) Inventory turnover =  $\text{Sales cost} / \text{average inventory}$
- 4) Accounts payable (including accounts payable and notes payable resulting from operation) turnover =  $\text{Sales cost} / \text{balance of average account payable (including account payable and notes payable resulting from operation)}$
- 5) Average number days of sales =  $365 / \text{Inventory turnover}$
- 6) Fixed assets turnover =  $\text{Net sales} / \text{Net fixed assets}$
- 7) Total assets turnover =  $\text{Net sales} / \text{Total assets}$

**4. Profitability:**

- 1) Return on assets =  $[\text{Income (loss) after tax} + \text{Interest expenses} \times (1 - \text{tax ratio})] / \text{Average total assets}$
- 2) Return on shareholders' equity =  $\text{Income (loss) after tax} / \text{Net average shareholders' equity}$
- 3) Net profit ratio =  $\text{Income (loss) after tax} / \text{Net sales}$
- 4) EPS =  $(\text{Net profit after tax} - \text{Dividend of special stocks}) / \text{Weighted average issued stocks}$

**5. Cash flow:**

- 1) Cash flow ratio =  $\text{Net cash flow from operating activities} / \text{Current liability}$
- 2) Net cash flow adequacy ratio =  $\text{Net cash flow from operating activities for the most recent five years} / \text{for the most recent five years (capital expenditure} + \text{Increase in inventory} + \text{Cash dividend})$
- 3) Cash reinvestment ratio =  $(\text{Net cash flow from operating activities} - \text{Cash dividend}) / (\text{Gross fixed assets} + \text{Long-term investment} + \text{Other assets} + \text{Working capital})$

**6. Leverage:**

- 1) Operating leverage =  $(\text{Net operating revenue} - \text{Changed operating costs and expenses}) / \text{Operating income}$
- 2) Financial leverage =  $\text{Operating income} / (\text{Operating income} - \text{Interest expenses})$

### **III. Supervisor's Audit report on the financial statement for the recent years**

This report is to certify that the financial statement 2012 prepared by the Board as audited and certified by KPMG, as well as the business report and proposal for distribution of earnings, complies with Article 219 of the Company Act.

To:

Annual Shareholders' Meeting 2013

TSRC Corporation

Supervisor: Dragony Investment Corporation

Representative: Miles Hsieh

Supervisor: Chen, Tsai-Der

Date: March 21, 2013

## IV. Financial statement

### Independent Auditors' Report

#### The Board of Directors

#### TSRC Corporation:

We have audited the balance sheets of TSRC Corporation (the Corporation) as of December 31, 2012 and 2011, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial positions of the Corporation as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

The Corporation changed its method of valuing inventory commencing from January 1, 2011 and adopted SFAS No.34 Financial Instruments: Recognition and Measurement' recently revised, which amended the valuation of accounts receivable. The impact of these changes to net income and earnings per share for the year ended December 31, 2011, was discussed in note (3) of notes to financial statements.

We have also audited the consolidated financial statements of the Corporation and subsidiaries for the years ended December 31, 2012 and 2011. We have issued an independent auditors' report with a unqualified and modified unqualified opinion on those consolidated financial statements, respectively.

Taipei, Taiwan (the Republic of China)

March 14, 2013

KPMG

CPA Yang Mei Hsueh

CPA Chen, Chia-Hsiu

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

The auditors' report and the accompanying 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 financial statements, the Chinese version shall prevail.

**TSRC CORPORATION**  
**Balance Sheets**  
**December 31, 2012 and 2011**  
**(expressed in thousands of New Taiwan dollar)**

Unit: NT\$1,000

Assets	Dec.31, 2012		Dec.31, 2011	
	Amount	%	Amount	%
<b>Current assets:</b>				
Cash and cash equivalents (note 4(a))	\$ 605,301	3	1,432,954	6
Notes and accounts receivable (note 4(c))	2,097,055	10	2,884,494	13
Accounts receivable—related parties (notes 4(c) and 5)	12,695	—	96,796	—
Other financial assets—current (note 5)	203,352	1	135,959	1
Inventories (note 4(d))	2,210,612	11	2,308,278	10
Prepayments and other current assets (note 4(n))	128,364	1	111,867	1
<b>Total current assets</b>	<b>5,257,379</b>	<b>26</b>	<b>6,970,348</b>	<b>31</b>
<b>Funds and investments:</b>				
Financial assets carried at cost—noncurrent (note 4(b))	839,317	4	1,083,390	5
Investments accounted for by the equity method (notes 4(e) and 5)	10,839,947	51	10,517,943	46
<b>Total funds and investments</b>	<b>11,679,264</b>	<b>55</b>	<b>11,601,333</b>	<b>51</b>
<b>Other financial assets—noncurrent (note 5)</b>	<b>5,332</b>	<b>—</b>	<b>4,258</b>	<b>—</b>
<b>Property, plant and equipment (notes 4(f), 6 and 7):</b>				
Costs:				
Land	286,262	1	286,262	1
Land improvements	54,204	—	54,204	—
Buildings	1,125,157	5	1,095,607	5
Machinery and equipment	7,081,859	34	6,590,357	30
Furniture and fixtures	62,556	—	63,543	—
Leased assets	94,596	—	94,596	—
Revaluation increment	434,304	2	434,913	2
Total cost and revaluation increment	9,138,938	42	8,619,482	38
Less: accumulated depreciation	7,205,866	34	7,053,669	31
Construction in progress and prepayments for machinery and equipment	326,988	2	521,794	2
<b>Net property, plant and equipment</b>	<b>2,260,060</b>	<b>10</b>	<b>2,087,607</b>	<b>9</b>
<b>Intangible assets:</b>				
Other intangible assets (note 4(g))	79,012	—	45,024	—
Deferred pension cost (note 4(l))	21,133	—	26,418	—
<b>Total intangible assets</b>	<b>100,145</b>	<b>—</b>	<b>71,442</b>	<b>—</b>
<b>Other assets:</b>				
Rental assets (notes 4(h) and 6)	1,766,119	8	1,780,844	8
Idle assets (notes 4(h) and 6)	120,221	1	120,221	1
<b>Total other assets</b>	<b>1,886,340</b>	<b>9</b>	<b>1,901,065</b>	<b>9</b>
<b>Total assets</b>	<b>\$ 21,188,520</b>	<b>100</b>	<b>22,636,053</b>	<b>100</b>

See accompanying notes to these financial Statements

(Continued)

Unit: NT\$1,000

Liabilities and Stockholders' Equity	Dec.31, 2012		Dec.31, 2011	
	Amount	%	Amount	%
<b>Current liabilities:</b>				
Short-term borrowings (note 4(i))	\$ 2,017,077	9	1,141,667	5
Short-term commercial papers payable (note 4(j))	349,441	2	249,601	1
Notes and accounts payable	715,982	3	1,222,069	5
Income tax payable	370,073	2	442,430	2
Long-term debts—current portion (notes 4(k) and 6)	—	—	100,000	—
Accrued expenses and other current liabilities (notes 4(f) and 5)	654,069	3	800,147	4
<b>Total current liabilities</b>	<b>4,106,642</b>	<b>19</b>	<b>3,955,914</b>	<b>17</b>
<b>Other liabilities:</b>				
Reserve for land value increment tax (note 4(f))	56,683	—	56,683	—
Accrued pension liability (note 4(l))	181,245	1	143,648	1
Returnable deposits (note 5)	17,786	—	17,704	—
Deferred income tax liabilities (note 4(n))	826,829	4	1,124,831	5
Other liabilities—others (notes 4(e), 4(f) and 5)	189,567	1	169,823	1
<b>Total other liabilities</b>	<b>1,272,110</b>	<b>6</b>	<b>1,512,689</b>	<b>7</b>
<b>Total liabilities</b>	<b>5,378,752</b>	<b>25</b>	<b>5,468,603</b>	<b>24</b>
<b>Stockholders' equity (notes 4(l), 4(m) and 4(n)):</b>				
Capital:				
Common stock	7,863,904	37	7,149,004	32
Capital surplus:				
Additional paid-in capital	849	—	849	—
Others	68,154	—	68,154	—
	69,003	—	69,003	—
Retained earnings:				
Legal reserve	3,097,705	15	2,523,529	11
Unappropriated earnings	4,171,894	20	6,461,223	29
	7,269,599	35	8,984,752	40
Other equity adjustments:				
Accumulated translation adjustments	688,778	3	1,002,365	4
Net loss not yet recognized as net pension cost	(88,782)	—	(44,940)	—
Reserve for asset revaluation increment	7,266	—	7,266	—
	607,262	3	964,691	4
<b>Total stockholders' equity</b>	<b>15,809,768</b>	<b>75</b>	<b>17,167,450</b>	<b>76</b>
<b>Significant commitments and contingencies (notes 5 and 7)</b>				
<b>Total liabilities and stockholders' equity</b>	<b>\$ 21,188,520</b>	<b>100</b>	<b>22,636,053</b>	<b>100</b>

See accompanying notes to these financial Statements

Chairman :Shao Yu Wang

Manager :Wei-Hua Tu

Chief Accountant :John Chen



**TSRC CORPORATION**  
**Statements of Operations**  
**For the years ended December 31, 2012 and 2011**  
**(expressed in thousands of New Taiwan dollar)**

Unit: NT\$1,000

	2012		2011	
	Amount	%	Amount	%
<b>Gross sales (note 5):</b>				
<b>Gross sales</b>	\$ 17,075,794	100	20,629,837	100
Less: sales returns	13,436	—	4,173	—
sales discounts	5,922	—	13,506	—
<b>Net sales</b>	17,056,436	100	20,612,158	100
<b>Cost of sales (notes 3, 4(d), 4(g), 4(l), 4(m), 5 and 10)</b>	14,744,081	86	16,093,130	78
<b>Gross profit</b>	2,312,355	14	4,519,028	22
<b>Operating expenses (notes 4(g), 4(l), 4(m), 5 and 10) :</b>				
Selling expenses	401,336	2	454,869	2
General and administrative expenses	433,339	3	476,823	2
Research and development expenses	260,554	2	255,519	1
	1,095,229	7	1,187,211	5
<b>Operating income</b>	1,217,126	7	3,331,817	17
<b>Non-operating income and gains:</b>				
Interest income	4,873	—	7,077	—
Investment income, net, accounted for by the equity method (note 4(e))	1,345,179	8	3,525,251	17
Dividend income (note 4(b))	41,445	—	100,574	—
Gains on disposal of investments, net (note 4(b))	—	—	7,962	—
Foreign exchange gains, net	—	—	40,167	—
Rental income (note 5)	74,209	—	72,579	—
Other income (note 5)	225,604	1	139,013	1
	1,691,310	9	3,892,623	18
<b>Non-operating expenses and losses:</b>				
Interest expenses	29,577	—	19,411	—
Loss on disposal of investments, net (note 4(b))	9,862	—	—	—
Loss on disposal of property, net	292	—	781	—
Foreign exchange losses, net	2,699	—	—	—
Other expenses	119,510	1	168,947	1
	161,940	1	189,139	1
<b>Earnings before cumulative effect of changes in accounting principles and income tax</b>	2,746,496	15	7,035,301	34
<b>Income tax expense (note 4(n))</b>	172,247	1	1,288,622	6
<b>Earnings before cumulative effect of changes in accounting principles and after income tax</b>	2,574,249	14	5,746,679	28
Cumulative effect of changes in accounting principles (net of income tax of \$1,006) (notes 3 and 4(o))	—	—	(4,914)	—
<b>Net income</b>	\$ 2,574,249	14	5,741,765	28
	Income before income tax	Net income	Income before income tax	Net income
<b>Basic earnings per share of common stock:</b>				
Earnings before cumulative effect of changes in accounting principles	\$ 3.49	3.27	8.95	7.31
Cumulative effect of changes in accounting principles	—	—	(0.01)	(0.01)
<b>Net income</b>	\$ 3.49	3.27	8.94	7.30
<b>Diluted earnings per share of common stock:</b>				
Earnings before cumulative effect of changes in accounting principles	\$ 3.49	3.27	8.94	7.30
Cumulative effect of changes in accounting principles	—	—	(0.01)	(0.01)
<b>Net income</b>	\$ 3.49	3.27	8.93	7.29

See accompanying notes to these financial Statements

Chairman :Shao Yu Wang

Manager :Wei-Hua Tu

Chief Accountant :John Chen

**TSRC CORPORATION**  
**Statements of Changes in Stockholders' Equity**  
**For the years ended December 31, 2012 and 2011**  
**(expressed in thousands of New Taiwan dollar)**

Unit: NT\$1,000

			<u>Retained earnings</u>		<u>Other equity adjustments</u>				
	<u>Common stock</u>	<u>Capital surplus</u>	<u>Legal reserve</u>	<u>Unappropriated earnings</u>	<u>Accumulated translation adjustments</u>	<u>Net loss not yet recognized as net pension cost</u>	<u>Unrealized gains (losses) on financial instruments</u>	<u>Reserve for asset revaluation increment</u>	<u>Total</u>
<b>Balance as of January 1, 2011</b>	\$ 6,499,095	69,003	2,195,612	3,971,967	257,903	(48,156)	5,980	7,266	12,958,670
Net income for the period	—	—	—	5,741,765	—	—	—	—	5,741,765
Appropriations and distributions (note 1):									
Legal reserve	—	—	327,917	(327,917)	—	—	—	—	—
Cash dividends	—	—	—	(2,274,683)	—	—	—	—	(2,274,683)
Stock dividends	644,909	—	—	(649,909)	—	—	—	—	—
Changes in unrealized gains on financial instruments	—	—	—	—	744,462	—	—	—	744,462
Changes in net loss not yet recognized as net pension cost	—	—	—	—	—	—	(5,980)	—	(5,980)
						3,216			3,216
Changes in accumulated translation adjustments	—	—	—	—	—	—	—	—	—
<b>Balance as of December 31, 2011</b>	\$ 7,149,004	69,003	2,523,529	6,461,223	1,002,365	(44,940)	—	7,266	17,167,450
Net income for the period	—	—	—	2,574,249	—	—	—	—	2,574,249
Appropriations and distributions (note 2):									
Legal reserve	—	—	574,176	(574,176)	—	—	—	—	—
Cash dividends	—	—	—	(3,574,502)	—	—	—	—	(3,574,502)
Stock dividends	714,900	—	—	(714,900)	—	—	—	—	—
Changes in accumulated translation adjustments	—	—	—	—	(313,587)	—	—	—	(313,587)
Changes in net loss not yet recognized as net pension cost	—	—	—	—	—	(43,842)	—	—	(43,842)
<b>Balance as of December 31, 2012</b>	\$ 7,863,904	69,003	3,097,705	4,171,894	688,778	(88,782)	—	7,266	15,809,768

Note 1: Directors' and supervisors' emoluments \$30,150 and employees' bonus \$60,301 has been deducted from statements of operations for the year ended December 31, 2010.

Note 2: Directors' and supervisors' emoluments \$44,221 and employees' bonus \$88,441 has been deducted from statements of operations for the year ended December 31, 2011.

See accompanying notes to these financial Statements

Chairman :Shao Yu Wang

Manager :Wei-Hua Tu

Chief Accountant :John Chen

**TSRC CORPORATION**  
**Statements of Cash Flows**  
**For the years ended December 31, 2012 and 2011**  
**(expressed in thousands of New Taiwan dollar)**

Unit: NT\$1,000

	2012	2011
	<u>Amount</u>	<u>Amount</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,574,249	5,741,765
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation (include those of rental asset and idle assets)	227,094	202,119
Amortization	19,925	11,044
Reversal of allowance for bad debt	—	(14,509)
Reversal of inventory devaluation	(654)	(1,377)
Investment income, net, accounted for by the equity method	(1,345,179)	(3,525,251)
Cash dividends of long-term investments, accounted for by the equity method	1,410,094	23,333
Losses on disposal of property and equipment, net	292	781
Reversal of allowance for impairment loss	(17,417)	(20,436)
Losses (gains) on disposal of investments, net	9,862	(7,962)
Deferred income tax expense (gains)	(295,931)	714,901
Realization of unearned revenue from technology provided by investment equity	(16,540)	(16,541)
<b>Changes in operating assets and liabilities:</b>		
<b>Changes in operating assets:</b>		
Notes receivable	7,067	6,894
Accounts receivable	780,372	(869,435)
Accounts receivable—related parties	84,101	(72,984)
Other financial assets—current	(67,393)	(8,644)
Inventories	98,320	(554,325)
Prepayments and other current assets	(18,568)	24,794
<b>Changes in operating liabilities:</b>		
Notes payable and accounts payable	(506,087)	268,436
Income tax payable	(72,357)	222,332
Accrued expenses and other current liabilities	(227,980)	229,669
Accrued pension liability	(960)	2,805
Other liabilities	42,406	16,541
<b>Net cash provided by operating activities</b>	<u>2,684,716</u>	<u>2,373,950</u>
<b>Cash flows from investing activities:</b>		
Increase in available-for-sale financial assets	(487,169)	(890,000)
Proceeds from sale of available-for-sale financial assets	497,419	973,761
Increase in investment accounted for by the equity method	(720,000)	—
Proceeds from reduction of capital of investment, accounted for by equity method	19,494	—
Proceeds from reduction of capital of financial assets carried at cost—noncurrent	—	144,000
Proceeds from liquidation of financial assets carried at cost—noncurrent	223,961	—
Acquisitions of property, plant and equipment	(345,025)	(581,806)
Proceeds from sale of property, plant and equipment	45	11,340
Increase in other financial assets—noncurrent	(1,074)	(913)
Increase in intangible assets	—	(1,472)
<b>Net cash used in investing activities</b>	<u>(812,349)</u>	<u>(345,090)</u>

(Continued)

**TSRC CORPORATION**  
**Statements of Cash Flows-continued**  
**For the years ended December 31, 2012 and 2011**  
**(expressed in thousands of New Taiwan dollar)**

Unit: NT\$1,000

	2012	2011
	<u>Amount</u>	<u>Amount</u>
<b>Cash flows from financing activities:</b>		
Increase in short-term borrowings	\$ 875,410	180,277
Increase in short-term commercial papers payable	99,840	249,601
Repayment of long-term debts	(100,000)	(250,000)
Payment of lease account payable	(6,200)	(6,423)
Increase in returnable deposits	82	485
Payment of cash dividends	(3,569,152)	(2,274,067)
<b>Net cash used in financing activities</b>	<u>(2,700,020)</u>	<u>(2,100,127)</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(827,653)</u>	<u>(71,267)</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>1,432,954</u>	<u>1,504,221</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 605,301</u></u>	<u><u>1,432,954</u></u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for: Interest paid	<u>\$ 29,280</u>	<u>18,651</u>
Income tax paid	<u>\$ 452,716</u>	<u>351,496</u>
<b>Supplemental disclosures of investing and financing activities with cash expenditure:</b>		
Purchase of property, plant and equipment	\$ 421,655	555,286
Net changes in accounts payable	(76,630)	26,520
Cash payment	<u>\$ 345,025</u>	<u>581,806</u>
Distribution of cash dividends	\$ 3,574,502	2,274,683
Net changes in dividends payable	(5,350)	(616)
Cash payment	<u>\$ 3,569,152</u>	<u>2,274,067</u>
<b>Supplemental disclosures of investing and financing activities with no cash effect:</b>		
Unrealized gain/losses on financial instruments	\$ —	(5,980)
Reclassification of current portion of long-term debts	\$ —	100,000
Property, plant and equipment transferred to intangible assets	\$ 53,913	51,763
Inventories transferred to property, plant and equipment	\$ —	9,915
Accumulated translation adjustments	\$ 313,587	(744,462)
Changes in deferred pension cost and accrued pension liability	<u>\$ 43,842</u>	<u>(3,216)</u>

See accompanying notes to these financial Statements

Chairman :Shao Yu Wang

Manager :Wei-Hua Tu

Chief Accountant :John Chen

**TSRC CORPORATION**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

(expressed in thousands of New Taiwan dollars unless otherwise stated)

**1.Organization and Business Scope**

TSRC Corporation (the original name was Taiwan Synthetic Rubber Corporation, TSRC) 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 as approved by the stockholders' meeting. TSRC is engaged in (i) the manufacture, import and sale of various types of synthetic rubber; (ii) the import, export, and sale of related raw materials; (iii) the manufacture and sale of processed synthetic rubber products; and (iv) the manufacture and sale of excess steam and electricity produced by the steam and electrical equipment (no sales of electricity to the public); (v) other than the scope of business permitted through registration, unless business is prohibited or restricted by law is allowable.

As of December 31, 2012 and 2011, TSRC had 633 and 593 employees, respectively.

**2.Summary of Significant Accounting Policies**

The financial statements of TSRC are prepared in conformity with the ROC "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles. The significant accounting policies and measurement basis adopted in preparing the financial statements were as follows:

**(a)Use of estimates**

The preparation of the accompanying financial statements in conformity with the aforementioned guidelines, and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. Actual results may differ from management's estimates.

**(b)Foreign currency transactions**

TSRC maintains its books in New Taiwan dollars, which is its reporting and functional currency. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date. The resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of operations. Non-monetary assets and liabilities denominated in foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are reported at the rate that was in effect when the fair values were determined. Subsequent adjustments to carrying values of such non-monetary assets and liabilities, including the effects of changes in exchange rates, are reported in profit or loss for the period, except that if movement in fair value of a non-monetary item is recognized directly in equity, any foreign exchange component of that adjustment is also recognized directly in equity.

The financial statements of foreign subsidiaries that are accounted for by the equity method are translated into New Taiwan dollars at the exchange rates prevailing at the balance sheet dates, with the exception of stockholders' equity accounts, which are translated at historical exchange rates, and revenue, costs and expenses, which are translated at the average exchange rates during the reporting periods. The resulting translation differences are recorded as accumulated translation adjustments, a separate component of stockholders' equity.

**(c)Classification of assets and liabilities as current and noncurrent**

Current assets are unrestricted cash or cash equivalents and assets held for trading purpose which is to be converted into cash, sold, or consumed within one year after the date of the financial statements; all other assets are classified as noncurrent assets. Liabilities that are held primarily for the purpose of being traded or are expected to be settled within 12 months after the balance sheet date are classified as current liabilities; all other liabilities are classified as noncurrent liabilities.

**(d)Asset impairment**

Assessment is made at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) may have been impaired. If any such indication exists, the recoverable amount of the asset is estimated. Impairment loss is recognized for an asset whose carrying value is higher than the recoverable amount.

Impairment loss recognized in prior periods for assets other than goodwill is reversed if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The cash-generating unit to which goodwill is allocated is assessed for impairment on an annual basis and impairment loss thereon is recognized based on the excess of the carrying value over the recoverable amount.

**(e)Cash equivalents**

Cash equivalents consist of highly liquid short-term investments that are readily convertible to known amounts of cash and present insignificant risks from changes in interest rates. Cash equivalents generally represent commercial paper with maturities of three months or less at the date of acquisition.

**(f)Financial assets and liability**

**1.Available-for-sale financial assets:**

At initial recognition, financial instruments recognized as available-for-sale financial assets are measured at fair value plus acquisition cost. Subsequently, they are measured at fair value. Prior to the derecognition of such assets, the changes in fair value are reported as an adjustment item in stockholders' equity, except for impairment loss and translation profit or loss from monetary financial assets. When available-for-sale financial assets are derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized in earnings. The changes in fair value from subsequent re-measurement are reported as separate component of stockholders' equity. A subsequent reversal of allowance for impairment is allowed and recognizes it in profit or loss.

**2.Financial assets carried at cost:**

When TSRC does not have significant influence over the investee company and the fair value of securities of the investee company cannot be reliably measured, these financial instruments are stated at their original cost. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed until the assets are disposed of.

### 3. Notes receivables, accounts receivables and other receivables:

Notes receivables and accounts receivables are generated from sales of goods or provision of services directly to the customer. Other receivables are generated from sales of goods and provision of services for non-operating purposes.

Financial assets are measured at amortized cost using the effective interest method. TSRC considers evidence of impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

In assessing collective impairment, TSRC uses historical trends of the profitability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost 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. Losses are recognized in profit or loss and reflected in an allowance account against financial assets. Interest on the impaired asset continues to be recognized. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### **(g) Inventories**

Inventories are measured at the lower of cost or net realizable value, the method of valuing inventories is the moving average method. The cost of inventories is based on the standard cost. Net realizable value is the estimated selling price in the ordinary course of business at the balance sheet date, less the estimated costs of completion and selling expenses at the end of the period. The difference between standard cost of inventory and actual cost of inventory is allocated proportionately to inventories and cost of sales. The fixed manufacturing overhead is allocated to inventories and cost of sales based on the higher of normal capacity or actual capacity of production. The amount of unallocated fixed manufacturing overheads resulting from lower capacity or idle plant is recognized in cost of sales during the period.

#### **(h) Investments accounted for by the equity method**

Investments in equity securities are accounted for by the equity method when TSRC and its investees hold 20% or more of the voting rights of an investee, or hold less than 20% of the voting rights but have significant influence on the investee's financial and operating policies. Joint ventures are those entities over whose activities TSRC has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Investments in joint ventures are accounted for by the equity method.

The excess of cost of investment over the fair value of identifiable net assets acquired is accounted for as goodwill, which is not amortized in accordance with the revised Statement of Financial Accounting Standards (SFAS) No. 5 "Long-term Investments under Equity Method".

When TSRC subscribes for additional shares of an investee at a percentage different from its ownership percentage, it causes a difference between the carrying amount of TSRC's investment in the investee and its share of the investee's equity. Such difference is adjusted against capital surplus.

Under the equity method, gains or losses from inter-company transactions are deferred and then recognized when realized. Gains or losses resulting from inter-company transactions involving depreciable or amortizable assets are deferred and then recognized over the assets' estimated useful lives. Gains or losses resulting from other inter-company transactions are recognized when realized.

When TSRC has control over the investee company, such investee company is included in the consolidated financial statements at the end of the first quarter, half-year, third quarter and fiscal year, in accordance with SFAS No. 7 "Consolidated Financial Statements".

#### **(i) Property, plant and equipment**

Property, plant and equipment are stated at cost plus revaluation increment. Interest on borrowings in connection with the acquisition of property and equipment or the construction of plant is capitalized as a component of the respective asset. Major addition, improvement, and replacement cost are capitalized. Maintenance and repair cost are recorded as current expense.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. When property, plant and equipment reach their useful lives but they are still being made available for use, depreciation continues to be calculated continuously based on their residual value and estimated remaining useful lives.

Gains or losses on the disposal of property, plant and equipment are recorded as non-operating income or expense.

The estimated costs of dismantling and removing an item and restoring the site on which it is located are capitalized. Each part of an item of property, plant or equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The remaining useful lives, depreciation method, and residual value are assessed at each fiscal year-end, and changes therein are accounted for as changes in accounting estimates.

The estimated useful lives of the respective assets are as follows:

- (i) Land improvements: 8–30 years
- (ii) Buildings: 3–60 years
- (iii) Machinery and equipment: 8–40 years
- (iv) Furniture and fixtures: 3–8 years

Land and buildings held for operating lease are classified as other assets—rental assets based on carrying value.

Idle assets are accounted for as other assets and evaluated for impairment in accordance with SFAS No. 35 "Impairment of Assets".

#### **(j)Intangible assets**

The cost of intangible assets is stated at acquisition cost. It is amortized over three years using the straight-line method when it becomes available for use.

The estimated useful lives of the intangible assets are as follows:

- (i)Engineering technology: 10 years
- (ii)Software: 3 years

#### **(k)Capital lease**

The leased property is measured at the present value of all future rental payments (less the lessee's executory costs) plus the bargain purchase price or the lessee's guaranteed residual value or the market value of the leased property at the inception date of the lease, whichever is less.

The lessee's periodic rental payment covers two parts: (i) the purchase price of the leased property and (ii) the interest expense due to long-term or installment financing. Therefore, the lessee recognizes both a lease liability and interest expense periodically. The interest expense is calculated based on the following rules:

a)If the value of the leased property is determined using the maximum borrowing rate for nonfinancial institutions (determined by the ROC Ministry of Finance) on the inception date of the lease, interest expense is calculated based on the beginning balance of the lease payable and the maximum borrowing rate.

b)If the value of the leased property is determined by its market price, interest expense is also calculated based on the beginning balance of the lease payable and the maximum borrowing rate. However a service charge is calculated based on the beginning balance of the lease payable and the difference between the lessor's interest rate implicit in the lease and the maximum borrowing rate.

If there is any unguaranteed residual value at the end of the lease term, the lessee calculates the imputed interest expense based on the rental payments and the leased property's market value using the rules described under items (a) and (b) above.

The lessee's lease payable excludes the interest expense and the service charge from the periodic rental payment.

The lease liability is classified as either current or non-current liability, depending on the due date.

#### **(l)Employee retirement benefits**

a)Defined benefit plan:

TSRC has adopted a defined benefit retirement plan (the "Plan") for all salaried employees since 1980. The Plan provides for benefit payments using a formula based on an employee's length of service and average salary for the six months before retirement. According to the Plan, employees qualified for retirement are entitled to receive their benefit payment in a lump sum. TSRC funds the Plan monthly in accordance with the Labor Standards Law. The pension fund is deposited with Bank of Taiwan, the government-designated custodian of pension funds.

TSRC adopted Statement of Financial Accounting Standards No. 18, "Accounting for Pensions". Under this standard, TSRC is required to perform an actuarial calculation on its pension obligation as of each fiscal year-end. Based on the actuarial calculation, TSRC recognizes a minimum pension liability and net periodic pension costs covering the service lives of participants. A deferred pension cost is recognized and classified under intangible assets when the amount of additional liability does not exceed the sum of unrecognized prior service cost and unrecognized transitional net benefit obligation. An excess is charged to the net loss not yet recognized as net periodic pension cost account, and is classified as a reduction of equity. The unrecognized net transition obligation and unrecognized pension gain or loss are amortized on a straight-line basis.

For those employees who were covered by the Plan, pension contributions were made monthly to the Bureau of Labour Insurance at the rate of 7.07% of their monthly wages from April 2010 to February 2011. Subsequently, this contribution rate was adjusted to 8.93% from March 2011.

b)Defined contribution plan:

Starting from July 1, 2005, the enforcement rules of the newly enacted Labour Pension Act (the "New Act") require the following categories of employees to adopt the New Act's defined contribution plan:

- (i)Employees who were covered by the Plan and opted to be subject to the pension mechanism under the New Act; and
- (ii)Employees who commenced working after the enforcement date of the New Act.

In accordance with the New Act, TSRC shall contribute monthly no less than 6% of an employee's monthly salary or wages to the employee's individual pension fund account at the Bureau of Labour Insurance. The actual contribution rate of TSRC is 6% of the employee's monthly wages. Such contributions are charged to current operations as pension cost on an accrual basis.

#### **(m)Employees' bonus and directors' and supervisors' emoluments**

Employees' bonus and directors' and supervisors' emoluments are accounted for under Interpretation (96) 052 issued by the Accounting Research and Development Foundation. According to this Interpretation, the employees' bonus and directors' and supervisors' emoluments are estimated and recognized as expenses when TSRC's legal obligation and the amounts can be reasonably determined. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized in profit or loss.

#### **(n)Revenue recognition**

(i)Sales and cost of sales are recognized when significant risks and rewards of ownership of the products are transferred to the buyers. Also, a provision for estimated returns and discounts is recorded as sales are recognized. Expenses are recognized on an accrual basis.

(ii)Service revenue is recognized based on the degree of completion on the balance sheet date.

(iii)Dividends income is recognized on the date of dividend distribution or on the date when the board of directors approved a resolution to distribute dividends.



#### (o)Income tax

Income taxes are accounted for under the asset and liability method. Deferred income taxes are determined based on differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, net operating loss carry forwards, and income tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly. The flow-through method is adopted for income tax credits resulting from the research and development expenditures.

Classification of the deferred income tax assets or liabilities as current or non-current is based on the classification of the related asset or liability. If the deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the expected realization date of such deferred income tax asset or liability.

Undistributed income, if any, is subject to an additional 10 percent retained earnings surtax. This surtax is charged to income tax expense in the following year when the stockholders approved a resolution not to distribute the earnings.

#### (p)Earnings per share of common stock

Earnings per share are computed by dividing the amount of net income attributable to common stock outstanding for the period by the weighted-average number of common shares outstanding during the period.

Stock options issued by TSRC as employees' bonus but still not yet approved by stockholders are treated as potential common stock. When computing diluted EPS, potential common shares are included in the calculation if they are dilutive. Non-dilutive potential common shares are excluded from the calculation of diluted EPS.

The method of calculating diluted EPS is consistent with that of the basic EPS but the diluted EPS includes the effects of all potentially dilutive common shares that were outstanding during the reporting period. When calculating diluted EPS, the net income attributable to common stockholders and the weighted-average number of shares outstanding are adjusted for the effects of all potentially dilutive common shares.

The weighted-average number of common shares outstanding is adjusted currently and retroactively for the increase in common shares outstanding from stock issuance through the capitalization of retained earnings, additional paid-in capital, or employees' bonus. For calculating the diluted EPS, the employees' bonus in stock is included in the calculation of the weighted-average number of shares at market price or net value on the balance sheet date.

#### (q)Operating segments

An operating segment is a component of an entity 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 same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of resources to the segment and to assess its performance for which discrete financial information is available. Operating segments in TSRC are disclosed in consolidated financial statement.

### 3.Reason for and Effect of Accounting Changes

(a)TSRC adopted the third revisions of the SFAS No. 34 "Accounting for Financial Instruments" effective on January 1, 2011 for the recognition, subsequent measurement and impairment of originated loans and receivables. The adoption of this amended accounting principle caused no significant impact on TSRC's financial statements as of and for the year ended December 31, 2011.

(B)TSRC changed the valuation method of valuing inventories from first-in first-out to the moving average method commencing from January 1, 2011. For the year ended December 31, 2011, the effects on net income after tax and EPS were as follows:

	Net income	EPS
Effect on net income and EPS change from first-in first-out to moving-average method	\$ 4,914	0.01

(c)TSRC adopted SFAS No. 41 "Operating Segment" starting from January 1, 2011. According to this new accounting standard, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effect of the business activities in which it engages and the economic environment in which it operates. Internal information that is provided to the chief operating decision maker is used as the basis for determining and disclosing the operating segments. This standard replaces SFAS No. 20 "Segment Reporting". The adoption of this new accounting standard was to disclose certain information and had no impact on TSRC's profit and loss for the year ended December 31, 2011.

### 4.Description of Significant Accounts

#### (a)Cash and cash equivalents

	Dec.31, 2012	Dec.31, 2011
Check deposits	\$ 1,744	4,425
Savings deposits	343,704	74,087
Commercial paper with repurchase agreements	259,853	1,354,442
	<u>\$ 605,301</u>	<u>1,432,954</u>



**(b) Financial assets****(i) Available-for-sale financial assets—current:**

For the years ended December 31, 2012 and 2011, the sales of a available-for-sale financial assets resulted in gains of \$10,250 and \$7,962 thousand respectively, which were accounted for as non-operating expenses and losses—loss on disposal of investments, net, and non-operating income and gains—gains on disposal of investments, net.

**(ii) Financial assets carried at cost—noncurrent**

Investment in equity securities-common stock:

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Taiwan High Speed Rail Corp.	\$ 500,000	500,000
Wei Dah Investment Co., Ltd.	—	244,073
Evergreen Development Corp.	209,878	209,878
Thai Synthetic Rubbers Co., Ltd.	65,143	65,143
Hsin-Yung Enterprise Corp.	64,296	64,296
	<u>\$ 839,317</u>	<u>1,083,390</u>

Note: Evergreen Development Corp. was renamed Evergreen Steel Corp. on January 5, 2012.

These are investments in equity securities which are stated at their original cost as they do not have quoted market price in an active market and their fair value cannot be reliably measured.

The Board of Wei Dah Investment Co., Ltd resolved to reduce its capital and returned it in cash to stockholders in 2011 and therefore TSRC received consideration of \$144,000 thousand. In addition, Wei Dah Investment Co., Ltd completed the process of liquidation in June 2012, and TSRC recognized liquidation loss of \$20,112 thousand, which was accounted for as non-operating expenses and losses—losses on disposal of investment, net.

For the years ended December 31, 2012 and 2011, TSRC received cash dividends of \$41,445 thousand and \$100,574 thousand, respectively, from the above investee companies.

**(c) Notes and Accounts receivable**

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Notes receivable	\$ 1,071	8,138
Accounts receivable	2,095,984	2,876,356
Accounts receivable-related parties	12,695	96,796
	<u>\$ 2,109,750</u>	<u>2,981,290</u>

As of December 31, 2012, TSRC's notes and accounts receivable were pledged of \$79,733 thousand. There was no such transaction for the year ended December 31, 2011.

The carrying value of notes receivable and accounts receivable is considered as their fair value because of the near maturity dates.

**(d) Inventories****(i) The components as of December 31, 2012 and 2011, were as follows:**

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Finished goods	\$ 1,389,570	1,560,856
Work in process	221,932	207,659
Raw materials	576,326	514,817
Supplies	22,784	24,946
	<u>\$ 2,210,612</u>	<u>2,308,278</u>

**(ii) For the years ended December 31, 2012 and 2011, the changes in allowance for inventory valuation loss and obsolescence were as follows:**

	<u>2012</u>	<u>2011</u>
Balance as of January 1	\$ 66,133	67,510
Reversal of write-downs	(654)	(1,377)
Balance as of December 31	<u>\$ 65,479</u>	<u>66,133</u>

(iii) For the years ended December 31, 2012 and 2011, the inventory-related gains and loss, recorded in cost of sales, were as follows:

	2012	2011
Reversal of write-downs	\$ (654)	(1,377)
Revenue from sales of scraps	(59,882)	(56,327)
	<u>\$ (60,536)</u>	<u>(57,704)</u>

**(e) Long-term investments accounted for by the equity method**

Investee	Dec.31, 2012			Dec.31, 2011		
	Holding Percentage	Balance	Investment Gain	Holding Percentage	Balance	Investment Gain
Trimurti Holding Corporation	100.00%	\$ 9,613,271	1,294,559	100.00%	10,033,423	3,481,592
Hardison International Corporation	100.00%	431,332	44,153	100.00%	410,700	36,108
Dymas Corporation	19.48%	78,694	9,817	19.48%	73,820	7,551
Taiwan Advanced Materials Corp.	48.00%	716,650	(3,350)		—	—
		<u>\$ 10,839,947</u>	<u>1,345,179</u>		<u>\$ 10,517,943</u>	<u>3,525,251</u>

For the year ended December 31, 2012, Hardison International Corporation and Dymas Corporation, investee companies accounted for by equity method, reduced their capitals and returned them in cash to stockholders. TSRC received cash proportionally based on percentage of capital reduction and decreased the value of long-term investment in \$15,700 thousand and \$3,794 thousand, respectively.

For the years ended December 31, 2012 and 2011, TSRC obtained cash dividends from investee companies accounted for by equity method of \$1,410,094 thousand and \$23,333 thousand, respectively.

TSRC invested in a newly-established joint venture, Taiwan Advanced Corp., on January 31, 2012. On December 31, 2012, the amounts of Taiwan Advanced Materials Corp. which TSRC shares, according to contractual agreement, were as follows:

	Dec.31, 2012
Current assets	\$ 673,696
Non-current assets	63,240
Current liabilities	20,286
Revenue	3,233
Expense	6,583

In 2008, TSRC provided technology as capital injections in TSRC (Nantong) Industries Co., Ltd. and TSRC-UBE (Nantong) Chemical Industrial Corporation Limited through Trimurti Holding Corporation and Polybus Corporation Pte. Ltd. The original amount was US\$ 6,648 thousand and US\$ 1,000 thousand, respectively, recorded in other liabilities-others.

Balances of the equity investments mentioned above as of December 31, 2012 and 2011 were as follows:

	Dec.31, 2012	Dec.31, 2011
TSRC (Nantong) Industries Co., Ltd.	\$ 53,520	66,825
TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	16,446	19,681
	<u>\$ 69,966</u>	<u>86,506</u>

**(f) Property, plant and equipment**

1. A certain parcel of land of TSRC was revalued using government-prescribed values in 1979 and 1981. Also, depreciable assets acquired before June 30, 1980, were revalued on January 1, 1981, as approved by the Taipei National Tax Administration, based on the ROC "Statute for Encouragement of Investment" and other laws and regulations.

The details of the revaluation increments and reserve for land revaluation increment tax of December 31, 2012 and 2011 were as follows:

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Land	\$ 126,174	126,174
Land improvements	3,565	3,565
Buildings	37,018	37,018
Machinery and equipment	267,353	267,948
Furniture and fixtures	194	208
	<u>\$ 434,304</u>	<u>434,913</u>
Reserve for land revaluation increment tax	<u>\$ 56,683</u>	<u>56,683</u>

2. TSRC has entered into a contract for leasing 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, TSRC has an option to purchase the rented land from 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 offset the purchase price. The relevant leased asset and lease payable were as follows:

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>		
Leased assets-land	<u>\$ 94,596</u>	<u>94,596</u>		
Lease payable:				
<u>Lesser</u>	<u>Lease period</u>	<u>Bargain purchase option</u>	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Industrial Development Bureau of the Ministry of Economic Affairs	2004.6.29~2024.6.28	Formally apply to Industrial Development Bureau of the Ministry of Economic Affairs for purchasing leased land	\$ 73,823	80,023
		Less : current portion	<u>6,837</u>	<u>6,912</u>
			<u>\$ 66,986</u>	<u>73,111</u>

The above lease payable—current and noncurrent were classified under accrued expenses, and other liabilities—other, respectively. The details of lease payable (excluding VAT) due in future years for the above capital lease were as follows:

<u>Period</u>	<u>Amount</u>
2013	\$ 7,064
2014	7,064
2015	7,064
2016	7,064
After 2017	<u>52,979</u>
	81,235
Less : unrealized interest expense	<u>7,412</u>
Present value	<u>\$ 73,823</u>

**(g)Other intangible assets**

	<u>2012</u>	<u>2011</u>
Balance as of January 1	\$ 45,024	2,833
Reclassification (Transferred from prepayments for machinery and equipment)	53,913	51,763
Addition	—	1,472
Amortization	<u>(19,925)</u>	<u>(11,044)</u>
Balance as of December 31	<u>\$ 79,012</u>	<u>45,024</u>

**(h) Other assets — rental and idle assets**

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Rental assets:		
Buildings	\$ 741,889	741,889
Less: accumulated depreciation	<u>130,793</u>	<u>116,068</u>
	611,096	625,821
Land	<u>1,155,023</u>	<u>1,155,023</u>
	<u>\$ 1,766,119</u>	<u>1,780,844</u>
Idle assets:		
Machinery and equipment	\$ 200,696	207,002
Less: accumulated depreciation	<u>200,696</u>	<u>189,585</u>
accumulated impairment	<u>-</u>	<u>17,417</u>
	-	-
Land	<u>\$ 120,221</u>	<u>120,221</u>
	<u>\$ 120,221</u>	<u>120,221</u>

In 1988, TSRC purchased certain parcels of land near its Kaohsiung plant. This land has not yet been actively developed, and part of the land is being leased to a non-related party. The cost of the related assets is included in rental assets and idle assets.

**(i) Short-term borrowings**

Short-term borrowings consisted of bank credit loans. As of December 31, 2012 and 2011, the related interest rates were as follows:

	<u>2012</u>	<u>2011</u>
JPY borrowings	1.000%	0.74%~0.98%
USD borrowings	0.856%~1.070%	1.18%~1.66%
EUR borrowings	1.750%~1.900%	2.13%~2.31%
TWD borrowings	1.150%~1.210%	-

As of December 31, 2012 and 2011, TSRC had unused short-term credit lines (including credit lines for short-term commercial paper payable) amounting to \$4,965,905 thousand and \$3,303,576 thousand, respectively.

**(j) Short-term commercial papers payable**

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Short-term commercial papers payable	\$ 350,000	250,000
Less: discount on short-term commercial papers payable	<u>559</u>	<u>399</u>
	<u>\$ 349,441</u>	<u>249,601</u>
Interest rates	<u>1.115%</u>	<u>1.2%</u>

**(k) Long-term debts**

Bank	Nature and duration	<u>Dec.31, 2012</u>		<u>Dec.31, 2011</u>	
		<u>Amount</u>	<u>Interest rate</u>	<u>Amount</u>	<u>Interest rate</u>
Taiwan Cooperative Bank	Secured loans, 2007.08.14~2012.08.14, interest is payable monthly and principal is repayable in 6 half-yearly installments after 25 months commencing from the date of initial utilization of debt.	\$ -	-	100,000	1.37%
	Total	-		100,000	
	Less: current portion	-		(100,000)	
		<u>\$ -</u>		<u>-</u>	

Pledged assets for long-term debts were mentioned in note 6.

**(l) Retirement benefits**

1. As of December 31, 2012 and 2011, the pension information on defined benefit plan were as follows:

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Vested benefit	<u>\$ 505,253</u>	<u>451,280</u>
Benefit obligation:		
Vested benefit obligation	<u>\$ 407,420</u>	<u>344,137</u>
Accumulated benefit obligation	<u>\$ 607,685</u>	<u>554,119</u>
Projected benefit obligation	<u>\$ 711,151</u>	<u>654,184</u>
Fair value of plan assets	<u>426,440</u>	<u>410,471</u>
Funded status	<u>284,711</u>	<u>243,713</u>
Unrecognized net loss	<u>(192,248)</u>	<u>(145,005)</u>
Unrecognized transition obligation	<u>(21,133)</u>	<u>(26,418)</u>
Adjustment required to recognize minimum liability (note)	<u>109,915</u>	<u>71,358</u>
Accrued pension liability	<u>\$ 181,245</u>	<u>143,648</u>

Note: As of December 31, 2012 and 2011, additional accrued pension liabilities incurred from unrecognized transitional net benefit obligation of \$21,133 thousand and \$26,418 thousand, respectively, were recorded as deferred pension cost, and the excess amount of \$88,782 thousand and \$44,940 thousand were recorded as net loss not yet recognized as net pension cost.

The components of net periodic pension cost for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Service cost	<u>\$ 9,099</u>	<u>9,498</u>
Interest cost	<u>13,012</u>	<u>11,730</u>
Actual return on plan assets	<u>(4,008)</u>	<u>(4,911)</u>
Amortization	<u>6,207</u>	<u>8,785</u>
Net pension cost	<u>\$ 24,310</u>	<u>25,102</u>

Actuarial assumptions used for the retirement plan as of December 31, 2012 and 2011, were as follows:

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Discount rate	<u>1.75%</u>	<u>2.00%</u>
Future salary increase rate	<u>1.50%</u>	<u>1.50%</u>
Expected long-term rate of return on plan assets	<u>1.75%</u>	<u>2.00%</u>

2. TSRC is subject to the Labor Pension Act, which became effective July 1, 2005. For the years ended December 31, 2012 and 2011, TSRC contributed \$18,283 thousand and \$15,094 thousand, respectively, to the employees' individual pension accounts at the Bureau of Labor Insurance, recognized as pension expenses.

**(m) Stockholders' equity****1. Common stock**

As of December 31, 2012 and 2011, the authorized capital amounted to \$9,000,000 thousand with par value of \$10 dollars per share, of which \$1,000,000 thousand was retained for conversion of convertible bonds, and the issued capital amounted to \$7,863,904 thousand and \$7,149,004 thousand, respectively.

**2. Capital surplus**

ROC Company Act stipulates that realized capital surplus cannot be used to increase capital or distribute dividends except for making up deficits. Realized capital surplus includes the premium from issuance of shares in excess of par value and donations received.

As of December 31, 2012 and 2011, the components of capital surplus were as follows:

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Share premium	<u>\$ 849</u>	<u>849</u>
Capital surplus resulting from long-term investment, accounted for by equity method	<u>68,109</u>	<u>68,109</u>
Other	<u>45</u>	<u>45</u>
	<u>\$ 69,003</u>	<u>69,003</u>

### 3. Legal reserve

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

### 4. Special reserve, dividends and bonuses

In accordance with SFB Ruling Tai-Tsai-Cheng No. 100116, effective in 1999, in addition to appropriating a legal reserve, TSRC should appropriate a special reserve for other equity adjustment items with debit balance from current year's earnings after tax or prior year's unappropriated earnings. However, this special reserve cannot be distributed as dividend. When events resulting in other equity adjustment items with debit balances terminate, the related special reserve is reinstated into retained earnings, so that it can be made available for distribution as dividends.

In accordance with FSC Ruling Jin-Guan-Zheng-Fa No. 1010012865, when International Financial Reporting Standards are adopted for the first time, reserve for asset revaluation increment and accumulated translation adjustments, recorded in stockholders' equity section, are transferred into unappropriated earnings due to the exemption options of IFRS 1 "First-time Adoption of International Financial Reporting Standards", and the Company shall provide the same amounts as special reserve. However, if increased unappropriated earnings resulting from the adoption of IFRS on the date of transition are not enough to provide special reserve for the amounts of reserve for asset revaluation increment and accumulated translation adjustments transferred, the Company shall provide the remaining increased amount of unappropriated earnings only. Following the use, disposal or reclassification of the related assets, special reserve shall be reversed proportionally into unappropriated earnings.

Before the revision of TSRC's articles of incorporation, TSRC had to retain 10% of its after-tax earnings as legal reserve (less deficits of prior years, if any), and then provide a special reserve. The remaining earnings should be distributed as follows:

- 1.97% of annual earnings are distributed as stockholders' dividends and bonus.
- 2.1% of annual earnings are distributed as directors' and supervisors' emoluments.
- 3.2% of annual earnings are distributed as employees' bonus.

If the dividends and bonuses mentioned above are to be distributed, distribution for cash dividends was not be less than 20% of total dividends. The proportion of cash dividends is reduced or stock dividends were distributed if capital expenditures were anticipated in the future. Under any of the following circumstances, part or all of remaining earnings can be retained:

- a) If the stock dividend per share was less than \$0.5 (dollars).
- b) If necessary, not over 50% of remaining earnings could be retained.

The amounts of individual directors' and supervisors' emoluments and employees' bonus are based upon the board of directors' resolution.

Based on a resolution approved by the shareholders during their meeting in 2012, the earnings distribution policies were modified as follows:

TSRC must retain 10% of its after-tax earnings as legal reserve (less deficits of prior years, if any), and then provide the special reserve. No less than 50% of distributable earnings shall be appropriated in the following order:

- 1.97% as stockholders' dividends and bonus.
- 2.1% as directors' and supervisors' emoluments.
- 3.2% as employees' bonus.

If the dividends and bonuses mentioned above are to be distributed, distribution of cash dividends should not be less than 20% of total dividends and stock dividends should not be more than 80% of total dividends. Distributable earnings would be retained if dividends mentioned above are less than 0.5 New Taiwan Dollars per share.

The amounts of individual directors' and supervisors' emoluments and employees' bonus are based upon the board of directors' resolution.

The appropriations of 2011 and 2010 earnings that were approved by TSRC's shareholders during their meetings on June 6, 2012, and June 10, 2011, respectively, were as follows:

	2011	2010
Cash dividends per share	\$ 5.00	3.50
Stock dividends per share	1.00	1.00
Employees' bonus—cash	88,441	60,301
Directors' and supervisors' emoluments	44,221	30,150

The amounts of the above appropriations of earnings were consistent with the resolutions approved by TSRC's shareholders during their meetings, and related information can be accessed through the Market Observation Post System.

On December 31, 2012, TSRC recognized employees' bonus and directors' and supervisors' emoluments amounting to \$34,990 thousand (net of tax) and \$17,495 thousand (net of tax) respectively. Such amounts were estimated as percentages of the net income for the year ended December 31, 2012, which are consistent with the articles of incorporation approved by TSRC's shareholders' meetings. The difference between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, shall be accounted for as changes in accounting estimates and recognized in profit or loss.

**(n)Income tax**

1.TSRC is subject to ROC income tax at a maximum rate of 17% for the years ended December 31, 2012 and 2011, and it applies the “Income Basic Tax Act” .

2.For the years ended December 31, 2011 and 2012, the components of income tax expense were as follows:

	2012	2011
Current income tax expense	\$ 380,359	571,056
Deferred income tax expense (gains)	(295,931)	714,901
10% surtax on undistributed earnings	87,819	2,665
Income tax expense	<u>\$ 172,247</u>	<u>1,288,622</u>

The components of deferred income tax expense for the years ended December 31, 2012 and 2011, were as follows:

	2012	2011
Reversal of losses on idle assets valuation	\$ 2,961	3,474
Provision for (reversal of) inventory valuation loss and obsolescence	(112)	234
Unrealized exchange gain (losses)	1,959	(3,167)
Provision for retirement benefits	(187)	(127)
Deferred charges and supplies charged to expense	497	500
Amortization of capitalized interest expense	(1,591)	(1,319)
Depreciation difference between financial and tax reporting	(69)	(2,238)
Technology as capital contribution difference between financial and tax reporting	2,813	2,812
Foreign investment income accounted for by the equity method, net	229,250	689,850
Deferred unrealized revenue	(8,067)	—
Foreign investment income remitted and reinvested	(525,508)	(3,967)
Other	2,123	28,849
	<u>\$ (295,931)</u>	<u>714,901</u>

3. For the years ended December 31, 2012 and 2011, the differences between income tax calculated on pretax accounting income at the statutory income tax rate was reconciled with income tax expense as follows:

	2012	2011
Income tax calculated on pretax accounting income at statutory tax rate	\$ 466,904	1,196,001
Investment and R&D tax credits utilized	(16,916)	(11,063)
Previously overestimated income tax	(11,518)	(4,231)
Domestic investment income accounted for by the equity method	(8,218)	(17,098)
Foreign dividend withholding tax	(74,215)	-
10% surtax on undistributed earnings	87,819	2,665
Foreign investment income reinvested	(273,175)	-
Others	1,566	122,348
Income tax expense	<u>\$ 172,247</u>	<u>1,288,622</u>

4. As of December 31, 2012 and 2011, the components of temporary differences and related income tax effects which resulted in deferred income tax assets (liabilities) were as follows:

	Dec.31, 2012	Dec.31, 2011
Current deferred income tax assets:		
Allowance for inventory valuation loss and obsolescence	11,131	11,243
Unrealized foreign exchange gains / losses	(1,043)	916
Current deferred income tax assets (included in prepayments and other current assets)	<u>\$ 10,088</u>	<u>12,159</u>
Noncurrent deferred income tax assets:		
Allowance for idle assets valuation losses	\$ -	2,961
Provision for retirement benefits	14,039	13,852
Unrealized gains from disposal of investment	877	1,735
Deferred charges and supplies transferred to expense	2,175	2,672
Difference between technology contributed as the capital of investee	11,894	14,707
Deferred unrealized revenue	8,067	-
Non-current deferred income tax assets	<u>37,052</u>	<u>35,927</u>
Noncurrent deferred income tax liabilities:		
Capitalized interest expenses	(34,766)	(36,357)
Depreciation differences between financial and tax reporting	(3,785)	(3,854)
Foreign investment income accounted for by the equity method	(822,130)	(1,118,388)
Others	(3,200)	(2,159)
Noncurrent deferred income tax liabilities	<u>(863,881)</u>	<u>(1,160,758)</u>
Noncurrent deferred income tax liabilities, net	<u>\$ (826,829)</u>	<u>(1,124,831)</u>

5. TSRC's income tax returns have been examined and assessed by the tax authorities through 2011, excluding in 2008 to 2010 income tax returns.

6. As of December 31, 2012 and 2011, the balances of the imputation credit account were as follows:

	Dec.31, 2012	Dec.31, 2011
Balances of imputation credit account	<u>\$ 186,628</u>	<u>369,144</u>
	2011	2010
Imputation tax credit ratio	<u>11.32%</u>	<u>8.89%</u>

As of December 31, 2012 and 2011, the components of unappropriated earnings subject to imputation income tax were as follows:

	Dec.31, 2012	Dec.31, 2011
Derived from year 1997 and prior years	\$ 1,637	1,637
Derived from year 1998 and thereafter	4,170,257	6,459,586
	<u>\$ 4,171,894</u>	<u>6,461,223</u>



**(o) Earnings per share**

For the years ended December 31, 2012 and 2011, TSRC's earnings per share were calculated as follows:

	2012		2011	
	Before Income Taxes	After Income Taxes	Before Income Taxes	After Income Taxes
<b>Basic EPS:</b>				
Net income before cumulative effect of changes in accounting principles	\$ 2,746,496	2,574,249	7,035,301	5,746,679
Cumulative effect of changes in accounting principles	—	—	(5,920)	(4,914)
Net income	\$ 2,746,496	2,574,249	7,029,381	5,741,765
Weighted-average number of shares	786,390	786,390	786,390	786,390
Net income before cumulative effect of changes in accounting principles	\$ 3.49	3.27	8.95	7.31
Cumulative effect of changes in accounting principles	—	—	(0.01)	(0.01)
Basic EPS	\$ 3.49	3.27	8.94	7.30
<b>Diluted EPS:</b>				
Net income before cumulative effect of changes in accounting principles	\$ 2,746,496	2,574,249	7,035,301	5,746,679
Cumulative effect of changes in accounting principles	—	—	(5,920)	(4,914)
Net income	\$ 2,746,496	2,574,249	7,029,381	5,741,765
Weighted-average number of shares	786,390	786,390	786,390	786,390
Employees' bonuses	593	593	988	988
Weighted-average number of shares outstanding for calculating diluted EPS	786,983	786,390	787,378	787,378
Net income before cumulative effect of changes in accounting principles	\$ 3.49	3.27	8.94	7.30
Cumulative effect of changes in accounting principles	—	—	(0.01)	(0.01)
Diluted EPS	\$ 3.49	3.27	8.93	7.29

**(p) Financial instruments**

1. As of December 31, 2012 and 2011, the details of financial instruments were as follows:

	Dec.31, 2012			Dec.31, 2011		
	Book value	Fair value		Book value	Fair value	
		Public quote value	Assessment value		Public quote value	Assessment value
<b>Financial assets:</b>						
Fair value equal to book value of assets	\$ 2,918,403	345,448	2,572,955	4,550,203	78,512	4,471,691
Financial assets carried at cost	839,317	—	—	1,083,390	—	—
Other financial assets — noncurrent	5,332	—	5,332	4,258	—	4,258
<b>Financial liabilities:</b>						
Fair value equal to book value of liabilities	3,696,737	—	3,696,737	3,387,562	—	3,387,562
Long-term debts	—	—	—	100,000	—	100,000
Lease account payable — noncurrent	66,986	—	66,986	73,111	—	73,111
Returnable deposits	17,786	—	17,786	17,704	—	17,704
<b>Derivative financial instruments</b>						
<b>Off-balance sheets financial instruments:</b>						
Guaranteed borrowings	—	—	6,297,855	—	—	5,391,119
Letter of credit	—	—	1,091,898	—	—	1,939,649

The methods and assumptions used to estimate the fair value of financial instruments above are summarized as follows:

(i) Fair-value equivalent assets and liabilities: These are short-term financial instruments whose maturity dates are near the balance sheet date so that their fair values are estimated based on the book value at the balance sheet date. These include cash and cash equivalents, notes and accounts receivable and payable (including related parties), other financial assets — current, short-term borrowings, short-term commercial paper payable, accrued expenses and other financial liabilities.

(ii) Financial assets carried at cost: These are investments in unlisted companies without market price, and therefore their fair value cannot be reasonably estimated.

(iii) Other financial assets — noncurrent: These are guarantee deposits paid for operations whose refund dates are uncertain. Due to difficulty of estimating their fair value by discounting future cash flow, the fair value was determined based on book value.

(iv) Long-term debts: The fair values of long-term debts are determined based on the discounted future cash flows. Because the borrowing interest rates are floating, the carrying values of long-term debts approximate the market value.

(v) Lease account payable — noncurrent: The fair value is determined based on market value if there is available market value. If not, the fair value is estimated by the discounted estimated future cash flows. The discount rate is based on available borrowing interest rate.

(vi) Returned deposits: There is no exact due date for returnable deposits. The fair values were estimated to be equal to the carrying amount as of December 31, 2012 and 2011.

(vii) Guarantee for borrowings: The amount of TSRC's guarantee for bank loans of the investees equals potential loss. The amount of guarantee is estimated based on the fair value of the borrowing contract.

(viii) Letter of credit: Fair value of the unused letter of credit intended for purchasing raw materials, machinery and equipment is determined by contract because the due date of the letter of credit is close to the balance sheet date.

## 2. Disclosures of financial risks

### (i) Market risk

TSRC is exposed to foreign currency risk on accounts receivable which are denominated in a currency other than New Taiwan dollars. This above foreign currency risk will be offset by the same risk related to those short-term borrowings which are denominated in a foreign currency. Therefore, TSRC believes its exposure to foreign currency risk is low.

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	Dec.31, 2012			Dec.31, 2011		
	Foreign Currency (In Thousands)	Exchange Rate	NTD	Foreign Currency (In Thousands)	Exchange Rate	NTD
<b>Financial assets</b>						
<b>Monetary assets</b>						
USD	\$ 55,844	29.136	1,627,071	59,459	30.290	1,801,013
EUR	3,350	38.280	128,238	3,739	38.99	145,784
JPY	23,791	0.3345	7,958	22,029	0.3886	8,560
			<u>\$ 1,763,267</u>			<u>1,955,357</u>
<b>Investments accounted for by the equity method</b>						
USD	\$ 347,450	29.136	<u>10,123,297</u>	347,241	30.290	<u>10,517,943</u>
<b>Financial liabilities</b>						
<b>Monetary assets</b>						
USD	\$ 51,691	29.136	1,506,069	37,259	30.290	1,128,575
EUR	3,063	38.280	117,252	1,903	38.99	74,198
JPY	3,822	0.3345	1,278	20,010	0.3886	7,776
			<u>\$ 1,624,599</u>			<u>1,210,549</u>

### (ii) Credit risk

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

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

(iii)Liquidity risk

TSRC has sufficient working capital to fulfill its financial obligations, and therefore, the liquidity risk to which TSRC is exposed is low. In addition, the liquidity risk from financial assets carried at cost is expected because no market price exists.

(iv)Cash flow risk related to the fluctuation of interest rates

TSRC's long-term debts bear floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rate and influences TSRC's future cash flow. As of December 31, 2011, TSRC has cash flow risk of financial liabilities which resulted from floating interest rates amounting to \$100,000 thousand. If the market interest rate increases by 1%, TSRC's future cash outflow would increase by approximately \$1,000 thousand. As of December 31, 2012, long-term debts has been paid off.

## 5.Transactions with Related Parties

### (a)Name and relationship of related party

Name of Related Party	Relationship with the Corporation
Dymas Corporation	Investee 100.00% owned directly and indirectly by TSRC
Trimurti Holding Corporation	Investee 100.00% owned directly by TSRC
Taiwan Advanced Material Corp.	Joint venture 48.00% owned directly by TSRC
TSRC (Shanghai) Industries Ltd.	Investee 100.00% owned indirectly by TSRC
TSRC (Nantong) Industries Co., Ltd.	Investee 100.00% owned indirectly by TSRC
TSRC (Jinan) Industries Ltd.	Investee 100.00% owned indirectly by TSRC
Polybus Corporation Pte Ltd	Investee 100.00% owned indirectly by TSRC
TSRC (USA) Investment Corporation	Investee 100.00% owned indirectly by TSRC
Dexco Polymers L.P.	Investee 100.00% owned indirectly by TSRC
Continental Engineering Corporation	The company's president is one of TSRC's directors.
Shen Hua Chemical Industrial Co., Ltd.	Investee 65.44% owned indirectly by TSRC
TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	Investee 55.00% owned indirectly by TSRC
Lanxess- TSRC (Nantong) Chemical Industrial Corporation Limited	Joint venture 50.00% owned indirectly by TSRC
Indian Synthetic Rubber Limited	Investee 30.00% owned indirectly by TSRC
CEC Security Corporation	A related party in substance.
Vader Development Corporation Limited	One of TSRC's directors
Directors, supervisors, general manager and vice general manager	Directors, supervisors and top management of TSRC

### (b)Significant transactions

#### 1.Sales and accounts receivable

Sales to related parties were as follows:

	2012		2011	
	Amount	Percentage of net sales	Amount	Percentage of net sales
TSRC (Shanghai) Industries Ltd.	\$ 47,517	0.28	55,675	0.27
TSRC (Nantong) Industries Co., Ltd.	57,108	0.33	52,320	0.25
TSRC (Jinan) Industries Ltd.	22,083	0.13	40,348	0.20
Polybus Corporation Pte Ltd.	67,965	0.40	55,565	0.27
	<u>\$ 194,673</u>	<u>1.14</u>	<u>203,908</u>	<u>0.99</u>

The related accounts receivable resulting from the above sales as of December 31, 2012 and 2011, were as follows:

	Dec.31, 2012		Dec.31, 2011	
	Amount	Percentage of accounts and notes receivable	Amount	Percentage of accounts and notes receivable
TSRC (Shanghai) Industries Ltd.	\$ 2,511	0.12	17,454	0.59
TSRC (Nantong) Industries Co., Ltd.	\$ 9,069	0.43	16,476	0.55
TSRC (Jinan) Industries Ltd.	1,115	0.05	13,391	0.45
Polybus Corporation Pte Ltd.	—	—	49,475	1.66
	<u>\$ 12,695</u>	<u>0.60</u>	<u>96,796</u>	<u>3.25</u>

The selling prices for related parties above were not significantly different from those of other customers; the credit terms were two to three months.

## 2.Services revenue

The services rendered by TSRC for the years ended December 31, 2012 and 2011, and related receivables as of December 31, 2012 and 2011, were as follows:

Nature	Name	Services revenue		Receivables	
		2012	2011	Dec.31, 2012	Dec.31, 2011
Management, technology and information services	Shen Hua Chemical Industrial Co., Ltd.	\$ 35,468	43,832	27,869	32,472
Management and technology services & trademark rights	TSRC (Shanghai) Industries Ltd.	5,335	5,238	4,508	4,434
Management and technology services & trademark rights	TSRC (Jinan) Industries Ltd.	2,897	3,991	2,444	3,368
Management, technology and information services	TSRC (Nantong) Industries Ltd.	18,026	12,289	14,402	7,917
Management, technology and information services	TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	10,844	22,551	8,865	7,216
Management and technology services	Lanxess-TSRC (Nantong) Chemical Industrial Corporation Limited	4,663	1,524	3,002	849
Information services	Dexco Polymers L.P.	26,675	—	—	—
Management and technology services	Taiwan Advanced Materials Corp.	5,579	—	3,545	—
		<u>\$ 109,487</u>	<u>89,425</u>	<u>64,635</u>	<u>56,256</u>

The service revenue and receivables arising from the above transactions were accounted for under non-operating income and gains — other income and other financial assets — current, respectively.

3.For the year ended December 31, 2012, TSRC reached a construction management services agreement with TSRC (Nantong) Industrial Co., Ltd., and received revenue of USD \$200,000, recorded as a reduction of related expenses. As of December 31, 2012, receivables arising from the above transaction amounted to \$5,827 thousand, recorded in other financial assets — current.

## 4.Guarantees

As of December 31, 2012 and 2011, TSRC's guarantees for bank loans of investees were as follows:

	Dec.31, 2012	Dec.31, 2011
TSRC (Nantong) Industries Ltd.	\$ 1,019,760	757,250
TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	—	666,380
TSRC (Jinan) Industries Ltd.	65,556	68,153
TSRC (USA) Investment Corporation	3,059,280	3,180,450
Lanxess-TSRC (Nantong) Chemical Industrial Corporation Limited	1,183,030	718,886
Indian Synthetic Rubber Limited	970,229	—
	<u>\$ 6,297,855</u>	<u>5,391,119</u>

#### 5.Reimbursements

	Dec.31, 2012	Dec.31, 2011
Trimurti Holding Corporation	\$ -	2,792
TSRC (Jinan) Industries Ltd.	2,507	2,507
	<u>\$ 2,507</u>	<u>5,299</u>

The reimbursements receivables above were included in other financial assets—current.

#### 6.Property transactions

(i)For the year ended December 31, 2000, TSRC sold to Dymas Corporation for \$207,108 thousand the investments in Asia Pacific Energy Development Co., Ltd. with carrying value of \$167,202 thousand, which resulted in unrealized inter-company gain from the disposal of long-term investments of \$39,978 thousand.

In the following years, Asia Pacific Energy Development Co., Ltd. reduced its capital, and therefore unrealized gain from this transaction of \$34,821 thousand was recognized proportionally. As of December 31, 2012 and 2011, remaining unrealized gain resulting from the disposal of long-term investments amounted to \$5,157 thousand and \$10,206 thousand, respectively, which was accounted for as other liabilities—others.

(ii)For the year ended December 31, 2011, TSRC sold machinery and equipment to TSRC (shanghai) industries Ltd. The selling price was \$11,340 thousand and gain on disposal was \$280 thousand, which was accounted for as non-operating income and gains—other income. As of December 31, 2011, the amount of accounts receivables resulting from the above transaction was \$11,340 thousand, which was accounted for other financial assets—current. As of December 31, 2012, receivables resulting from the above transaction were collected.

#### 7.Others

##### (i)Lease and Security service

Nature of the contract	Contract object	Received (Paid)		Accounts receivable (Payable)		Other
		2012	2011	Dec.31, 2012	Dec.31, 2011	
Rental of basement in Duen Nan Office Building	Continental Engineering Corporation	\$ 3,620 (Note 1)	3,630	-	-	As of December 31, 2012 and 2011, deposit received were \$903 thousand and \$821 thousand, respectively, included in returned deposits.
Lease of Duen Nan Office Building	Vader Development Corporation	(7,852) (Note 2)	-	-	-	As of September 30, 2012, deposit paid was \$2,286 thousand, included in other financial assets—noncurrent. As of December 31, this deposit has been collected.
Lease of Duen Nan Office Building	Continental Engineering Corporation	(1,000) (Note 2)	(5,657)	-	(105) (Note 3)	-
Security service provided	CEC Security Corporation	(6,368) (Note 3)	(5,547)	(947) (Note 3)	(947)	-

Note 1: Rental revenues were included in non-operating income and gains—rental income.

Note 2: Rental expenses were included in operating expenses, and related payables were included in accrued expenses and other current liabilities.

Note 3: Security expenses were included in cost of sales and operating expenses, and related payables were included in accrued expenses and other current liabilities.

(ii)TSRC provided technology as capital injection in TSRC (Nantong) Industries Ltd. and TSRC-UBE (Nantong) Chemical Industrial Corporation Limited. Such revenue from technology provided as equity investment is deferred until such revenue is realized through the investee's amortization over its useful life. For the years ended December 31, 2012 and 2011, revenue from technology provided as equity investment was amortized and recorded as non-operating revenue—other revenue as follows:

	2012	2011
TSRC (Nantong) Industries Ltd.	\$ 13,305	13,306
TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	3,235	3,235
	<u>\$ 16,540</u>	<u>16,541</u>

(iii)For the year ended December 31, 2012, TSRC (USA) Investment Corporation and Dexco Polymers L.P. provided selling and R&D services to TSRC amounting to \$13,688 thousand and \$17,813 thousand, respectively, recorded in operating expenses. As of December 31, 2012, payables resulting from the above transactions were \$13,521 thousand and \$0, respectively, recognizes as accrued expenses and other current liabilities.

(iv)For the year ended December 31, 2012, TSRC provided technical services to Indian Synthetic Rubber Limited via Trimurti Holding Corporation amounting to \$44,912 thousand. Because Indian Synthetic Rubber Limited recognized this as intangible assets, services revenues of \$13,474 thousand were deferred as unearned revenues, recorded as other liability—others. The remaining services revenues of \$31,438 thousand were recorded as non-operating income and gains—other income.

(v)For the year ended December 31, 2012, TSRC provided technical services to Taiwan Advanced Material Corp. Amounting to \$70,800 thousand. Because Taiwan Advanced Material Corp. recognized this as intangible assets, services revenues of \$33,984 thousand were deferred as unearned revenue, recorded as other liability—others. The remaining services revenues of \$36,816 thousand was recorded as non-operating income and gains—other income. As of December 31, 2012, receivables resulting from the above transaction were \$36,710 thousand, accounted for other financial assets—current.

#### 8.Directors, supervisors and top management compensation

For the years ended December 31, 2012 and 2011, the compensation to TSRC's directors, supervisors and top management was as follows:

	2012	2011
Salaries	\$ 46,831	65,630
Cash awards and special allowances	10,864	13,566
Transportation allowances and business expense	4,282	4,056
Employees' bonus	1,942	3,741

Estimated amounts of employees' bonus and directors' and supervisors' emoluments were included in the above information, please see note 4(m).

## 6.Pledged Assets

Pledged assets	Purpose	Dec.31, 2012	Dec.31, 2011
Property, plant and equipment—land	Guarantee for long-term debts	\$ 175,850	175,850
Idle assets—land	Guarantee for long-term debts	—	120,221
Rental assets—land	Guarantee for long-term debts	—	81,444
Buildings and structures	Guarantee for long-term debts	137,764	146,706
		<u>\$ 313,614</u>	<u>524,221</u>

## 7.Significant Commitments and Contingencies (excluding transactions with related parties)

(a)As of December 31, 2012 and 2011, unused letters of credit issued for purchases of materials amounted to \$1,091,898 thousand and \$1,939,649 thousand, respectively.

(b)TSRC signed construction and design contracts with several factories totaling \$105,603 thousand, of which \$70,439 thousand was paid.

**8. Significant Losses from Calamity: none****9. Significant Subsequent Events: none****10. Others**

(a) For the years ended December 31, 2012 and 2011, the employment expenses, depreciation and amortization, summarized by function, were as follows:

By function By nature	2012			2011		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Personnel expenses						
Salaries and wages	342,345	241,633	583,978	388,471	293,569	682,040
Labor and health insurance	23,819	20,825	44,644	23,036	16,599	39,635
Pension (note 1)	23,274	16,133	39,407	23,936	14,602	38,565
Other personnel expenses (note 2)	56,861	57,252	114,113	92,843	82,437	175,280
Depreciation (notes 3)	152,488	42,464	194,952	132,882	34,076	166,958
Amortization	10	19,915	19,925	—	11,044	11,044

Note 1: Pension expenses excluded expenses for employees on international assignments amounting to \$3,186 thousand and \$1,631 thousand for the years ended December 31, 2012 and 2011, respectively.

Note 2: Other personnel expenses included meals, employee welfares, training expense and employees' bonus.

Note 3: Depreciation expense for lease and idle assets was excluded. For the years ended December 31, 2012 and 2011, the depreciation expense for lease and idle assets amounted to \$32,142 thousand and \$35,161 thousand, respectively.

**(b) Acquisition of Dexco Polymers L.P. And Dexco Polymers Operating Company LLC (Dexco and Dexco LLC hereafter):**

TSRC invested in TSRC (USA) Investment Corporation (founded on January 27, 2011) via Trimurti Holding Corporation to purchase Dexco in Louisiana, USA. The transaction date of this business acquisition was April 1, 2011. The major business of Dexco is manufacturing and selling SIS and SBS products and its main customers are located in the United States and Europe. The accounting of this business acquisition was in compliance with SFAS No.25 "Business Combination". The difference between purchase price and fair value of identifiable asset was recognized as goodwill. TSRC's purchase price and goodwill were calculated as follows (expressed in thousands of USD):

	Amount
Purchase price	\$ 192,617
Less: Fair value of recognized assets:	
Trademark (note)	4,200
Patent (note)	15,700
Know-how (note)	27,600
Non-compete (note)	300
Emission rights (note)	395
Working capital	33,549
Fixed assets	30,285
Inventories	37,819
	149,848
Goodwill	\$ 42,769

Note: The fair value of intangible assets was based on the report of American Appraisal issued on August 10, 2011, and then assessed for every year. As of December 31, 2012, it was no doubt for the impairment of intangible assets.

(c)According to FCS Ruling Jin-Guan-Zheng-Shen No.0990004943, beginning from 2013, the companies listing in Taiwan Stock Exchange or trading on the Taiwan Gre-Tai Securities Market or Emerging Stock Market shall prepare their financial statements in accordance with the International Financial Reporting Standards, International Accounting Standards, explanations and interpretations (IFRSs), translated by Accounting Research and Development Foundation and then recognized by Financial Supervisory Commission. In response to the above ruling, TSRC has established a project team for implementing IFRS's program. Further related information was disclosed in the consolidated financial statements.

(d)Certain amounts in the financial statements for the year ended December 31, 2011, have been reclassified to conform to the presentation of the financial statement for the year ended December 31, 2012, for purposes of comparison. These reclassifications disclosed no significant impact on the presentation of the financial statements.

## 11.Supplementary Disclosure Requirements

### (a)Substantial transactions:

1.Loans extended to other parties: None.

2.Guaranty provided to other parties:

Unit: in thousands of New Taiwan dollars / USD / RMB

No. (Note 1)	Corporation name	Object		The maximum guaranty credit line for one party	The maximum amount of guaranty	Balance as of 2012.12.31	Secured guaranty amount	The ratio of accumulated guarantee amounts to the Corporation's net equity	The maximum guaranty credit lines
		Name	Nature of relationship						
0	TSRC	TSRC (USA) Investment Corporation	Investee 100.00% owned by the Corporation	50% of the Corporation's issued share capital \$3,931,952	3,059,280 (USD105,000)	3,059,280 (USD105,000)	—	19.35%	1.5 times TSRC's total stockholders' equity \$23,714,652
0	TSRC	TSRC (Nantong) Industries Ltd.	Investee 100.00% owned by the Corporation		1,748,601 (USD60,000)	1,019,760 (USD35,000)	—	11.06%	
0	TSRC	TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	Investee 55.00% owned by the Corporation		640,992 (USD22,000)	—	—	4.05%	
0	TSRC	TSRC (Jinan) Industries Ltd.	Investee 100.00% owned by the Corporation		65,556 (USD2,250)	65,556 (USD2,250)	—	0.41%	
0	TSRC	Lanxess-TSRC (Nantong) Chemical Industrial Corporation Limited	Investee 50.00% owned by the Corporation		1,183,030 (RMB 145,000) (USD17,400)	1,183,030 (RMB 145,000) (USD17,400)	—	7.48%	
0	TSRC	Indian Synthetic Rubber Limited	Investee 30.00% owned by the Corporation		970,229 (USD33,300)	970,229 (USD33,300)	—	6.14%	

Note 1:The information about endorsement/guarantee of the Company and subsidiaries is numbered as following:

1.0 for the Company.

2.Subsidiaries are numbered in Arabic numeric order as of 1.

Note 2:Relationship between the endorsed/guaranteed and the Company:

1.Companies that have transactions with the Company.

2.Subsidiaries where the Company has direct holdings of more than 50% of the common shares.

3.The investee of which the total common shares held by parent company and subsidiaries are more than 50% .

4.Parent company that holds more than 50% common shares directly, or indirectly via subsidiaries.

5.Companies that shall provide guarantee mutually pursuant to contracts in the same trade to meet the requirement for construction contracts.

6.Companies endorsed and guaranteed by shareholders subject to their respective shareholdings due to the joint venture.



**3. Securities held as of December 31, 2012:**

Unit: in thousands of New Taiwan dollars / shares

Name of the security holder	Type of security	Name of security	Nature of relationship	Recorded account	December 31, 2012				Remarks
					Unit	Book value	Holding percentage	Market price (net equity)	
TSRC	Commercial Paper	Repurchase securities	—	Cash and cash equivalents	—	<u>259,853</u>	—	<u>259,853</u>	—
TSRC	Stock	Trimurti Holding Corporation	Subsidiary	Investments under equity method	86,920,000	9,613,271	100.00%	9,629,367	—
TSRC	Stock	Hardison International Corporation	Subsidiary	Investments under equity method	3,896,305	431,332	100.00%	431,332	—
TSRC	Stock	Dymas Corporation	Subsidiary	Investments under equity method	1,161,004	78,694	19.48%	78,694	(Note 1)
TSRC	Stock	Taiwan Advanced Material Corp.	—	Investments under equity method	72,000,000	716,650	48.00%	716,650	—
		Subtotal				<u>10,839,947</u>		<u>10,856,043</u>	
TSRC	Stock	Taiwan High Speed Rail Corporation	—	Financial assets carried at cost -noncurrent	50,000,000	500,000	0.77%	(Note 2)	—
TSRC	Stock	Evergreen Steel Corporation	—	Financial assets carried at cost -noncurrent	12,148,000	209,878	2.97%	(Note 2)	—
TSRC	Stock	Thai Synthetic Rubbers Co., Ltd.	—	Financial assets carried at cost -noncurrent	599,999	65,143	5.42%	(Note 2)	—
TSRC	Stock	Hsin-Yung Enterprise Corporation	—	Financial assets carried at cost -noncurrent	5,657,000	64,296	3.90%	(Note 2)	—
		Subtotal				<u>839,317</u>			

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

Note 2: No public market price was available and no financial statements were provided by the investees for purposes of estimating the net equity.

**4. Accumulated holding amount of a single security in excess of \$100 million or 20% of TSRC's issued share capital:**

Unit: in thousands of New Taiwan dollars / shares

Corporation name	Marketable securities type and name	Financial statement account	Name of the counter-party	Relationship with TSRC	Beginning balance		Acquisition		Disposal				Loss on valuation	Ending balance	
					Shares	Amount	Shares	Amount	Shares	Selling price	Carrying value	Gains (losses) on disposal		Shares	Amount
TSRC	Taiwan Advanced Material Corp.	Investments under equity method	Newly established	—	—	—	72,000,000	720,000	—	—	—	—	(3,350)	72,000,000	716,650

**5. Acquisition of real estate in excess of \$100 million or 20% of TSRC's issued share capital: None.**

**6. Disposal of real estate in excess of \$100 million or 20% of TSRC's issued share capital: None.**

**7. Sales to and purchases from related parties in excess of \$100 million or 20% of TSRC's issued share capital: None**

**8. Receivables from related parties in excess of \$100 million or 20% of TSRC's issued share capital: None**

**9. Financial derivative instruments transactions: None.**

**(b) Investee information:**

**1. Relevant information about investees:**

Unit: in thousands of New Taiwan dollars / USD dollars / EUR dollars / shares

Name of investor	Name of investee	Address	Scope of business	Original cost		TSRC's ownership as of December 31, 2012			Net income (loss) of the investee	Investment income (loss) recognized by TSRC	Remarks
				June 30, 2012	June 30, 2011	Shares	Percentage	Book value			
TSRC	Trimurti Holding Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	1,005,495	1,005,495	86,920,000	100.00%	9,613,271	1,292,029	1,294,559	Subsidiary corporation
TSRC	Hardison International Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	109,442	125,142	3,896,305	100.00%	431,332	44,153	44,153	Subsidiary corporation
TSRC	Dymas Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	38,376	42,170	1,161,004	19.48%	78,694	50,397	9,817	Subsidiary corporation
TSRC	Taiwan Advanced Material Corp.	26F-2, No. 8, Minquan 2 <sup>nd</sup> Rd., Qianzhen Dist., Kaohsiung City, Taiwan (R.O.C.)	Production and sale of synthetic rubber product	720,000	—	72,000,000	48.00%	716,650	(6,979)	(3,350)	—
Trimurti Holding Corporation	Polybus Corporation Pte Ltd	9, Temasek Boulevard, 31F Suntec Tower 2, Singapore 038989	International commerce and trading	USD 65,101,000	USD 65,101,000	105,830,000	100.00%	7,054,175	1,289,098	1,289,098 (Note 1)	Indirectly owned subsidiary
Trimurti Holding Corporation	TSRC (HONG KONG) Limited.	Suite 2303 23F Great Eagle Centre 23 Harbour Road Wanchai HK	Investment Corporation	USD 77,850,000	USD 7,800,000	77,850,000	100.00%	2,582,399	66,378	66,378 (Note 1)	Indirectly owned subsidiary
Trimurti Holding Corporation	Indian Synthetic Rubber Limited	Room No.702, Indian Oil Bhawan, 1 Sri Aurobindo Marg, Yusuf Sarai, New Delhi-110016, India	Production and sale of synthetic rubber products	USD 20,990,309	USD 11,575,366	105,468,000	30.00%	546,754	(19,338)	(5,801)	—
Trimurti Holding Corporation	TSRC(USA) Investment Corporation	2711Centerville Road, Suite 400, Country of New Castle, Wilmington, Delaware.19808.	Investment Corporation	—	USD 70,050,000	—	—	—	—	—	Indirectly owned subsidiary (Note 3)
TSRC (HONG KONG) Limited.	TSRC (Shanghai) Industries Ltd.	No. 1406, Yushu Road, Song Jiang Zone, Shanghai, China	Production and sale of reengineering plastic, plastic compound metal and plastic elasticity engineering products	USD 5,500,000	USD 5,500,000	5,500,000	100.00%	265,258	21,696	21,696 (Note 1)	Indirectly owned subsidiary

**(b)Investee information:****1.Relevant information about investees:**

Name of investor	Name of investee	Address	Scope of business	Original cost		TSRC's ownership as of December 31, 2012			Net income (loss) of the investee	Investment income (loss) recognized by TSRC	Remarks
				June 30, 2012	June 30, 2011	Shares	Percentage	Book value			
TSRC (HONG KONG) Limited.	TSRC (Jinan) Industries Ltd.	No. 666 LinGang St., Yao Qiang Town, Li Cheng Zone, Jinan City, Shan Dong, PRC.	Production and sale of reengineering plastic, plastic compound metal and plastic elasticity engineering products	USD 2,250,000	USD 2,250,000	2,250,000	100.00%	(38,400)	(8,606)	(8,606) (Note 1)	Indirectly owned subsidiary
TSRC (HONG KONG) Limited.	TSRC(Lux.) Corporation S.'a.r.l.	37, rued' Anvers, L1130 Luxembourg	Trading and investment corporation	EUR 50,800,000	EUR 800,000	50,800,000	100.00%	2,315,789	54,719	54,719 (Note 1)	Indirectly owned subsidiary
TSRC (Lux.) Corporation S.'a.r.l.	TSRC(USA) Investment Corporation	2711 Centerville Road, Suite 400, Country of New Castle, Wilmington, Delaware.19808.	Investment Corporation	USD 70,050,000	—	100	100.00%	2,261,586	19,653	19,653 (Note 1)	Indirectly owned subsidiary
TSRC(USA) Investment Corporation	Dexco Polymers L.P. (Note 2)	12012 Wickchester Lane, Suite 280, Houston,TX 77079	Production and sale of synthetic rubber products	USD 192,616,912	USD 192,616,912	100	100.00%	4,707,826	110,563	3,231 (Note 1)	Indirectly owned subsidiary (Note 3)
Polybus Corporation Pte Ltd	TSRC (Nantong) Industries Ltd.	No. 22 Tong Wang Road, Nantong Economic & Technological Development Zone, Nantong Jiangsu, China	Production and sale of synthetic rubber products	USD 69,125,000	USD 43,885,000	69,125,000	100.00%	2,748,939	395,580	395,580 (Note 1)	Indirectly owned subsidiary
Polybus Corporation Pte Ltd	TSRC-UBE (Nantong) Chemical Industries Company Ltd.	No. 22 Tong Wang Road, Nantong Economic & Technological Development Zone, Nantong, Jiangsu, China	Production and sale of synthetic rubber products	USD 22,000,000	USD 22,000,000	22,000,000	55.00%	1,077,668	279,938	153,966 (Note 1)	Indirectly owned subsidiary
Polybus Corporation Pte Ltd	Shen Hua Chemical Industrial Co., Ltd.	Shen Hua Road, Economic and Technological Development Zone, Nantong, Jiangsu Province	Production and sale of synthetic rubber products	USD 19,867,016	USD 19,867,016	26,974,368	65.44%	2,544,582	1,375,361	900,036 (Note 1)	Indirectly owned subsidiary
Polybus Corporation Pte Ltd	Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd.	NO.1 Shen Hua Road, Economic and Technological Development Zone, Nantong, Jiangsu Province	Production and sale of NRB	USD 12,400,000	USD 12,400,000	12,400,000	50.00%	339,117	(63,369)	(31,685)	—
Hardison International Corporation	Triton International Holdings Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	International commerce	USD 50,000	USD 50,000	50,000	100.00%	102,121	3,797	3,797 (Note 1)	Indirectly owned subsidiary
Hardison International Corporation	Dymas Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	USD 4,798,566	USD 5,321,946	4,798,566	80.52%	325,278	50,397	40,580 (Note 1)	Indirectly owned subsidiary
Hardison International Corporation	TSRC Biotech Ltd.	4th F1., Harbour Centre, P.O.BOX613,George Town, Grand Cayman	Investment Corporation	USD 3,020,210	USD 3,020,210	3,020,210	100.00%	5	(25)	(25) (Note 1)	Indirectly owned subsidiary
Triton International Holdings Corporation	Nantong Qix Storage Co., Ltd.	No.111 He Xing Road, Nantong Economic & Technological Development Zone, Nantong, Jiangsu, China	Storehouse for chemicals	USD 1,500,000	USD 1,500,000	1,500,000	50.00%	92,935	7,590	3,795 (Note 1)	Indirectly owned subsidiary
Dymas Corporation	Asia Pacific Energy Development Co., Ltd.	Cayman Islands	Consulting for electric power facilities management and electrical system design	USD 11,285,122	USD 11,939,238	7,522,337	37.78%	337,312	133,478	50,428	—

Note 1: Investment income (loss) of the indirectly owned subsidiaries was recognized in current income (loss) of the holding company.

Note 2:TSRC (USA) Investment Corporation is a limited partner of Dexco LLC and Dexco Polymers L.P. Also, TSRC (USA) Investment Corporation invested Dexco LLC as general partner of Dexco Polymers L.P. Because Dexco LLC does not have real operation, the related information of Dexco LLC is not disclosed.

Note 3:On January 1, 2012, Trimurti Holding Corporation transferred its investment in TSRC (USA) Investment Corporation to TSRC (Lux.) Corporation S.'a.r.l.

**2.Loans extended to other parties: None.**

No.	Name	Name of counterparty	Account	Maximum balance during 2012	Ending balance	Balance used	Interest	Nature of financial activities	Total transaction amount	Reason for financing	Allowance for doubtful accounts	Assets pledged		Loan limit per party	Maximum amount available for loan
												Item	Value		
1	TSRC (Shanghai) Industries Ltd.	TSRC (Jinan) Industries Ltd.	Loans receivable	32,638 (RMB7,000,000)	32,638 (RMB7,000,000)	32,638 (RMB7,000,000)	4%	2	—	Operating use	—	—	—	— (Note 1)	— (Note 2)
2	Trimurti Holding Corporation	TSRC (Lux.) Corporation S.'a.r.l.	Loans	382,800 (EUR10,000,000)	382,800 (EUR10,000,000)	—	Libor+1.1%	2	—	Operating use	—	—	—	— (Note 1)	— (Note 2)

Note 1: The loan limit per party of TSRC (Shanghai) Industries Ltd. and Trimurti Holding Corporation should not exceed 5% of total equity. However, if the counterparty is a subsidiary 100.00% owned directly or indirectly by TSRC, there is no loan limit.

Note 2: The maximum amount of loan extended to all parties of TSRC (Shanghai) Industries Ltd. and Trimurti Holding Corporation should not exceed 40% of total equity. However, if the counterparty is a subsidiary 100.00% owned directly or indirectly by TSRC, there is no loan limit.

Note 3: TSRC (Shanghai) Industries Ltd., TSRC (Jinan) Industries Ltd., Trimurti Holding Corporation and TSRC (Lux) Corporation S.'a.r.l are 100.00% owned directly by TSRC.

Note 4: Nature of financial activities is as follows:

(1) if there are transactions between these two parties, number is "1" .

(2) if it is necessary to loan to other parties, number is "2" .

**3.Guaranty provided to other parties: None.**

**4.Securities held as of December 31, 2012:**

Unit: in thousands of New Taiwan dollars / shares

Name of the security holder	Type of security	Name of security	Nature of relationship	Recorded account	Dec. 31, 2012				Remarks
					Unit	Book value	Holding percentage	Market price (net equity)	
Trimurti Holding Corporation	Stock	Polybus Corporation Pte Ltd	Investee accounted for by the equity method	Investments accounted for by the equity method	105,830,000	7,054,175	100.00%	7,051,549	—
Trimurti Holding Corporation	Stock	TSRC (HONG KONG) Limited.	Investee accounted for by the equity method	Investments accounted for by the equity method	77,850,000	2,582,399	100.00%	2,582,399	—
Trimurti Holding Corporation	Stock	Indian Synthetic Rubber Limited	Investee accounted for by the equity method	Investments accounted for by the equity method	105,468,750	546,754	30.00%	546,754	—
TSRC (HONG KONG) Limited.	Certificate of ownership	TSRC (Shanghai) Industries Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	5,500,000	265,258	100.00%	265,258	—
TSRC (HONG KONG) Limited.	Certificate of ownership	TSRC (Jinan) Industries Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	2,250,000	(38,400)	100.00%	(38,400)	—
TSRC (HONG KONG) Limited.	Certificate of ownership	TSRC (Lux.) Corporation S.' a. r. l.	Investee accounted for by the equity method	Investments accounted for by the equity method	50,800,000	2,315,789	100.00%	2,315,789	—
TSRC (Lux.) Corporation S.'a.r.l	Stock	TSRC (USA) Investment Corporation	Investee accounted for by the equity method	Investments accounted for by the equity method	100	2,261,586	100.00%	2,261,586	—
TSRC (USA) Investment Corporation	Certificate of ownership	Dexco Polymers L.P.	Investee accounted for by the equity method	Investments accounted for by the equity method	100	4,707,826	100.00%	2,140,460	—
Polybus Corporation Pte Ltd	Certificate of ownership	TSRC (Nantong) Industries Co., Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	69,125,000	2,748,939	100.00%	2,748,939	—
Polybus Corporation Pte Ltd	Certificate of ownership	TSRC-UBE (Nantong) Chemical Industrial Co. Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	22,000,000	1,077,668	55.00%	1,077,668	—
Polybus Corporation Pte Ltd	Certificate of ownership	Shen Hua Chemical Industrial Co. Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	26,974,368	2,544,582	65.44%	2,528,312	—

Name of the security holder	Type of security	Name of security	Nature of relationship	Recorded account	Dec. 31, 2012				Remarks
					Unit	Book value	Holding percentage	Market price (net equity)	
Polybus Corporation Pte Ltd	Certificate of ownership	Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	12,400,000	339,117	50.00%	339,117	—
Hardison International Corporation	Stock	Triton International Holdings Corporation	Investee accounted for by the equity method	Investments accounted for by the equity method	50,000	102,121	100.00%	102,121	—
Hardison International Corporation	Stock	Dymas Corporation	Investee accounted for by the equity method	Investments accounted for by the equity method	4,798,566	325,278	80.52%	325,278	—
Hardison International Corporation	Stock	TSRC Biotech Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	3,020,210	5	100.00%	5	—
TSRC Biotech Ltd.	Preferred stock	Pulse Meteric Inc.	—	Financial assets carried at cost-noncurrent	312,500	—	6.23%	(Note 1)	—
TSRC Biotech Ltd.	Stock	CytoPharm, Inc.	—	Financial assets carried at cost-noncurrent	95,108	—	0.30%	(Note 1)	—
Dymas Corporation	Stock	Thai Synthetic Rubbers Co., Ltd.	—	Financial assets carried at cost-noncurrent	837,552	55,625	7.57%	(Note 1)	—
Dymas Corporation	Stock	Asia Pacific Energy Development Co., Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	7,522,337	337,312	37.78%	337,312	—
Triton International Holdings Corporation	Certificate of ownership	Nantong Qix Storage Co., Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	1,500,000	92,935	50.00%	92,935	—

Note 1: No public market price was available and no financial statements were provided by the investees for purposes of estimating the net equity.

**5. Accumulated holding amount of a single security in excess of \$100 million or 20% of TSRC's issued share capital:**

Corporation name	Marketable securities type and name	Financial statement account	Name of the counter-party	Relationship with TSRC	Beginning balance		Acquisition		Disposal				Ending balance	
					Shares	Amount	Shares	Amount	Shares	Selling price	Carrying value	Gains (losses) on disposal	Shares	Amount
Trimurti Holding Corporation	TSRC (HONG KONG) Limited	Investee accounted for by the equity method	—	—	7,800,000	7,8000	70,050,000	70,050	—	—	—	—	77,850,000	77,850
Trimurti Holding Corporation	Indian Synthetic Rubber Limite	Investee accounted for by the equity method	—	—	56,250,000	11,575	49,218,750	9,415	—	—	—	—	105,468,750	20,990
Polybus Corporation Pte Ltd	TSRC (Nantong) Industries Ltd.	Investee accounted for by the equity method	—	—	43,885,000	43,885	25,240,000	25,240	—	—	—	—	69,125,000	69,125

**6. Acquisition of real estate in excess of \$100 million or 20% of TSRC's issued share capital: None.**

**7. Disposal of real estate in excess of \$100 million or 20% of TSRC's issued share capital: None.**

**8.Sales to and purchases from related parties in excess of \$100 million or 20% of TSRC's issued share capital:**

Purchasing (selling) company	Counter-party	Relationship	Details of transaction				The status and reason for deviation from regular transaction		Accounts (notes) receivable (payable)		Remarks
			Nature	Amount	% of total purchases (sales)	Credit period	Unit price	Credit period	Balance	% of accounts (notes) receivable (payable)	
TSRC-UBE (Nantong) Chemical Industrial Co., Ltd.	Marubeni Corporation	A director of TSRC UBE (Nantong) Chemical Industrial Co., Ltd.	Purchase	433,039	11.78%	30 days after shipping	—	—	(23,460)	(17.16)%	
Shen Hua Chemical Industrial Co. Ltd.	Marubeni Corporation	A director of Shen Hua Chemical Industrial Co. Ltd.	Purchase	728,499	6.00%	14 days	—	—	(34,674)	(6.55)%	
Polybus Corporation Pte Ltd	TSRC (Nantong) Industries Ltd.	Related Parties.	Purchase	986,815	85.40%	40 days	—	—	(159,223)	(89.86)%	
TSRC (Nantong) Industries Ltd	Polybus Corporation Pte. Ltd.	Related Parties.	Sale	(986,815)	(35.17)%	40 days	—	—	159,223	37.89%	
TSRC (Lux) Corporation S.'a.r.l	Dexco Polymers L.P.	Related Parties.	Purchase	1,503,607	98.83%	30 days	—	—	(113,127)	(93.04)%	
Dexco Polymers L.P.	TSRC (Lux) Corporation S.'a.r.l	Related Parties.	Sale	(1,503,607)	(27.97)%	30 days	—	—	113,127	20.62%	

**9.Receivables from related parties in excess of \$100 million or 20% of TSRC's issued share capital:**

Unit: in thousands of New Taiwan dollars

Corporation name	Counter-party	Relationship	Amount	Turnover	Overdue Amount		Subsequent receivable amount	Allowance for Uncollectible accounts
					Amount	Processing		
TSRC (Nantong) Industries Ltd.	Polybus Corporation Pte Ltd.	Related Parties.	159,223	—	—	—	75,123	—

**10.Financial derivative instruments transactions: None.**

**(c)Investment in China:**

**1.Summary of investment in China:**

Unit: in thousands of New Taiwan dollars / shares

Name of investee	Scope of business	Issued capital	Investment method	Accumulated remittance from Taiwan as of January 1, 2012	Amount remitted from or repatriated to Taiwan		Accumulated remittance from Taiwan as of December 31, 2012	Direct or indirect investment holding percentage	Investment income (loss) recognized in December 31, 2012	Book value as of December 31, 2012	Accumulated amount repatriated to Taiwan as of December 31, 2012
					Remittance	Repatriation					
Shen Hua Chemical Industrial company Ltd.	Production and sale of synthetic rubber	USD 41,220,000	Invest through third country first and then invest in China	—	—	1,410,094	—	65.44%	900,036	2,544,582	4,379,389
Wujing Asia Pacific Energy Cogeneration Co., Ltd.	Power generation and sale of electricity and heat	USD 23,100,000	Invest through third country first and then invest in China	111,659 (USD3,832,350)	—	—	111,659 (USD3,832,350)	28.34%	50,428	337,312	—
TSRC (Shanghai) Industries Ltd.	Production and sale of reengineering plastic, plastic compound metal and plastic elasticity engineering products	USD 5,500,000	Invest through third country first and then invest in China	114,213 (USD3,920,000)	—	—	114,213 (USD3,920,000)	100.00%	21,696	265,258	—
Nantong Qix Storage Co., Ltd.	Storehouse for chemicals	USD 3,000,000	Invest through third country first and then invest in China	43,704 (USD1,500,000)	—	—	43,704 (USD1,500,000)	50.00%	3,795	92,935	—
TSRC-UBE (Nantong) Chemical Industrial Co., Ltd.	Production and sale of synthetic rubber products	USD 40,000,000	Invest through third country first and then invest in China	29,136 (USD1,000,000)	—	—	29,136 (USD1,000,000)	55.00%	153,966	1,077,668	—
TSRC (Nantong) Industries Co., Ltd.	Production and sale of synthetic rubber products	USD 69,125,000	Invest through third country first and then invest in China	193,696 (USD6,648,000)	—	—	193,696 (USD6,648,000)	100.00%	395,580	2,748,939	—
TSRC (Jinan) Industries Ltd.	Production and sale of reengineering plastic, plastic compound metal and plastic elasticity engineering products	USD 2,250,000	Invest through third country first and then invest in China	65,556 (USD2,250,000)	—	—	65,556 (USD2,250,000)	100.00%	(8,606)	(38,400)	—
Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd.	Production and sale of NRB	USD 24,800,000	Invest through third country first and then invest in China	—	—	—	—	50.00%	(31,685)	339,117	—

Note 1: Invest through third country first and then invest in China

Note 2: Wujing Asia Pacific Co-generation Co., Ltd. was duly passed at Board of Directors to merged with Changzhou Asia Pacific Co-generation Co., Ltd. Wujing Asia Pacific Co-generation Co., Ltd. was changed name as Changzhou Asia Pacific Co-generation Co., Ltd.

**2.Limitation on investment in Mainland China:(in thousands of New Taiwan dollars)**

Accumulated remittance from Taiwan to China as of December 31, 2012	Investment amount approved by Investment Commission, Ministry of Economic Affairs	The maximum investment amount set by Investment Commission, Ministry of Economic Affairs
557,965(USD19,150,350)	3,673,914(USD126,095,351)	(Note 4)

Note 1: Foreign currencies in this report were translated based on the exchange rate at balance sheet date.

Note 2: The above information was provided by TSRC. The investment amount was approved by the Investment Commission.

Note 3: This amount includes capital increase out of earnings, approved by Investment of Commission, MOEA.

Note 4: 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, TSRC met the criteria for an operational headquarters under the Statue for Industrial Innovation and obtained the approval from the Industrial Development Bureau, Ministry of Economic Affairs on November 1, 2012. As it has an operational headquarters status, TSRC is not subject to the limitation as to the amount of investment in Mainland China as of December 31, 2012.

**3.Substantial transactions directly or through third country with investees in China : please refer to note 5.****12.Segment Information**

The segment financial information was disclosed in the consolidated financial Statements instead of the stand-alone financial statements of TSRC.



## **V.Consolidated Financial statement**

### **Declaration**

The companies to be included by the Company in the consolidated financial statement of affiliated enterprises in 2012 (Jan. 1, 2012- Dec. 31, 2012) pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those to be included into the consolidated financial statement of the parent company and subsidiaries pursuant to the Statements of Financial Accounting Standards No. 7. Further, the related information to be disclosed in the consolidated financial statement of affiliated enterprises has been disclosed in the said consolidated financial statement of parent company and subsidiaries. Accordingly, it is not necessary for the Company to prepare the consolidated financial statement of affiliated enterprises separately.

Declared by:

TSRC Corporation

Chairman: Shao Yu Wang

Date: March 14, 2013

## Independent Auditors' Report

### The Board of Directors

#### TSRC Corporation:

We have audited the consolidated balance sheets of TSRC Corporation and subsidiaries (TSRC group) as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the TSRC group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial positions of the TSRC group as of December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers”, and accounting principles generally accepted in the Republic of China.

The TSRC group changed its method of valuing inventories commencing from January 1, 2011 and adopted the recently revised SFAS No.34 “Financial Instruments: Recognition and Measurement”, which amended the valuation of accounts receivable. The impact of these changes to net income and earnings per share for the year ended December 31, 2011, was discussed in note (3) of notes to consolidated financial statements.

Taipei, Taiwan (the Republic of China)

March 14, 2013

KPMG

CPA Yang Mei Hsueh

CPA Chen, Chia-Hsiu

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

The auditors' report and the accompanying 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 financial statements, the Chinese version shall prevail.

**TSRC CORPORATION AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
**December 31, 2012 and 2011**  
**(expressed in thousands of New Taiwan dollar)**

Unit: NT\$1,000

Assets	Dec.31, 2012		Dec.31, 2011	
	Amount	%	Amount	%
<b>Current assets:</b>				
Cash and cash equivalents (note 4(a))	\$ 5,147,163	14	6,055,884	16
Notes receivable (note 4(c))	1,408,383	4	2,493,559	6
Accounts receivable (note 4(c))	4,294,118	12	5,937,012	15
Other financial assets—current (note 5)	280,314	1	304,657	1
Inventories (note 4(d))	6,104,178	17	7,040,206	18
Prepaid expenses and other current assets (note 4(n))	544,665	2	379,875	1
<b>Total current assets</b>	<b>17,778,821</b>	<b>50</b>	<b>22,211,193</b>	<b>57</b>
<b>Funds and investments:</b>				
Financial assets carried at cost—noncurrent (note 4(b))	894,942	3	1,141,218	3
Investments accounted for by the equity method (note 4(e))	1,939,833	5	1,005,468	3
<b>Total funds and investments</b>	<b>2,834,775</b>	<b>8</b>	<b>2,146,686</b>	<b>6</b>
Other financial assets—noncurrent (note 6)	22,507	—	78,279	—
<b>Property, plant and equipment (notes 4(f), 6 and 7):</b>				
Costs:				
Land	286,262	1	286,262	1
Land improvements	76,240	—	77,113	—
Buildings	3,598,145	10	3,570,512	9
Machinery and equipment	16,531,025	47	15,390,953	40
Transportation equipment	28,390	—	30,039	—
Furniture and fixtures	225,981	1	610,869	2
Leased assets	94,596	—	94,596	—
Revaluation increment	434,304	1	434,913	1
Total cost and revaluation increment	21,274,943	60	20,495,257	53
Less: accumulated depreciation	13,198,280	37	12,732,068	33
accumulated impairment	79,406	—	91,264	—
Construction in progress and prepayments for machinery and equipment	1,722,202	5	1,051,615	3
<b>Net property, plant and equipment</b>	<b>9,719,459</b>	<b>28</b>	<b>8,723,540</b>	<b>23</b>
<b>Intangible assets (notes 4(g), (l) and 6):</b>				
Deferred pension cost	21,133	—	26,418	—
Other intangible assets	3,192,085	9	3,330,028	9
<b>Total intangible assets</b>	<b>3,213,218</b>	<b>9</b>	<b>3,356,446</b>	<b>9</b>
<b>Other assets (notes 4(h), (n) and 6):</b>				
Rental assets	1,766,119	5	1,780,844	5
Idle assets	120,221	—	120,221	—
Other assets—others	104,348	—	125,365	—
<b>Total other assets</b>	<b>1,990,688</b>	<b>5</b>	<b>2,026,430</b>	<b>5</b>
	<b>1,990,688</b>	<b>5</b>	<b>2,026,430</b>	<b>5</b>
<b>Total assets</b>	<b>\$ 35,559,468</b>	<b>100</b>	<b>38,542,574</b>	<b>100</b>

See accompanying notes to these financial Statements

(Continued)

			Unit: NT\$1,000	
			Dec.31, 2011	
<b>Liabilities and Stockholders' Equity</b>	<b>Dec.31, 2012</b>		<b>Dec.31, 2011</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Current liabilities:</b>				
Short-term borrowings (note 4(i))	\$ 6,194,179	16	5,101,364	13
Short-term commercial papers payable (note 4(j))	349,441	1	249,601	1
Accounts and notes payable	1,683,776	5	2,334,318	6
Accounts payable—related parties (note 5)	58,134	—	276,570	1
Income tax payable	577,933	2	834,521	2
Long-term debts—current portion (notes 4(k) and 6)	466,176	1	1,067,183	3
Accrued expenses and other current liabilities (notes 4(f) and 5)	1,291,220	4	1,338,632	3
<b>Total current liabilities</b>	<b>10,620,859</b>	<b>29</b>	<b>11,202,189</b>	<b>29</b>
<b>Long-term interest-bearing liabilities:</b>				
Long-term debts (notes 4(k) and 6)	5,293,081	15	5,088,720	13
<b>Other liabilities:</b>				
Reserve for land value increment tax (note 4(f))	56,683	—	56,683	—
Accrued pension liability (note 4(l))	181,245	1	143,648	1
Returnable deposits (note 5)	107,047	—	92,647	—
Deferred income tax liabilities—noncurrent (note 4(n))	914,976	3	1,124,831	3
Other liabilities—others (notes 4(f) and 5)	265,900	1	140,922	—
<b>Total other liabilities</b>	<b>1,525,851</b>	<b>5</b>	<b>1,558,731</b>	<b>4</b>
<b>Total liabilities</b>	<b>17,439,791</b>	<b>49</b>	<b>17,849,640</b>	<b>46</b>
<b>Stockholders' equity (notes 4(l), (m), (n) and (o)):</b>				
Capital:				
Common stock	7,863,904	22	7,149,004	19
Capital surplus:				
Additional paid-in capital	849	—	849	—
Others	68,154	—	68,154	—
	69,003	—	69,003	—
Retained earnings:				
Legal reserve	3,097,705	9	2,523,529	7
Unappropriated earnings	4,171,894	12	6,461,223	16
	7,269,599	21	8,984,752	23
Other equity adjustments:				
Accumulated translation adjustments	688,778	2	1,002,365	3
Net loss not yet recognized as net pension cost	(88,782)	—	(44,940)	—
Reserve for asset revaluation increment	7,266	—	7,266	—
	607,262	2	964,691	3
Minority interests	2,309,909	6	3,525,484	9
<b>Total stockholders' equity</b>	<b>18,119,677</b>	<b>51</b>	<b>20,692,934</b>	<b>54</b>
<b>Significant commitments and contingencies (note 5 and 7)</b>				
<b>Total liabilities and stockholders' equity</b>	<b>\$ 35,559,468</b>	<b>100</b>	<b>38,542,574</b>	<b>100</b>

See accompanying notes to these financial Statements

Chairman :Shao Yu Wang

Manager :Wei-Hua Tu

Chief Accountant :John Chen

**TSRC CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
**For the years ended December 31, 2012 and 2011**  
**(expressed in thousands of New Taiwan dollars)**

Unit: NT\$1,000

	2012		2011	
	Amount	%	Amount	%
<b>Gross sales</b>				
<b>Operating revenue:</b>				
Gross sales	\$ 45,359,363	100	55,040,554	100
Less: sales returns and discounts	44,103	—	17,679	—
Net sales	45,315,260	100	55,022,875	100
Other operating income	49,115	—	52,443	—
	45,364,375	100	55,075,318	100
<b>Operating cost (notes 4(d), (g), (l), 5 and 10):</b>				
Cost of sales	39,298,509	87	42,710,803	77
Other operating cost	35,757	—	34,943	—
	39,334,266	87	42,745,746	77
	6,030,109	13	12,329,572	23
<b>Gross profit</b>				
<b>Operating expenses (notes 4(g), (l), 5 and 10) :</b>				
Selling expenses	944,670	2	902,631	2
General and administrative expenses	896,784	2	929,867	2
Research and development expenses	352,376	1	320,928	1
	2,193,830	5	2,153,426	5
	3,836,279	8	10,176,146	18
<b>Operating income</b>				
<b>Non-operating income and gains:</b>				
Interest income	84,008	—	68,156	—
Investment income, net, accounted for by the equity method (note 4(e))	9,592	—	26,276	—
Dividend income (note 4(b))	41,445	—	100,574	—
Gains on disposal of investments, net (notes 4(b))	—	—	7,962	—
Foreign exchange gains, net	—	—	182,989	—
Rental income (note 5)	74,209	—	72,579	—
Other income (note 5)	178,345	—	69,719	—
	387,599	—	528,255	—
<b>Non-operating expenses and losses:</b>				
Interest expenses	228,157	1	205,794	—
Loss on disposal of investments, net (note 4(b))	9,862	—	—	—
Loss on disposal of property, net	4,647	—	9,044	—
Foreign exchange losses, net	6,608	—	—	—
Other expenses	47,300	—	50,717	—
	296,574	1	265,555	—
	3,927,304	7	10,438,846	18
<b>Earnings before cumulative effect of changes in accounting principles and income tax</b>				
<b>Income tax expense (note 4(n))</b>	747,962	2	2,959,534	5
<b>Earnings before cumulative effect of changes in accounting principles and after income tax</b>	3,179,342	5	7,479,312	13
<b>Cumulative effect of changes in accounting principles (note 3)</b>	—	—	1,919	—
<b>Consolidated net income</b>	\$ 3,179,342	5	7,481,231	13
<b>Income attributable to:</b>				
Shareholders of parent company	\$ 2,574,249		5,741,765	
Minority shareholders	605,093		1,739,466	
	\$ 3,179,342		7,481,231	
<b>Basic earnings per share of common stock (notes 3 and 4(o)):</b>				
<b>Net income</b>				
Earnings before cumulative effect of changes in accounting principles	\$ 3.27		7.31	
Cumulative effect of changes in accounting principles	—		(0.01)	
Net income	\$ 3.27		7.30	
<b>Diluted earnings per share of common stock:</b>				
<b>Net income</b>				
Earnings before cumulative effect of changes in accounting principles	\$ 3.27		7.30	
Cumulative effect of changes in accounting principles	—		(0.01)	
Net income	\$ 3.27		7.29	

See accompanying notes to these financial Statements

Chairman :Shao Yu Wang

Manager :Wei-Hua Tu

Chief Accountant :John Chen

**TSRC CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**For the years ended December 31, 2012 and 2011**  
**(expressed in thousands of New Taiwan dollars)**

Unit: NT\$1,000

	<u>Retained earnings</u>				<u>Other equity adjustments</u>					
	<u>Common stock</u>	<u>Capital surplus</u>	<u>Legal reserve</u>	<u>Unappropriated earnings</u>	<u>Accumulated translation adjustments</u>	<u>Net loss not yet recognized as net pension cost</u>	<u>Unrealized gains (losses) on financial instruments</u>	<u>Reserve for asset revaluation increment</u>	<u>Minority interest</u>	<u>Total</u>
<b>Balance as of January 1, 2011</b>	\$ 6,499,095	69,003	2,195,612	3,971,967	257,903	(48,156)	5,980	7,266	2,209,246	15,167,916
Consolidated net income for the period	—	—	—	5,741,765	—	—	—	—	1,739,466	7,481,231
Appropriations and distributions (note 1):										
Legal reserve	—	—	327,917	(327,917)	—	—	—	—	—	—
Cash dividends	—	—	—	(2,274,683)	—	—	—	—	(663,031)	(2,937,714)
Stock dividends	649,909	—	—	(649,909)	—	—	—	—	—	—
Changes in accumulated translation adjustments	—	—	—	—	744,462	—	—	—	239,803	984,265
Unrealized gains or loss on financial instruments	—	—	—	—	—	—	(5,980)	—	—	(5,980)
Changes in net loss not yet recognized as net pension cost	—	—	—	—	—	3,216	—	—	—	3,216
<b>Balance as of December 31, 2011</b>	7,149,004	69,003	2,523,529	6,461,223	1,002,365	(44,940)	—	7,266	3,525,484	20,692,934
Consolidated net income for the period	—	—	—	2,574,249	—	—	—	—	605,093	3,179,342
Appropriations and distributions (note 2):										
Legal reserve	—	—	574,176	(574,176)	—	—	—	—	—	—
Cash dividends	—	—	—	(3,574,502)	—	—	—	—	(1,710,366)	(5,284,868)
Stock dividends	714,900	—	—	(714,900)	—	—	—	—	—	—
Changes in accumulated translation adjustments	—	—	—	—	(313,587)	—	—	—	(110,302)	(423,889)
Changes in net loss not yet recognized as net pension cost	—	—	—	—	—	(43,842)	—	—	—	(43,842)
<b>Balance as of December 31, 2012</b>	<u>\$ 7,863,904</u>	<u>69,003</u>	<u>3,097,705</u>	<u>4,171,894</u>	<u>688,778</u>	<u>(88,782)</u>	<u>—</u>	<u>7,266</u>	<u>2,309,909</u>	<u>18,119,677</u>

Note 1: Directors' and supervisors' emoluments \$30,150 and employees' bonus \$60,301 has been deducted from statements of operations for the year ended December 31, 2010.

Note 2: Directors' and supervisors' emoluments \$44,221 and employees' bonus \$88,441 has been deducted from statements of operations for the year ended December 31, 2011.

See accompanying notes to these financial Statements

Chairman :Shao Yu Wang

Manager :Wei-Hua Tu

Chief Accountant :John Chen

**TSRC CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2012 and 2011**  
**(expressed in thousands of New Taiwan dollars)**

Unit: NT\$1,000

	2012	2011
	<u>Amount</u>	<u>Amount</u>
<b>Cash flows from operating activities:</b>		
Consolidated net income	\$ 3,179,342	7,481,231
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation (include that of rental assets and idle assets)	805,015	728,442
Amortization	128,505	93,838
Reversal of allowance for bad debts	(389)	(41,545)
Provision on (reversal for) losses on inventory valuation and obsolescence	(36,723)	115,173
Investment income, net, accounted for by the equity method	(9,592)	(26,276)
Cash dividends of long-term investments, accounted for by the equity method	—	24,766
Losses on disposal of property and equipment, net	4,647	9,044
Losses (gains) on disposal of investments, net	9,862	(7,962)
Reversal of allowance for impairment loss	(17,417)	(20,436)
Deferred income tax expense (gains)	(288,565)	729,431
<b>Change in operating assets and liabilities:</b>		
Changes in operating assets:		
Notes receivable	1,085,176	(1,390,658)
Accounts receivable	1,643,283	(1,058,398)
Other financial assets—current	24,343	(186,729)
Inventories	819,860	(2,311,485)
Prepaid expenses and other current assets	(117,986)	282,909
Changes in operating liabilities:		
Notes and accounts payable	(650,542)	655,394
Accounts payable-related parties	(218,436)	(40,521)
Income tax payable	(256,588)	320,880
Accrued expenses and other current liabilities	(308,707)	303,573
Accrued pension liability	(960)	2,805
Other liabilities—others	124,978	8,235
<b>Net cash provided by operating activities</b>	<u>5,919,106</u>	<u>5,671,711</u>
<b>Cash flows from investing activities:</b>		
Increase in available-for-sale financial assets	(487,169)	(890,000)
Proceeds from sale of available-for-sale financial assets	497,419	973,761
Proceeds from liquidation of financial assets carried at cost—noncurrent	223,961	—
Proceeds from reduction of capital of financial assets carried at cost—noncurrent	—	144,000
Increase in long-term investments, accounted for by equity method	(1,001,507)	(407,407)
Proceeds from reduction of capital of investment, accounted for by equity method	19,552	—
Acquisitions of property, plant and equipment	(1,832,679)	(1,168,724)
Proceeds from disposal of property, plant and equipment	17,553	15,169
Increase in intangible assets	(866)	(210,852)
Decrease (increase) in other financial assets—noncurrent	55,772	(22,917)
Decrease (increase) in other assets	44,982	(49,531)
Cash payment for merger and accusation	—	(5,639,823)
<b>Net cash used in investing activities</b>	<u>(2,462,982)</u>	<u>(7,256,324)</u>
<b>Net cash provided by (used in) investing activities</b>		

**TSRC CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows (Continued)**  
**For the years ended December 31, 2012 and 2011**  
**(expressed in thousands of New Taiwan dollars)**

Unit: NT\$1,000

	2012	2011
	<u>Amount</u>	<u>Amount</u>
<b>Cash flows from financing activities:</b>		
Increase in short-term borrowings	1,092,815	1,292,629
Increase in short-term commercial papers payable	99,840	249,601
Increase in long-term debts	1,126,396	5,088,720
Repayment of long-term debts	(1,307,396)	(845,325)
Increase in returnable deposits	14,400	16,997
Payment of cash dividends	(5,279,518)	(2,937,098)
<b>Net cash provided by (used in) financing activities</b>	<u>(4,253,463)</u>	<u>2,865,524</u>
<b>Effect of exchange rate changes</b>	<u>(111,382)</u>	<u>77,257</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(908,721)</u>	<u>1,358,168</u>
<b>Acquired cash on merger and acquisition</b>	<u>—</u>	<u>601,342</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>6,055,884</u>	<u>4,096,374</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 5,147,163</u>	<u>6,055,884</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for:		
Interest paid	<u>\$ 235,132</u>	<u>138,475</u>
Income tax paid	<u>\$ 1,221,508</u>	<u>1,573,932</u>
<b>Supplemental disclosures of investing and financing activities with no cash effect:</b>		
Unrealized losses (gain) on financial instruments	<u>\$ —</u>	<u>(5,980)</u>
Reclassification of current portion of long-term debts	<u>\$ 466,176</u>	<u>1,067,183</u>
Property, plant and equipment transferred to intangible assets	<u>\$ 109,535</u>	<u>51,763</u>
Inventory transferred to property, plant and equipment	<u>\$ 16,033</u>	<u>26,065</u>
<b>Supplemental disclosures of investing and financing activities with cash expenditure:</b>		
Purchase of property plant and equipment	<u>\$ 2,088,624</u>	<u>1,141,690</u>
Net changes in accounts payable	<u>\$ (255,945)</u>	<u>27,034</u>
Cash payment	<u>\$ 1,832,679</u>	<u>1,168,724</u>
Distribution of cash dividends	<u>5,284,868</u>	<u>2,937,714</u>
Net changes in dividends payable	<u>(5,350)</u>	<u>(616)</u>
Cash payment	<u>\$ 5,279,518</u>	<u>2,937,098</u>
<b>Information of merger and acquisition transaction:</b>		
Cash		\$ 601,342
Property, plant and equipment		886,772
Intangible assets		2,651,860
Inventories		1,107,289
Accounts receivable, net		749,350
Other assets		11,573
Accounts payable and accrued expense		(368,363)
Payment of cash on merger and acquisition transaction		<u>5,639,823</u>

See accompanying notes to these financial Statements

Chairman :Shao Yu Wang

Manager :Wei-Hua Tu

Chief Accountant :John Chen



**TSRC CORPORATION AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2012 and 2011**  
**(expressed in thousands of New Taiwan dollars, unless otherwise stated)**

**1. Organization and Business Scope**

TSRC Corporation (the original name was Taiwan Synthetic Rubber Corporation, TSRC) 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 as approved by the stockholders' meeting. TSRC is engaged in (i) the manufacture, import and sale of various types of synthetic rubber; (ii) the import, export, and sale of related raw materials; (iii) the manufacture and sale of processed synthetic rubber products; and (iv) the manufacture and sale of excess steam and electricity produced by the steam and electrical equipment (no sales of electricity to the public); and (v) other than the scope of business permitted through registration, unless business is prohibited or restricted by law is allowable.

As of December 31, 2012 and 2011, TSRC Corporation and its subsidiaries (hereinafter referred to as "The TSRC group") had 1,466 and 1,366 employees, respectively.

**2. Summary of Significant Accounting Policies**

The consolidated financial statements of the TSRC group were prepared in conformity with the ROC "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", and generally accepted accounting principles. The significant accounting policies and measurement basis adopted in preparing the consolidated financial statements were as follows:

**(a) Principles of Consolidation**

Subsidiaries included in consolidated financial statements and changes in percentage of ownership are summarized as follows:

Name investor	Name of investee	Scope of business	Percentage of ownership		Description
			2012.12.31	2011.12.31	
TSRC	Trimurti Holding Corporation	Investment corporation	100.00%	100.00%	—
TSRC	Hardison International Corporation	Investment corporation	100.00%	100.00%	—
TSRC & Hardison International Corporation	Dymas Corporation	Investment corporation	100.00%	100.00%	TSRC directly owns 19.48% of the company's equity and indirectly owns 80.52% via Hardison International Corporation.
Trimurti Holding Corporation	Polybus Corporation Pte Ltd.	International commerce and Investment	100.00%	100.00%	—
Trimurti Holding Corporation	TSRC (HONG KONG) Limited	Investment corporation	100.00%	100.00%	—
Trimurti Holding Corporation	TSRC (USA) Investment Corporation	Investment corporation	— %	100.00%	Transferred to TSRC (Lux.) Corporation S.a.r.l on January 1 2012.
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%	—
TSRC (HONG KONG) Limited	TSRC (Jinan) Industries Ltd.	Production and sale of reengineering plastic, plastic compound metal, and plastic elasticity engineering products	100.00%	100.00%	—
TSRC (HONG KONG) Limited	TSRC (Lux) Corporation S.' a. r. l.	International commerce and investment	100.00%	100.00%	Founded on July 26, 2011
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 Industries 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%	—
TSRC (Lux.) Corporation S.'a.r.l.	TSRC (USA) Investment Corporation	Investment corporation	100.00%	— %	Transferred from Trimurti Holding Corporation on January 1, 2012.
TSRC (USA) Investment Corporation	Dexco Polymers L.P.	Production and sale of synthetic rubber products	100.00%	100.00%	(Note 1)

Name investor	Name of investee	Scope of business	Percentage of ownership		Description
			2012.12.31	2011.12.31	
Hardison International Corporation	Triton International Holdings Corporation	Investment corporation	100.00%	100.00%	—
Hardison International Corporation	TSRC Biotech Ltd.	Investment corporation	100.00%	100.00%	—
Triton International Holdings Corporation	Nantong Qix Storage Co., Ltd.	Storehouse for chemicals	50.00%	50.00%	—

Note 1: TSRC (USA) Investment Corporation is a limited partner of Dexco Polymers Operating Company LLC (Dexco LLC). TSRC (USA) not only directly acquires 99% of ownership of Dexco Polymers LP, but also indirectly acquires 1% of ownership of Dexco Polymers LP through Dexco LLC. Because Dexco LLC is a holding company and does not have real operation, the related information of Dexco LLC is not disclosed.

Note 2: All significant intercompany balances and transactions were eliminated on consolidation.

#### **(b) Use of estimates**

The preparation of the accompanying consolidated financial statements in conformity with the aforementioned guidelines and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. The actual results may differ from management's estimates.

#### **(c) Foreign currency transactions and translation of financial statements of foreign subsidiaries**

TSRC maintains its books in New Taiwan dollars, which is its reporting and functional currency. Subsidiaries use local currencies as reporting and functional currencies. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date. The resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of operations. Non-monetary assets and liabilities denominated in foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are reported at the rate that was in effect when the fair values were determined. Subsequent adjustments to carrying values of such non-monetary assets and liabilities, including the effects of changes in exchange rates, are reported in profit or loss for the period, except that if movement in fair value of a non-monetary item is recognized directly in equity, any foreign exchange component of that adjustment is also recognized directly in equity.

In preparing the consolidated financial statements, the financial statements of foreign subsidiaries that are accounted for by the equity method and those of consolidated subsidiaries are translated into New Taiwan dollars at the exchange rates prevailing at the balance sheet dates, with the exception of stockholders' equity accounts, which are translated at historical exchange rates, and revenue, costs and expenses, which are translated at the average exchange rates during the reporting periods. The resulting translation differences are recorded as accumulated translation adjustments, a separate component of stockholders' equity.

#### **(d) Classification of assets and liabilities as current and noncurrent**

Current assets are unrestricted cash or cash equivalents and assets held for trading purpose which are to be converted into cash, sold, or consumed within one year after the date of the financial statements; all other assets are classified as noncurrent assets. Liabilities that are held primarily for the purpose of being traded or are expected to be settled within 12 months after the balance sheet date are classified as current liabilities; all other liabilities are classified as noncurrent liabilities.

#### **(e) Non-financial assets impairment**

Assessment is made at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) may have been impaired. If any such indication exists, the recoverable amount of the asset is estimated. Impairment loss is recognized for an asset whose carrying value is higher than the recoverable amount.

Impairment loss recognized in prior periods for assets other than goodwill is reversed if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The cash-generating unit to which goodwill is allocated and infinite intangible assets are assessed for impairment on an annual basis and impairment loss thereon are recognized based on the excess of the carrying value over the recoverable amount.

#### **(f) Cash equivalents**

Cash equivalents consist of highly liquid short-term investments that are readily convertible to known amounts of cash and present insignificant risks from changes in interest rates. Cash equivalents generally represent commercial paper with maturities of three months or less at the date of acquisition.

#### **(g) Financial assets and liabilities**

##### **1. Available-for-sale financial assets:**

At initial recognition, financial instruments recognized as available-for-sale financial assets are measured at fair value plus acquisition cost. Subsequently, they are measured at fair value. Prior to the derecognition of such assets, the changes in fair value are reported as an adjustment item in stockholders' equity, except for impairment loss and translation profit or loss from monetary financial assets. When available-for-sale financial assets are derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized in earnings. The changes in fair value from subsequent re-measurement are reported as a separate component of stockholders' equity. A subsequent reversal of allowance for impairment is allowed and recognized in profit or loss.

## 2. Financial assets carried at cost:

When the TSRC group does not have significant influence over the investee company and the fair value of securities of the investee company cannot be reliably measured, these financial instruments are stated at their original cost. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed until the assets are disposed of.

## 3. Notes receivables, accounts receivables and other receivables:

Notes receivables and accounts receivables are generated from sales of goods or provision of services directly to customers. Other receivables are generated from sales of goods and provision of services for non-operating purposes.

Financial assets are measured at amortized cost using the effective method. The TSRC group considers evidence of impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

In assessing collective impairment, the TSRC group uses historical trends of the profitability of default, timing of recoveries, and amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost 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. Loss are recognized in profit or loss and reflected in an allowance account against financial assets. Interest on the impaired asset continues to be recognized. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

## (h) Inventories

Inventories are measured at the lower of cost or net realizable value. The method of valuing inventories was moving average method. The cost of inventories is based on the standard cost. Net realizable value is the estimated selling price in the ordinary course of business at the balance sheet date, less the estimated costs of completion and selling expenses at the end of the period. The difference between standard cost of inventory and actual cost of inventory is allocated proportionately to inventories and cost of sales. The fixed manufacturing overhead is allocated to inventories and cost of sales based on the higher of normal capacity or actual capacity of production. The amount of unallocated fixed manufacturing overheads resulting from lower capacity or idle plant is recognized in cost of sales during the period.

## (i) Investments accounted for by the equity method

The investments in equity securities are accounted for by using the equity method when TSRC and its investees hold between 20% and 50% of voting rights of an investee, or hold less than 20% of voting rights but have a significant influence on the investee's financial and operating policy. Jointly controlled entities are those entities over whose activities the TSRC group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. The investment in joint ventures are accounted for by the equity method, too.

The excess of cost of investment over the fair value of identifiable net assets acquired is accounted for as goodwill, which is not amortized in accordance with the revised Statement of Financial Accounting Standards No. 5 "Long-term Investments under Equity Method".

When TSRC group subscribes for additional investee's shares at a percentage different from its ownership percentage, it causes a difference between the carrying amount of the TSRC group's investment in investee and its share of the investee's equity. Such difference is adjusted against capital surplus.

Under the equity method, gains or losses from inter-company transactions are deferred and then recognized when realized. Gains or losses resulting from inter-company transactions involving depreciable or amortizable assets are deferred and then recognized over the assets' estimated useful lives. Gains or losses resulting from other inter-company transactions are recognized when realized.

When TSRC has control over the investee company, such investee company is included in consolidated financial statements at the end of the first quarter, half-year, third quarter and fiscal year, in accordance with the statement of Financial Accounting Standards No. 7 "Consolidated Financial Statements".

## (j) Property, plant and equipment

Property, plant and equipment are stated at cost plus revaluation increment. Interest on borrowings in connection with the acquisition of property and equipment or the construction of plant is capitalized as a component of the respective asset. Major addition, improvement, and replacement costs are capitalized. Maintenance and repair costs are recorded as current expense.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. When property, plant and equipment reach their useful lives but they are still being made available for use, depreciation is calculated continuously based on their residual value and estimated remaining useful lives.

Gains or losses on the disposal of property, plant and equipment are recorded as non-operating income or expense.

The estimated costs of dismantling and removing an item and restoring the site on which it is located are capitalized. Each part of an item of property, plant or equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The remaining useful life, depreciation method, and residual value are assessed at each fiscal year-end, and changes therein are accounted for as changes in accounting estimates.

The estimated useful lives of the respective assets are as follows:

- (i) Land improvements: 8 ~ 30 years
- (ii) Buildings: 3 ~ 60 years
- (iii) Machinery and equipment: 8 ~ 40 years
- (iv) Transportation equipment: 5 years
- (v) Furniture and fixtures: 3 ~ 8 years

Land and buildings held for operating lease are classified as other assets—rental assets based on carrying value. Idle assets are accounted for as other assets and evaluated for impairment in accordance with Statement of Financial Accounting Standards No. 35 “Impairment of Assets” .

**(k)Intangible assets**

Intangible assets of TSRC group are stated as the original costs. Industrial technologies are stated at amounts approved by the government. The estimated useful lives are as follows:

	Lives
Software	3 years
Land use right	50 years
Industrial technologies	10 years
Know-how and patents	20 years
Non-compete	3 years
Trademark and goodwill	indefinite

**(l)Capital lease**

The leased property is measured at present value of all future rental payments (less the lessee's executory costs) plus the bargain purchase price or the lessee's guaranteed residual value or market value of the leased property at the inception date of the lease, whichever is lesser.

The lessee's periodic rental payment covers two parts: (i) the purchase price of the leased property and (ii) the interest expense due to long-term or installment financing. Therefore, the lessee recognizes both a lease liability and interest expense in each period. The interest expense is determined using the following rules:

a)If the value of the leased property is determined using the maximum borrowing rate for nonfinancial institutions (determined by the ROC Ministry of Finance) on the inception date of the lease, interest expense is calculated based on the beginning balance of the lease payable and the maximum borrowing rate.

b)If the value of the leased property is determined by its market price, interest expense is also calculated based on the beginning balance of the lease payable and the maximum borrowing rate. However a service charge is calculated based on the beginning balance of the lease payable and the difference between the leaser's interest rate implicit in the lease and the maximum borrowing rate.

If there is no guaranteed residual value at the end of the lease term, the lessee calculates the imputed interest expense based on the rental payments and the leased property's market value using the rules described under items (a) and (b) above.

The lessee's lease payable excludes interest expense and service charge from the periodic rental payment.

The lease liability is classified as either current or non-current liability, depending on the due date.

**(m)Employee retirement benefits**

a)Defined benefit retirement plan:

TSRC has adopted a defined benefit retirement plan (the “Plan” ) for all salaried employees since 1980. The Plan provides for benefit payments using a formula based on an employee's length of service and average salary for six months before retirement. According to the Plan, employees qualified for retirement are entitled to receive their benefit payment in a lump sum. TSRC is funding the Plan monthly in accordance with the Labor Standards Law. The pension fund is deposited with Bank of Taiwan, the government-designated custodian of pension funds.

TSRC adopted Statement of Financial Accounting Standards No. 18, “Accounting for Pensions” . Under this standard, TSRC is required to perform an actuarial calculation on its pension obligation as of each fiscal year-end. Based on the actuarial calculation, TSRC recognizes a minimum pension liability and net periodic pension costs covering the service lives of participants. A deferred pension cost is recognized and classified under intangible assets when the amount of additional liability does not exceed the sum of unrecognized prior service cost and unrecognized transitional net benefit obligation. An excess is charged to the net loss not yet recognized as net periodic pension cost account, and is classified as a reduction of equity. The unrecognized net transition obligation and unrecognized pension gain or loss is amortized on a straight-line basis.

For those employees who were covered by the Plan, pension contributions are made monthly to the Bureau of Labour Insurance at the rate of 7.07% of their monthly wages from April 2010 to February 2011. Subsequently, this contribution rate was adjusted to 8.93% from March 2011.

b)Defined contribution retirement plan:

Starting from July 1, 2005, the enforcement rules of the newly enacted Labour Pension Act (the “New Act” ) require the following categories of employees to adopt the New Act's defined contribution retirement plan:

- (i)Employees who were covered by the Plan and opted to be subject to the pension mechanism under the New Act; and
- (ii)Employees who commenced working after the enforcement date of the New Act.

In accordance with the New Act, TSRC shall contribute monthly no less than 6% of an employee's monthly salary or wages to the employee's individual pension fund account at Bureau of Labour Insurance. The actual contribution rate of TSRC is 6% of the employee's monthly wages. Such contributions are charged to current operations as pension cost on accrual basis.

Contribution rates for subsidiaries applying to defined contribution retirement plan are as follows:

Subsidiaries	Contribution rates
Polybus Corporation Pte. Ltd.	14.5% of the employee's monthly wages
Shen Hua Chemical Industrial Co., Ltd.	20% of the employee's monthly wages
TSRC-UBE (Nantong) Chemical Industrial Co., Ltd.	20% of the employee's monthly wages
TSRC (Nantong) Industries Co., Ltd.	20% of the employee's monthly wages
TSRC (Shanghai) Industries Ltd.	20% of the employee's monthly wages
TSRC (Jinan) Industries Ltd.	20% of the employee's monthly wages
Nantong Qix Storage Co., Ltd.	20% of the employee's monthly wages
TSRC (Lux.) Corporation S.'a.r.l.	8% of the employee's monthly wages
TSRC (USA) Investment Corporation	4% of the employee's monthly wages
Dexco Polymers L.P.	4% of the employee's monthly wages

c)Without pension plan:

Trimurti Holding Corporation, TSRC (Hong Kong) Limited, Hardison International Corporation, Dymas Corporation, Triton International Holdings Corporation, and TSRC Biotech Ltd. are holding or investing companies located overseas with no employees. Therefore, they have no pension related liabilities and expenses.

#### **(n)Employees' bonus and directors' and supervisors' emoluments**

Employees' bonus and directors' and supervisors' emoluments are accounted for by Interpretation (96) 052 issued by the Accounting Research and Development Foundation. The TSRC group estimates the amount of employees' bonus and directors' and supervisors' emoluments as expenses according to this Interpretation and recognizes it when the TSRC group's legal obligation and the amounts can be accrued reasonably. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

#### **(o)Revenue recognition**

(i)Sales and cost of sales are recognized when the significant risks and rewards of ownership of the products are transferred to the buyers. Also, a provision for estimated returns and discounts is recorded as sales are recognized. Expenses are recognized on an accrual basis.

(ii)Service revenue is recognized based on the degree of completion on the balance sheet date.

(iii)Dividends income is recognized on the date of dividend distribution or on the date when the board of directors approved a resolution to distribute dividends.

#### **(p)Income tax**

Income taxes are accounted for under the asset and liability method. Deferred income taxes are determined based on differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, net operating loss carry forwards, and income tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly. The flow-through method is adopted for income tax credits resulting from the research and development expenditures.

Classification of the deferred income tax assets or liabilities as current or non-current is based on the classification of the related asset or liability. If the deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the expected realization date of such deferred income tax asset or liability.

The flow-through method is adopted for income tax credits resulting from the purchase of equipment or technology, research and development expenditures, and human resource development expenditures.

Undistributed income, if any, is subject to an additional 10 percent retained earnings surtax. This surtax is charged to income tax expense in the following year when the stockholders approved a resolution not to distribute the earnings.

Dexco Polymers LP is a pass through entity under US tax perspective as its tax liability is passed through and paid by TSRC (USA) Investment Corporation. Aside from Dexco Polymer LP and TSRC (USA) Investment Corporation, all other subsidiaries are independent taxable entities whose taxable income and expenses cannot be offset against each other.

#### **(q)Earnings per share of common stock**

Earnings per share are computed by dividing the amount of net income attributable to common stock outstanding for the period by the weighted-average number of common shares outstanding during the period.

Stock options issued by TSRC as employees' bonus but still not yet approved by stockholders are treated as potential common stock. When computing diluted EPS, potential common shares are included in the calculation if they are dilutive. Non-dilutive potential common shares are excluded from the calculation of diluted EPS.

The method of calculating the diluted EPS is consistent with that of the basic EPS but the diluted EPS includes the effects of all potentially dilutive common shares that were outstanding during the reporting period. When calculating diluted EPS, the net income attributable to common stockholders and the weighted-average number of shares outstanding are adjusted for the effects of all dilutive potentially dilutive common shares.

The weighted-average number of common shares outstanding is adjusted currently and retroactively for the increase in common shares outstanding from stock issuance through the capitalization of retained earnings, additional paid-in capital, or employees' bonus. For calculating the diluted EPS, the employees' bonus in stock is included in the calculation of the weighted-average number of shares at market price or net value on the balance sheet date.

#### (r) Operating segment

An operating segment is a component of an entity 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 same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of the resources to the segment and to assess its performance for which discrete financial information is available.

### 3. Reason for and Effect of Accounting Changes

(a) The TSRC group adopted the third revisions of the ROC SFAS No. 34 "Accounting for Financial Instruments" effective on January 1, 2011 for the recognition, subsequent measurement and impairment of originated loans and receivables. The adoption of this amended accounting principle caused no significant impact on the TSRC group's financial statements as of and for the year ended December 31, 2011.

(b) The TSRC group changed their valuation method of valuing inventories from first-in first-out to moving average method commencing from January 1, 2011. For the year ended December 31, 2011, the effects to their net income after tax and EPS were as follows:

	Net income	EPS
TSRC	(4,914)	(0.01)
TSRC (Nantong) Industries Co., Ltd.	2,555	—
TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	2,090	—
Shen Hua Chemical Industrial Co., Ltd.	2,188	—
	<u>1,919</u>	<u>(0.01)</u>

(c) The TSRC group adopted the ROC SFAS No. 41 "Disclosure of the Operating Segment" starting from January 1, 2011. According to this new accounting standard, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effect of the business activities in which it engages and the economic environment in which it operates. Internal information that is provided to the operating decision maker is used as the basis for determining and disclosing the operating segment. This standard replaces the ROC SFAS No. 20 "Segment Reporting". The adoption of this new accounting standard was to disclose certain information and resulted in no impact on TSRC group's profit and loss for the year ended December 31, 2011.

### 4. Description of Significant Accounts

#### (a) Cash and cash equivalents

	Dec.31, 2012	Dec.31, 2011
Cash on hand	\$ 486	455
Checking and savings deposits	2,584,005	1,464,843
Time deposits	2,302,819	3,236,144
Commercial paper with repurchase agreements	259,853	1,354,442
	<u>\$ 5,147,163</u>	<u>6,055,884</u>

#### (b) Financial assets

##### (i) Available-for-sale financial assets—current:

For the years ended December 31, 2012 and 2011, the sale of available-for-sale financial assets resulted in gains of \$10,250 and \$7,962 thousand respectively, which were accounted for as non-operating expense and losses—losses on disposal of investments, net, and non-operating income and gains—gains on disposal of investments, net.



(ii) Financial assets carried at cost — noncurrent

	Dec.31, 2012	Dec.31, 2011
Taiwan High Speed Rail Corp.	\$ 500,000	500,000
Wei Dah Investment Co., Ltd.	—	244,073
Evergreen Steel Corp. (Note)	209,878	209,878
Thai Synthetic Rubbers Co., Ltd.	120,768	122,971
Hsin-Yung Enterprise Corp.	64,296	64,296
	<u>\$ 894,942</u>	<u>1,141,218</u>

Note: Evergreen Development Corp. was renamed Evergreen Steel Corp. on January 5, 2012.

These are investments in equity securities which are stated at their original cost as they do not have quoted market price in an active market and whose fair value cannot be reliably measured.

The Board of Wei Dah Investment Co., Ltd resolved to reduce its capital and returned it in cash to stockholders in 2011 and therefore TSRC received consideration of \$144,000 thousand. In addition, Wei Dah Investment Co., Ltd completed the process of liquidation in June 2012, and TSRC recognized liquidation loss of \$20,112 thousand, which was accounted for as non-operating expenses and losses — losses on disposal of investment, net.

For the years ended December 31, 2012 and 2011, the TSRC group received cash dividends of \$41,445 thousand and \$100,574 thousand, respectively, from the above investee companies.

(c) Notes and Accounts receivable

	Dec.31, 2012	Dec.31, 2011
Notes receivable	\$ 1,408,383	2,493,559
Accounts receivable	4,294,258	5,937,541
	<u>5,702,641</u>	<u>8,431,100</u>
Less: allowance for doubtful accounts	140	529
	<u>\$ 5,702,501</u>	<u>8,430,571</u>

As of December 31, 2012 and 2011, TSRC group's notes receivable and accounts receivable were pledged of \$79,733 thousand. There was no such transaction for the year ended December 31, 2011.

The carrying value December 31, 2011, of notes receivable and accounts receivable is considered as their fair value because of the near maturity dates.

(d) Inventories

(i) The components as of December 31, 2012 and 2011, were as follows:

	Dec.31, 2012	Dec.31, 2011
Finished goods	\$ 3,366,768	4,231,692
Work in process	445,776	389,937
Raw materials	2,076,881	2,281,521
Supplies	55,240	73,328
Merchandise inventories	159,513	63,728
	<u>\$ 6,104,178</u>	<u>7,040,206</u>

(ii) For the years ended December 31, 2012 and 2011, the changes in allowance for inventory valuation loss and obsolescence were as follows:

	2012	2011
Balance as of January 1	\$ 286,870	160,413
Provisions provided (reversed) during the period	(36,723)	115,173
Adjustment of exchange rate	(6,369)	11,284
Balance as of December 31	<u>\$ 243,778</u>	<u>286,870</u>

(iii) For the years ended December 31, 2012 and 2011, the inventory-related gains and loss, recorded in cost of sales, were as follows:

	2012	2011
Loss (gains) on inventory devaluation	\$ (36,723)	115,173
Income from sales of scraps	(122,133)	(158,914)
Loss on idle of capacity	57,015	—
	<u>\$ (101,841)</u>	<u>(43,741)</u>

**(e) Long-term investments accounted for by the equity method**

Investee	Dec.31, 2012			Dec.31, 2011		
	Holding Percentage	Amount	Investment Income	Holding Percentage	Amount	Investment Income
Asia Pacific Energy Development Co., Ltd.	37.78%	\$ 337,312	50,428	37.78%	309,746	38,837
Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd	50.00%	339,117	(31,685)	50.00%	381,238	(5,098)
Indian Synthetic Rubber Limited	30.00%	546,754	(5,801)	30.00%	314,484	(7,436)
Taiwan Advanced Materials Corp.	48.00%	716,650	(3,350)	-	-	-
		<u>\$ 1,939,833</u>	<u>9,592</u>		<u>1,005,468</u>	<u>26,276</u>

Asia Pacific Energy Development Co., Ltd., accounted for by equity method, resolved to reduce its capital and returned it in cash. The TSRC group received cash based on percentage of capital reduction and accordingly decreased its long-term investment by \$19,552 thousand.

In 2010, the TSRC group invested \$224,763 thousand in Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd. In 2011, the TSRC group made an additional equity investment of \$157,080 thousand in Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd. In addition, in August 2010, the TSRC group invested \$102,837 thousand in Indian Synthetic Rubber Limited. In 2011 and 2012, the TSRC group made an additional equity investment of \$250,327 thousand and \$281,507 thousand in Indian Synthetic Rubber Limited. On January 31, 2012, the TSRC group invested in a newly founded joint venture, Taiwan Advanced Materials Corp., and invested \$720,000 thousand in exchange for 48% equity ownership. As the TSRC group has a significant influence on these investee companies, its equity investments thereof were accounted for by using the equity method.

On December 31, 2012 and 2011, the amounts of Lanxess—TSRC (Nantong) Chemical Industrial Co., Ltd. Which the TSRC Group has shares, according to contractual agreement, were as follows:

	Dec.31, 2012	Dec.31, 2011
Current assets	<u>\$ 468,945</u>	<u>247,967</u>
Non-current assets	<u>\$ 764,457</u>	<u>492,136</u>
Current liabilities	<u>\$ 409,967</u>	<u>103,917</u>
Long-term liabilities	<u>\$ 484,318</u>	<u>254,948</u>
	<u>2012</u>	<u>2011</u>
Revenue	<u>\$ 278,920</u>	<u>51,050</u>
Expense	<u>\$ 310,605</u>	<u>56,148</u>

On December 31, 2012, the amounts of Taiwan Advanced Materials Corp. which the TSRC Group has shares, according to contractual agreement, were as follows:

	Dec.31, 2012
Current assets	<u>\$ 673,696</u>
Non-current assets	<u>\$ 63,240</u>
Current liabilities	<u>\$ 20,286</u>
	<u>2012</u>
Revenue	<u>\$ 3,233</u>
Expense	<u>\$ 6,583</u>

**(f) Property, plant and equipment**

(i) TSRC (Jinan) Industries Ltd. performed the assets impairment test by estimating the future cash flows. Impairment loss was recognized thereon as the estimated amount of future cash flows was lesser than carrying value. Impairment loss recognized in prior periods was reversed if there was any indication that the impairment loss recognized was no longer existed or decreased.

(ii) Certain parcel of land of the TSRC group was revalued using government-prescribed values in 1979 and 1981. Also, depreciable assets acquired before June 30, 1980, were revalued on January 1, 1981, which was approved by the Taipei National Tax Administration, based on the ROC "Statute for Encouragement of Investment" and other laws and regulations.

The details of the revaluation increments of December 31, 2012 and 2011 were as follows:



	Dec.31, 2012	Dec.31, 2011
Land	\$ 126,174	126,174
Land improvements	3,565	3,565
Buildings	37,018	37,018
Machinery and equipment	267,353	267,948
Furniture and fixtures	194	208
	<u>\$ 434,304</u>	<u>434,913</u>
Reserve for land value increment tax	<u>\$ 56,683</u>	<u>56,683</u>

(iii)TSRC 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, TSRC 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 relevant leased asset and lease payable were as follows:

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>		
Leased assets-land	<u>\$ 94,596</u>	<u>94,596</u>		
Lease payable:				
Leaser	Lease period	Bargain purchase right	<u>Dec.31, 2012</u>	Dec.31, 2011
Industrial Development Bureau of the Ministry of Economic Affairs	2004.6.29~2024.6.28	Formally apply to Industrial Development Bureau of the Ministry of Economic Affairs for purchasing leased land	\$ 73,823	80,023
		Less : current portion	<u>6,837</u>	<u>6,912</u>
			<u>\$ 66,986</u>	<u>73,111</u>

The above lease payable—current and noncurrent were classified under accrued expenses and other liabilities—other, respectively. The details of future lease payable (excluding VAT) due to above capital lease were as follows:

Period	Amount
2013	\$ 7,064
2014	7,064
2015	7,064
2016	7,064
2017 and thereafter	<u>52,979</u>
	81,235
Less : unrealized interest expense	<u>7,412</u>
Present value	<u>\$ 73,823</u>

#### (g)Other intangible assets

For the years ended December 31, 2012 and 2011, the movements in intangible assets in TSRC group were as follows:

	January 1, 2012	Additions	Reclassification	Disposal	Effect of exchange rate changes	December 31, 2012
Original cost:						
Land use right	\$ 603,419	—	—	—	(16,795)	586,624
Industrial technology	118,553	—	41,755	—	(7,897)	152,411
Computer software	74,554	866	67,780	(895)	(513)	141,792
Goodwill	1,295,468	—	—	—	(49,355)	1,246,113
Trademark	127,218	—	—	—	(4,847)	122,371
Patent	475,553	—	—	—	(18,118)	457,435
Know-how	836,004	—	—	—	(31,850)	804,154
Non compete	9,087	—	—	—	(346)	8,741
	<u>\$ 3,539,856</u>	<u>866</u>	<u>109,535</u>	<u>(895)</u>	<u>(129,721)</u>	<u>3,519,641</u>

	January 1, 2011	Additions	Reclassification	Disposal	Effect of exchange rate changes	December 31, 2011
Land use right	\$ 382,822	189,948	—	—	30,649	603,419
Industrial technology	97,520	—	—	—	21,033	118,553
Computer software	2,833	20,904	51,763	(2,059)	1,113	74,554
Goodwill	—	1,252,276	—	—	43,192	1,295,468
Trademark	—	122,976	—	—	4,242	127,218
Patent	—	459,696	—	—	15,857	475,553
Know-how	—	808,128	—	—	27,876	836,004
Non compete	—	8,784	—	—	303	9,087
	<u>\$ 483,175</u>	<u>2,862,712</u>	<u>51,763</u>	<u>(2,059)</u>	<u>144,265</u>	<u>3,539,856</u>

	January 1, 2012	Amortization	Reclassification	Disposal	Effect of exchange rate changes	December 31, 2012
Accumulated amortization:						
Land use right	\$ 77,661	11,473	—	—	(2,225)	86,909
Industrial technology	59,704	12,241	—	—	(4,004)	67,941
Computer software	21,008	37,856	—	(895)	(447)	57,522
Patent	17,833	23,194	—	—	(1,111)	39,916
Know-how	31,350	40,772	—	—	(1,953)	70,169
Non compete	2,272	2,969	—	—	(142)	5,099
	<u>\$ 209,828</u>	<u>128,505</u>	<u>—</u>	<u>(895)</u>	<u>(9,882)</u>	<u>327,556</u>

	January 1, 2011	Amortization	Reclassification	Disposal	Effect of exchange rate changes	December 31, 2011
Land use right	\$ 61,687	10,506	—	—	5,468	77,661
Industrial technology	39,715	10,472	—	—	9,517	59,704
Computer software	—	22,802	—	(2,059)	265	21,008
Patent	—	17,349	—	—	484	17,833
Know-how	—	30,499	—	—	851	31,350
Non compete	—	2,210	—	—	62	2,272
	<u>\$ 101,402</u>	<u>93,838</u>	<u>51,763</u>	<u>(2,059)</u>	<u>16,647</u>	<u>209,828</u>

Carrying value:

Beginning balance on Jan. 1, 2012	<u>\$ 3,330,028</u>
Ending balance on Dec. 31, 2012	<u>\$ 3,192,085</u>
Beginning balance on Jan. 1, 2011	<u>\$ 381,773</u>
Ending balance on Dec. 31, 2011	<u>\$ 3,330,028</u>

For the years ended December 31, 2012 and 2011, TSRC group recognized amortization expense of \$128,505 thousand and \$93,838 thousand, respectively, which were accounted for as operation cost and expenses.

**(h) Other assets**

	Dec.31, 2012	Dec.31, 2011
Rental assets:	\$ 741,889	741,889
Buildings	130,793	116,068
Less: accumulated depreciation	611,096	625,821
	<u>1,155,023</u>	<u>1,155,023</u>
Land	<u>\$ 1,766,119</u>	<u>1,780,844</u>

Idle assets:	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Machinery and equipment	\$ 200,696	207,002
Less: accumulated depreciation	200,696	189,585
Accumulated impairment	<u>—</u>	<u>17,417</u>
	<u>—</u>	<u>—</u>
Land	<u>120,221</u>	<u>120,221</u>
	<u>\$ 120,221</u>	<u>120,221</u>

In 1988, TSRC group purchased certain parcels of land near its Kaohsiung plant. This land has not yet been actively developed, and part of the land is being leased to a non-related party. The cost of the related assets is included in rental assets and idle assets.

**(i)Short-term borrowings**

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Mortgage loans	\$ —	9,592
Secured loans	495,312	757,250
Credit loans	<u>5,698,867</u>	<u>4,334,522</u>
	<u>\$ 6,194,179</u>	<u>5,101,364</u>

As of December 31, 2012 and 2011, the related interest rates were as follows:

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
JPY borrowings	1.00%	0.74%~2.698%
USD borrowings	0.856%~2.638%	1.18%~3.0713%
EUR borrowings	1.75%~1.90%	2.13%~2.31%
RMB borrowings	5.6%~6.00%	2.15%~7.872%
NTD borrowings	1.15%~1.21%	—

As of December 31, 2012 and 2011, the TSRC group had unused short-term credit lines (including credit lines for short-term commercial paper payable) amounting to \$14,637,292 thousand and \$10,217,403 thousand, respectively.

**(j)Short-term commercial papers payable**

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Short-term commercial papers payable	\$ 350,000	250,000
Less: discount on short-term commercial papers payable	<u>559</u>	<u>399</u>
	<u>\$ 349,441</u>	<u>249,601</u>
Rate	<u>1.115%</u>	<u>1.2%</u>

**(k)Long-term debts**

Bank	Nature and duration	Dec.31, 2012		Dec.31, 2011	
		Amount	Interest rate	Amount	Interest rate
Bank of China	Credit loans, 2008.10.16~2012.10.14, which are payable on maturity date.	\$ —	—	200,048	1.584% ~6.762%
Agriculture Bank of China	Credit loans, 2007.3.2~2012.2.28, of which 19.51% is payable in Dec, 2009, 35.78% in Feb, 2011, 12.19% in Dec., 2012, and 32.52% in Feb., 2012.	—	—	383,680	5.805%
	Credit loans, 2012.12.6~2014.6.5, which are payable on maturity date.	9,325	6.150%	—	—
	Credit loans, 2012.12.6~2014.12.5, which are payable on maturing date.	9,325	6.150%	—	—
	Credit loans, 2012.12.6~2015.12.5, which are payable on maturity date.	60,613	6.150%	—	—
	Credit loans, 2012.12.12~2015.6.5, which are payable on maturity date.	13,988	6.150%	—	—
Chinatrust Bank	Secured loans, 2007.5.21~2012.5.20, which are payable on maturity date.	—	—	67,992	1.35%
	Secured loans, 2012.5.21~2015.5.20, which are payable on maturity date.	65,939	2.670% ~2.748%	—	—
Mizuho Corporate Bank	Secured loans, 2007.5.27~2012.5.27, of which 12.5% is payable in the 30 <sup>th</sup> and 36 <sup>th</sup> month, 18.75% in the 42 <sup>nd</sup> , 48 <sup>th</sup> , 54 <sup>th</sup> and 60 <sup>th</sup> month, commencing from 2007.5.27.	—	—	173,698	1.219% ~5.985%
Bank of America Shanghai Branch	Secured loans, 2007.6.21~2012.8.15, payable in 6 half-yearly installments commencing from 2010.2.15.	—	—	141,765	2.544% ~6.210%
Taiwan Cooperative Bank	Mortgaged loans, 2007.08.14~2012.08.14, interest is payable monthly and principal is payable in 6 half-yearly installments after 25 months commencing from the date of initial utilization of debt.	—	—	100,000	1.370%
	Secured loans, 2012.8.14~2017.2.1, payable in 6 half-yearly installments commencing from 2015.8.20.	439,592	1.5539%	—	—
	Secured loans, 2012.2.1~2017.1.30, payable in 6 half-yearly installments commencing from 2015.1.30.	293,061	1.5555%	—	—
	Secured loans, 2012.5.9~2017.2.1, payable in 6 half-yearly installments commencing from 2015.4.26.	293,061	1.5543%	—	—
Taipei Fubon Bank	Secured loans, 2011.03.31~2016.03.31 principal is payable every 6 months after 18 months from the date of initial utilization of debt.	2,243,468	1.2106%	2,655,520	1.3293%
	Secured loans, 2011.03.31~2016.03.31 principal is payable every 6 months after 24 months commencing from the date of initial utilization of debt.	2,330,885	1.613% ~1.800%	2,423,200	1.3290%
	Total	5,759,257		6,155,903	
	Less: current portion	(466,176)		(1,067,183)	
		<u>\$ 5,293,081</u>		<u>5,088,720</u>	

TSRC group entered into syndicated loan contract with Taipei Fubon bank and other eight banks:

(i)Borrower: Trimurti Holding Corporation and TSRC (USA) Investment Corporation.

(ii)Amount: US dollars \$88,000,000 and \$80,000,000, totalling US dollars \$168,000,000.

(iii)Duration: 5 years, TSRC (USA) Investment Corporation could extend to another two years.

(iv)Rate: 3 months or 6 months LIBOR plus 0.75% and 3 months or 6 months LIBOR plus 1.30%.

(v)Repayment term: Principal that Trimurti Holding Corporation borrowed is payable every 6 months after 18 months from the date of initial utilization of debt. Principal amount of loan that TSRC (USA) Investment Corporation borrowed is payable in 7 installments every 6 months after 24 months from the date of initial utilization of debt. Each of the first 6 installments is payable at the rate of 10% of principal and the last installment is payable at 40% of principal.

(vi)Guarantee: Trimurti Holding corporation did not provided any guarantee, but TSRC Corporation provided a letter of support. TSRC Corporation provided a letter of guarantee for TSRC (USA) Investment Corporation.

(vii)Others: during the period of borrowing, TSRC group should meet the following covenants according to the amounts in consolidated financial statements:

a.Equity to debt ratio should not be higher than 150%.

b.Total tangible net assets at the end of reporting period should not be less than \$10 billion.

c.Current ratio should not be less than 100%.

d.The interest coverage ratio for the reporting period should not be less than 4 times.

As of December 31, 2012, TSRC group was in compliance with the covenants described above.

About the pledged assets to long-term debts, please see note 6.

#### (I)Retirement benefits

1.As of December 31, 2012 and 2011, the funded status of the plan and the provision for retirement benefits were as follows:

	Dec.31, 2012	Dec.31, 2011
Vested benefit	\$ 505,253	451,280
Benefit obligation:		
Vested benefit obligation	\$ 407,420	344,137
Accumulated benefit obligation	\$ 607,685	554,119
Projected benefit obligation	\$ 711,151	654,184
Fair value of plan assets	426,440	410,471
Funded status	284,711	243,713
Unrecognized net loss	(192,248)	(145,005)
Unrecognized transition obligation	(21,133)	(26,418)
Adjustment required to recognize minimum liability (note)	109,915	71,358
Accrued pension liability	\$ 181,245	143,648

Note: As of December 31, 2012 and 2011, additional accrued pension liabilities incurred from unrecognized transitional net benefit obligation of \$21,133 thousand and \$26,418 thousand, respectively, were recorded as deferred pension cost, and the excess amount of \$88,782 thousand and \$44,940 thousand in 2012 was recorded as net loss not yet recognized as net pension cost.

The components of net periodic pension cost for the years ended December 31, 2012 and 2011, were as follows:

	2012	2011
Service cost	\$ 9,099	9,498
Interest cost	13,012	11,730
Actual return on plan assets	(4,008)	(4,911)
Net amortization	6,207	8,785
Net pension cost	\$ 24,310	25,102

Actuarial assumptions used for the retirement plan as of December 31, 2012 and 2011, were as follows:

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Discount rate	1.75%	2.00%
Future salary increase rate	1.50%	1.50%
Expected long-term rate of return on plan assets	1.75%	2.00%

2. TSRC group is subject to the Labor Pension Act, which became effective July 1, 2005. In 2012 and 2011, TSRC group contributed \$18,283 thousand and \$15,094 thousand, respectively, to the employees' individual pension accounts at the Bureau of Labor Insurance, recognized as pension expenses.

3. For the years ended December 31, 2012 and 2011, pension cost under defined contribution retirement plan for subsidiaries were \$49,301 thousand and \$30,134 thousand, respectively.

### **(m) Stockholders' equity**

#### **1. Common stock**

As of December 31, 2012 and 2011, the authorized capital amounted to \$9,000,000 thousand, with par value of \$10 per share, of which \$1,000,000 thousand was retained for conversion of convertible bonds, and the issued capital amounted to \$7,863,904 thousand and \$7,149,004 thousand, respectively.

#### **2. Capital surplus**

The ROC Company Act stipulates that realized capital surplus cannot be used to increase capital or distribute dividends except for making up deficits of TSRC. The realized capital surplus includes the premium from issuance of shares in excess of par value and donations received.

As of December 31, 2012 and 2011, the components of capital surplus were as follows:

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Share premium	\$ 849	849
Capital surplus resulting from long-term investment, accounted for by equity method	68,109	68,109
Others	45	45
	<u>\$ 69,003</u>	<u>69,003</u>

#### **3. Legal reserve**

The ROC Corporation 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, in 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 paid-in capital may be distributed.

#### **4. Special reserve, dividends and bonuses**

In accordance with SFB Ruling Tai-Tsai-Cheng No. 100116, effective in 1999, in addition to appropriating a legal reserve, TSRC should appropriate a special reserve for other equity adjustment items with debit balance from current year's earnings after tax or prior year's unappropriated earnings. However, this special reserve cannot be distributed as dividend. When events resulting in other equity adjustment items with debit balances terminate, the related special reserve is reinstated into retained earnings, so that it can be made available for distribution as dividends.

In accordance with FSC Ruling Jin-Guan-Zheng-Fa No. 1010012865, when International Financial Reporting Standards are adopted for the first time, reserve for asset revaluation increment and accumulated translation adjustments, recorded in stockholders' equity section, are transferred into unappropriated earnings due to the exemption options of IFRS 1 "First-time Adoption of International Financial Reporting Standards", and the Company shall provide the same amounts as special reserve. However, if increased unappropriated earnings resulting from the adoption of IFRS on the date of transition are not enough to provide special reserve for the amounts of reserve for asset revaluation increment and accumulated translation adjustments transferred, the Company shall provide the remaining increased amount of unappropriated earnings only. Following the use, disposal or reclassification of the related assets, special reserve shall be reversed proportionally into unappropriated earnings.

Before the revision of TSRC article of incorporation, TSRC must retain 10% of its after-tax earnings as legal reserve (less deficits of prior years, if any), and then provide a special reserve. The remaining earnings should be distributed as follows:

1.97% of annual earnings are distributed as stockholders' dividends and bonus.

2.1% of annual earnings are distributed as directors' and supervisors' emoluments.

3.2% of annual earnings are distributed as employees' bonus.

If dividends and bonuses mentioned above are to be distributed, distribution for cash dividends should not be less than 20% of total dividends. The proportion of cash dividends is reduced or stock dividends are distributed if capital expenditures are anticipated in the future. Under any of the following circumstances, part or all of remaining earnings can be retained:

a) If stock dividend per share is less than \$0.5.

b) If necessary, not over 50% of remaining earnings can be retained.

The amounts of individual directors' and supervisors' emoluments and employees' bonus are based upon the board of directors' resolution.

Based on a resolution approved by the shareholders during their meetings in 2012, the earnings distribution policies were modified as follows:

TSRC must retain 10% of its after-tax earnings as legal reserve (less deficits of prior years, if any), and then provide the special reserve.

No less than 50% of distributable earnings shall be appropriated in the following order:

1.97% as stockholders' dividends and bonus.

2.1% as directors' and supervisors' emoluments.

3.2% as employees' bonus.

If the dividends and bonuses mentioned above are to be distributed, distribution of cash dividends should not be less than 20% of total dividends and stock dividends should not be more than 80% of total dividends. Distributable earnings would be retained if dividends mentioned above are less than \$0.5 per share.

The amounts of individual directors' and supervisors' emoluments and employees' bonus are based upon the board of directors' resolution.

The appropriations of 2011 and 2010 earnings that were approved by the TSRC's shareholders during their meetings on June 6, 2012, and June 10, 2011, respectively, were as follows:

	2011	2010
Cash dividends per share	\$ 5.00	3.50
Stock dividends per share	1.00	1.00
Employees' bonus—cash	88,441	60,301
Directors' and supervisors' emoluments	44,221	30,150

The amounts of the above appropriations of earnings were consistent with the resolutions approved by the TSRC's shareholders during their meetings, and related information can be accessed through the Market Observation Post System.

For the years ended December 31, 2012 TSRC recognized employees' bonus and directors' and supervisors' emoluments amounting to \$34,990 thousand (net of tax) and \$17,495 thousand (net of tax), respectively. Such amounts were estimated as percentages of the net income for the years ended December 31, 2012 which are consistent with the articles of incorporation approved by TSRC's shareholders' meetings. The difference between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, shall be accounted for as a change in accounting estimates and recognized in profit or loss.

For the years ended December 31, 2011, subsidiaries included in consolidated financial statements recognized employees' welfare amounting to \$331 thousand (net of tax). Such amounts were estimated based on earnings after tax and as percentages required by their articles of incorporation. Since 2012, subsidiaries of the board of directors resolved that employees' welfare would not be provided.

#### (n) Income tax

TSRC is subject to the ROC income tax at a maximum rate of 17% both for the years ended December 31, 2012 and 2011, and it applies to the "Income Basic Tax Act".

According to Tax Act of PRC, foreign invested enterprise is allowed income tax exemption for the first two years of profitability and 50% income tax exemption for the subsequent three years. In addition, based on the new Tax Act effective January 1, 2008, in PRC, an enterprise founded before the adoption of the new Tax Act is required to gradually adjust its tax rate back to 25% within five years commencing from the Act's effective date.

The actual individual tax rates of the subsidiaries located in PRC for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Shen Hua Co., Ltd.	25%	24%
Nantong Qix Co., Ltd.	25%	24%
TSRC (Shanghai) Ltd.	25%	25%
TSRC (Jinan) Ltd.	12.5%	12%
TSRC (Nantong) Co., Ltd.	12.5%	12%
TSRC-UBE (Nantong) Co., Ltd.	12.5%	12%

Dexco Polymers L.P. is a Pass Through entity. Therefore, TSRC (USA) Investment Corporation pays income tax of Dexco Polymers L.P. For the years ended December 31, 2012 and 2011, the expected income tax rate of TSRC (USA) Investment Corporation and Dexco Polymers L.P. was 35%.

**1. For the years ended December 31, 2012 and 2011, the components of income tax expense were as follows:**

	2012	2011
Current income tax expense	\$ 948,708	2,227,438
Deferred income tax expense (gains)	(288,565)	729,431
10% surtax on undistributed earnings	87,819	2,665
Income tax expense	<u>\$ 747,962</u>	<u>2,959,534</u>

The components of deferred income tax expense (gains) for the years ended December 31, 2012 and 2011, were as follows:

	2012	2011
Reversal of allowance for impairment loss	\$ 2,961	3,474
Reversal of inventory valuation loss and obsolescence	(4,500)	(697)
Unrealized exchange gain (losses)	1,959	(3,167)
Provision for retirement benefits	(187)	(127)
Reversal of bad debt	147	4,021
Deferred charges and supplies transferred to expense	578	679
Amortization of capitalized interest expense	(1,591)	(1,319)
Depreciation difference between financial and tax reporting	66,182	(2,238)
Amortization difference between financial and tax reporting	15,500	—
Foreign investment income accounted for by the equity method	229,250	689,850
Technology as capital contribution difference between financial and tax reporting	2,813	2,812
Deferred unrealized revenue	(35,025)	—
Foreign investment income remitted and reinvested	(525,508)	—
Loss carryforward	(32,291)	—
Others	(8,853)	36,143
	<u>\$ (288,565)</u>	<u>729,431</u>

**2. For the years ended December 31, 2012 and 2011, the income tax calculated on pretax accounting income calculated at statutory income tax rate was reconciled with income tax expense as follows:**

	2012	2011
Income tax calculated on pretax accounting income at statutory rate	\$ 980,069	2,684,587
R&D tax credits utilized	(16,916)	(11,063)
Previously overestimated income tax	(24,464)	(4,744)
Domestic investment income	(8,218)	(17,098)
Withholding tax on dividend	17,866	179,626
10% surtax on undistributed earnings	87,819	2,665
Foreign investment income reinvested	(273,175)	—
Others	(15,019)	125,561
Income tax expense	<u>\$ 747,962</u>	<u>2,959,534</u>



**3.As of December 31, 2012 and 2011, the components of temporary differences and related of income tax effects, which resulted in deferred income tax assets (liabilities) were as follows:**

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Current deferred income tax assets:		
Allowance for inventory valuation loss and obsolescence	66,047	31,771
Expenses and repair materials costs which shall be deferred for tax reporting but charged to expense for financial reporting	—	249
Unrealized foreign exchange gains or losses	(1,043)	916
Others	<u>16,323</u>	<u>1,587</u>
Deferred income tax assets — current (included in prepayments and other current assets)	<u>\$ 81,327</u>	<u>34,523</u>
Noncurrent deferred income tax assets:		
Allowance for idle assets valuation losses	—	2,961
Provision for retirement benefits	14,039	13,852
Unrealized gain on disposal of long-term investments accounted for by the equity method	877	1,735
Deferred charges and supplies transferred to expense	4,838	5,494
Difference between technology contributed as the capital of investee	11,894	14,707
Deferred revenue	33,089	—
Loss carryforwards	31,766	—
R&D tax credits utilized	3,491	—
Others	<u>9,929</u>	<u>10,827</u>
Non — current deferred income tax assets, net	<u>109,923</u>	<u>49,576</u>
Noncurrent deferred income tax liabilities:		
Capitalized interest expenses	(34,766)	(36,357)
Depreciation differences between financial and tax reporting	(99,914)	(3,854)
Amortization differences between financial and tax reporting	(27,275)	—
Foreign investment income, accounted for by the equity method	(822,130)	(1,118,388)
Others	<u>(3,200)</u>	<u>(2,159)</u>
Noncurrent deferred income tax liabilities	<u>(987,285)</u>	<u>(1,160,758)</u>
Non — current deferred income tax liabilities, net	<u>\$ (877,362)</u>	<u>(1,111,182)</u>

On December 31, 2012 and 2011, the above noncurrent deferred income tax liabilities, net, are \$877,362 thousand and \$1,111,182 thousand, recorded \$37,614 thousand and \$13,649 thousand as other assets-others, and \$914,976 thousand and \$1,124,831 thousand as deferred income tax liabilities — noncurrent.

4.For the year ended December 31, 2012, TSRC(USA) Investment Corporation estimated federal and state income tax loss carryforwards amounting to \$80,969 thousand (USD2,779 thousand), which would not be expired until year 2032.

In accordance with Internal Revenue Code of USA, the qualified research and development expenditures could be an income tax credits. For the year ended December 31, 2012, TSRC (USA) Investment Corporation estimated income tax credits resulting from the qualified research and development expenditures amounting to \$3,491 thousand, which would not be expired until year 2032

5.TSRC's income tax returns have been examined and assessed by the tax authorities through 2011, excluding in 2008 to 2010 income tax returns.

6.As of December 31, 2012 and 2011, the balances of the Imputation Credit Account were as follows:

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Balances of imputation credit account	<u>\$ 186,628</u>	<u>369,144</u>
	<u>2011</u>	<u>2010</u>
Imputation tax credit ratio	<u>11.32%</u>	<u>8.89%</u>

As of December 31, 2012 and 2011, the components of unappropriated earnings subject to imputation income tax were as follows:

	<u>Dec.31, 2012</u>	<u>Dec.31, 2011</u>
Derived from year 1997 and prior years	<u>\$ 1,637</u>	<u>1,637</u>
Derived from year 1998 and thereafter	<u>4,170,257</u>	<u>6,459,586</u>
	<u>\$ 4,171,894</u>	<u>6,461,223</u>

**(o)Earnings per share**

For the years ended December 31, 2012 and 2011, TSRC group's earnings per share were calculated as follows:

	2012	2011
<b>Basic Earnings Per Share:</b>		
Net income before the cumulative effect of changes in accounting principles	\$ 2,574,249	5,746,679
Cumulative effect of changes in accounting principles	—	(4,914)
Net income	<u>\$ 2,574,249</u>	<u>5,741,765</u>
Weighted-average number of shares	<u>786,390</u>	<u>786,390</u>
Basic EPS:		
Net income before the cumulative effect of changes in accounting principles	\$ 3.27	7.31
Cumulative effect of changes in accounting principles	—	(0.01)
Net income	<u>\$ 3.27</u>	<u>7.30</u>
<b>Diluted Earnings Per Share:</b>		
Net income before the cumulative effect of changes in accounting principles	\$ 2,574,249	5,746,679
Cumulative effect of changes in accounting principles	—	(4,914)
Net income	<u>\$ 2,574,249</u>	<u>5,741,765</u>
Weighted-average number of shares	<u>786,390</u>	<u>786,390</u>
Employees' bonuses	<u>593</u>	<u>988</u>
Weighted-average number of shares outstanding for calculating diluted EPS	<u>786,983</u>	<u>787,378</u>
Diluted EPS:		
Net income before the cumulative effect of changes in accounting principles	\$ 3.27	7.30
Cumulative effect of changes in accounting principles	—	(0.01)
Net income	<u>\$ 3.27</u>	<u>7.29</u>

**(p)Financial instruments**

1.As of December 31, 2012 and 2011, the details of financial instruments were as follows:

	Dec.31, 2012			Dec.31, 2011		
	Fair value			Fair value		
	Book value	Public quote value	Assessment value	Book value	Public quote value	Assessment value
<b>Financial assets:</b>						
Fair value equal to book value of assets	\$ 11,129,978	4,887,310	6,242,668	14,791,112	4,701,442	10,089,670
Financial assets carried at cost	894,942	—	—	1,141,218	—	—
Other financial assets — noncurrent	22,507	—	22,507	78,279	—	78,279
<b>Financial liabilities:</b>						
Fair value equal to book value of liabilities	9,509,408	—	9,509,408	9,132,952	—	9,132,952
Long-term debts, including current portion	5,759,257	—	5,759,257	6,155,903	—	6,155,903
Lease account payable — noncurrent	66,986	—	66,986	73,111	—	73,111
Returnable deposits	107,047	—	107,047	92,647	—	92,647
<b>Off-balance sheets financial instruments:</b>						
Guaranteed for borrowings	—	—	2,153,259	—	—	718,886
Letter of credit	—	—	1,643,162	—	—	2,444,076

The methods and assumptions used to estimate the fair value of financial instruments above are summarized as follows:

(i) Fair value equivalent assets and liabilities: These are short-term financial instruments whose maturity dates are near the balance sheet date so that their fair values are estimated based on the book value at the balance sheet date. These include cash and cash equivalents, notes and accounts receivable and payable (including related parties), other financial assets — current, short-term borrowings, short-term commercial papers payable, accrued expenses and other payables.

(ii) Financial assets carried at cost: These are investments in non-listed companies with no open-market price, and whose fair value cannot be reasonably estimated.

(iii) Other financial assets — noncurrent: These are guarantee deposits paid for operations whose refund dates are uncertain. Due to difficulty of estimating their fair value by discounting future cash flow; the fair value is determined based on book value.

(iv) Long-term debts: The fair values of long-term debts are determined based on the discounted future cash flows. Because the borrowing interest rates are floating, the carrying values of long-term debts approximate the market value.

(v) Lease payable-noncurrent: The fair value is determined based on market value if there is available market value. If not, the fair value is estimated by the discounted estimated future cash inflows. The discount rate is based on available borrowing interest rate.

(vi) Returnable deposits: There is no exact due date for returnable deposits. The fair values are estimated to be equal to the carrying amounts as of December 31, 2012 and 2011.

(vii) Guarantee for borrowings: The amount of the TSRC's guarantee for bank loans of the investees equal to potential loss. The amount of guarantee is estimated to be equal the fair value of borrowing contract.

(viii) Letter of credit: Fair value of the unused letter of credit intended for purchasing raw materials is determined by contract because the due date of letter of credit is close to balance sheet date.

**2. As of December 31, 2012 and 2011, the TSRC group provides financial assets as deposit in an escrow account for enterprise safety production risk, and Please see note 6.**

### 3. Disclosures of financial risks

#### (i) Market risk

The TSRC group is exposed to foreign currency risk on accounts receivable which are denominated in a currency other than New Taiwan dollars. The above foreign currency risk will be offset by the same risk related to those short-term borrowings which are denominated in a foreign currency. Therefore, the TSRC group believes its exposure to foreign currency risk is low.

The significant financial assets and liabilities denominated in foreign currencies were as follows:

Financial assets	Dec.31, 2012			Dec.31, 2011		
	Foreign currency (in thousands)	Exchange rate	NTD	Foreign currency (in thousands)	Exchange rate	NTD
Monetary assets:						
USD	\$ 291,236	29.136	8,485,452	87,368	30.290	2,646,377
EUR	37,257	38.280	1,426,198	8,452	38.990	329,543
JPY	97,392	0.3345	32,578	150,363	0.3886	58,431
			<u>\$ 9,944,228</u>			<u>3,034,351</u>
Investments accounted for using equity method:						
USD	\$ 41,982	29.136	<u>1,223,183</u>	33,195	30.290	<u>1,005,468</u>
Financial liabilities						
Monetary assets:						
USD	\$ 308,870	29.136	8,999,236	353,409	30.290	10,704,759
EUR	7,172	38.280	274,544	4,267	38.990	166,370
JPY	44,667	0.3345	14,941	263,233	0.3886	102,292
			<u>\$ 9,288,721</u>			<u>10,973,421</u>

(ii)Credit risk

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

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

(iii)Liquidity risk

TSRC group has sufficient working capital to fulfill its financial obligations and therefore, TSRC group's exposure to liquidity risk is low. The liquidity risk from financial assets carried at cost is expected because no market price exists.

(iv)Cash flow risk related to the fluctuation of interest rates

The TSRC group's long-term debts bear floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rate influences the TSRC group's future cash flow. As of December 31, 2012 and 2011, the TSRC group has the cash flow risk of financial liabilities which result from floating interest rates amounting to \$5,759,257 thousand and \$6,155,903 thousand, respectively. If the market interest rate will increase by 1%, the TSRC group's future cash outflow would increase by approximately \$57,593 thousand and \$61,559 thousand, respectively.

## 5.Transactions with Related Parties

### (a)Name and relationship of related party

Name of Related Party	Relationship with TSRC group
Continental Engineering Corporation	The company's president is one of TSRC's directors.
Marubeni Corporation	Director of Shen Hua Chemical Industrial Co., Ltd.
Nantong Chemical & Light Industry Co., Ltd.	Parent company of Nantong Benny Petrochemicals Harbour Storage Co., Ltd.
CEC Security Corporation	A related party in substance.
Lanxess-TSRC (Nantong) Chemical industrial Co., Ltd.	Joint venture 50.00% owned indirectly by TSRC
Taiwan Advanced material Corp.	Joint venture 48.00% owned directly by TSRC
Vader Development Corporation Limited	One of TSRC's directors
Indian Synthetic Rubber Limited	Investee 30.00% owned indirectly by TSRC
UBE (Shanghai) Ltd.	One of directors of TSRC-UBE (Nantong) Chemical Industrial Corporation Limited
Directors, supervisors, general manager and vice general manager	Directors, supervisors and top management of TSRC Group

**(b)Significant transactions****1.Purchases and accounts payable**

For the years ended December 31, 2012 and 2011, the purchases from related parties were summarized as follows:

	2012		2011	
	Amount	Percentage of net purchases	Amount	Percentage of net purchases
Marubeni Corporation	<u>\$ 1,161,538</u>	<u>3.64</u>	<u>\$ 2,581,068</u>	<u>10.69</u>

As of December 31, 2012 and 2011, the accounts payable from related parties were summarized as follows:

	Dec.31, 2012		Dec.31, 2011	
	Amount	Percentage of net purchases	Amount	Percentage of net purchases
Marubeni Corporation	<u>\$ 58,134</u>	<u>3.34</u>	<u>276,570</u>	<u>10.59</u>

Transaction terms for related parties were not significantly different from those for other customers.

**2.Storage Service revenue**

Significant storage service revenues from related parties were as follow:

	2012	2011
Nantong Chemical & Light Industry Co., Ltd.	\$ 30,153	31,805
Lanxess-TSRC (Nantong) Chemical Industrial Corporation Limited	48,453	44,778
Taiwan Advanced Material Corp.	5,579	—
	<u>\$ 84,185</u>	<u>76,583</u>

As of December 31, 2012 and 2011, receivables from the above services were recorded as other financial assets—current as follows:

	Dec.31, 2012	Dec.31, 2011
Lanxess-TSRC (Nantong) Chemical Industrial Corporation Limited	\$ 15,240	18,128
Taiwan Advanced Material Corp.	3,545	—
	<u>\$ 18,785</u>	<u>18,128</u>

**3.Service Fees**

For the year ended December 31, 2011, the service fees provided to UBE (shanghai) Ltd. were \$2,943 thousand. As of December 31 2011, the related payables were \$302 thousand, accounted for as accrued expenses and other current liabilities. There was no such transaction for the year ended December 31, 2012.

**4.Guarantees**

As of December 31, 2012 and 2011, TSRC group's guarantees for bank loans of investees were as follows:

	Dec.31, 2012	Dec.31, 2011
Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd.	\$ 1,183,030	718,886
Indian Synthetic Rubber Limited	970,229	—
	<u>\$ 2,153,259</u>	<u>718,886</u>

## 5.Others

### (i)Lease and Security service

Nature of the contract	Contract object	Receipt (Paid)		Accounts receivable (Payable)		Other
		2012	2011	Dec.31, 2012	Dec.31, 2011	
Rental of basement in Duen Nan Office Building	Continental Engineering Corporation	\$ 3,620 (Note 1)	3,630	—	—	As of December 31, 2012 and 2011, deposit received were \$903 thousand and \$821 thousand, respectively, included in returned deposits.
Lease of Duen Nan Office Building	Vader Development Corporation	(7,852) (Note 2)	—	—	—	As of September 30, 2012, deposit paid was \$2,286 thousand, included in other financial assets — noncurrent. As of December 31, this deposit has been collected.
Lease of Duen Nan Office Building	Continental Engineering Corporation	(1,000) (Note 2)	5,657	—	(105) (Note 3)	—
Security service provided	CEC Security Corporation	(6,368) (Note 3)	(5,547)	(947) (Note 3)	(947)	—

Note 1: Rental revenues were included in non-operating income and gains—rental income.

Note 2: Rental expenses were included in operating expenses, and related payables were included in accrued expenses and other current liabilities.

Note 3: Security expenses were included in cost of sales and operating expenses, and related payables were included in accrued expenses and other current liabilities.

(ii)For the year ended December 31, 2012, TSRC provided technical services to Indian Synthetic Rubber Limited via Trimurti Holding Corporation amounting to \$44,912 thousand. Because Indian Synthetic Rubber Limited recognized this as intangible assets, services revenues of \$13,474 thousand were deferred as unearned revenues, recorded as other liability—others. The remaining services revenues of \$31,438 thousand were recorded as non-operating income and gains—other income.

(iii)For the year ended December 31, 2012, TSRC provided technical services to Taiwan Advanced Material Corp. amounting to \$70,800 thousand. Because Taiwan Advanced Material Corp. recognized this as intangible assets, services revenues of \$33,984 thousand were deferred as unearned revenue, recorded as other liability—others. The remaining services revenues of \$36,816 thousand was recorded as non-operating income and gains—other income. As of December 31, 2012, receivables resulting from the above transaction were \$36,710 thousand, accounted for other financial assets—current.

## 6.Directors, supervisors and top management compensation

For the years ended December 31, 2012 and 2011, the compensation to TSRC group's directors, supervisors and top management was as follows:

	2012	2011
Salaries	\$ 54,153	71,873
Cash awards and special allowances	12,462	15,243
Transportation allowances and business expense	4,282	4,056
Employees' bonus	1,868	3,741

For the details of the above amounts, including estimated employees' bonus and directors' and supervisors' emoluments, please see note 4(m).

## 6.Pledged Assets

Pledged assets	Purpose	Dec.31, 2012	Dec.31, 2011
Fixed assets-land	Guarantee for long-term debts	\$ 175,850	175,850
Idle assets-land	Guarantee for long-term debts	—	120,221
Lease assets-land	Guarantee for long-term debts	—	81,444
Buildings and structures	Guarantee for long-term debts	137,764	146,706
Restricted savings deposits (note)	Deposit for enterprise safety production risk and guarantee for equipment purchase letter of credit	5,927	5,755
Intangible assets	Guarantee for short-term borrowings	50,203	52,779
		<u>\$ 369,744</u>	<u>582,755</u>

Note: The above restricted savings deposits were accounted for as other financial assets — noncurrent.

## 7.Significant Commitments and Contingencies (excluding transactions with related parties)

(a)As of December 31, 2012 and 2011, unused letters of credit issued for purchases of materials amounted to \$1,643,162 thousand and \$2,444,076 thousand, respectively.

(b)As of December 31, 2012, TSRC signed construction and design contracts with several factories totaling \$1,102,345 thousand, of which \$868,136 thousand was paid.

## 8.Significant Losses from Calamity: None.

## 9.Significant Subsequent Events: None.

## 10.Others

(a)For the years ended December 31, 2012 and 2011, the employment expenses, depreciation and amortization, summarized by function, were as follows:

By function By nature	2012			2011		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employment expenses						
Salaries and wages	724,329	479,350	1,203,679	675,027	442,856	1,117,883
Labor and health insurance	53,768	34,585	88,353	47,387	26,691	74,078
Pension (note 1)	49,897	38,811	88,708	45,193	23,476	68,669
Other personnel expenses (note 2)	118,745	94,715	213,460	140,267	97,464	237,731
Depreciation (notes 3)	628,281	126,193	754,474	574,782	100,733	675,515
Amortization	37,597	90,908	128,505	2,549	91,289	93,838

Note 1: Pension expenses excluded expenses for employees on international assignments amounting to \$3,186 thousand and \$1,631 thousand for the years ended December 31, 2012 and 2011, respectively.

Note 2: Others personnel expenses included meals, employee welfares, training expense and employees' bonus.

Note 3: Depreciation expense for lease and idle assets was excluded. For the years ended December 31, 2012 and 2011, the depreciation expense for lease and idle assets amounted to \$50,541 thousand and \$52,927thousand, respectively.

**(b)Acquisition of Dexco Polymers LP and Dexco Polymers Operating Company LLC. ( referred to as Dexco and Dexco Polymers LLC hereinafter):**

1.Introduction of the acquired company

TSRC invested in TSRC (USA) Investment Corporation (founded on January 27, 2012) via Trimurti Holding Corporation purposely to purchase Dexco in Louisiana, USA. The transaction date of this business acquisition was effective April 1, 2012. The major business of Dexco is manufacturing and selling SIS and SBS products, and its main customers are located in the United States and Europe.

2.Acquisition costs and related goodwill

The accounting of business acquisition was in compliance with SFAS No.25 "Business Combination". The difference between purchase price and fair value of identifiable assets was recognized as goodwill. TSRC group's purchase price and goodwill were calculated as follows (US dollars in thousands):

	Amount
The purchase price	\$ 192,617
Less: The fair value of recognized assets:	
Trademark (note)	4,200
Patent (note)	15,700
Know-how (note)	27,600
Non compete (note)	300
Emission rights (note)	395
Working capital	33,549
Fixed assets	30,285
Inventories	37,819
	149,848
Goodwill	\$ 42,769

Note: The fair value of intangible assets was based on the report of American Appraisal issued on August 10, 2011, and then assessed for every year. As of December 31, 2012, it was no doubt for the impairment of intangible assets.

3.According to SFAS No.25 "Business Combination", the effects to net income and EPS were as follows, assuming the TSRC group acquired Dexco Polymers LP effective January 1, 2011:

	2011
Gross sale	\$ 56,405,227
Net income before tax	\$ 10,548,113
Net income after tax	\$ 7,590,498
Projected EPS	\$ 9.65

**(c)According to Ruling No.0990004943 of Financial Supervisory Commission on February 2, 2010, starting 2013, companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market shall prepare their financial statements in accordance with the International Financial Reporting Standards, International Accounting Standards, explanation and interpretations (IFRSs), recognized by Financial Supervisory Commission. In response to the above regulation, the TSRC group has established a project team for implementing IFRS's program. The vice president of Finance department, Hui-Chung Chen, is the person in charge. The contents of this project, deadlines and current status were as follows:**



Contents of project	Major implementing units	Current status
1.Stage of assessment (Jan 1, 2010~Dec 31, 2011):		
●Implement IRFSs and establish a project team	Accounting Department	Accomplished
●Internal trainings for employees for the first stage	Accounting Department	Accomplished
●Compare and analysis the difference between current accounting standards and IRFSs	Accounting Department	Accomplished
●Assess the adjustments for current accounting standards	Accounting Department	Accomplished
●Assess the adoption of IFRS 1 “First-time adoption of International Financial Reporting Standards”	Accounting Department	Accomplished
●Assess related information system and adjustments needed for internal controls	Accounting Department IT Department	Accomplished
2.Stage of preparation (Jan 1, 2011~Dec 31, 2012):		
●Decision made for adjusting current accounting standards to IRFSs	Accounting Department	Accomplished
●Decision made for applying IFRS 1 “First-time adoption of International Financial Reporting Standards”	Accounting Department	Accomplished
●Adjust related information system and internal controls	Accounting Department IT Department	Accomplished
●Internal trainings for employees for the second stage	Accounting Department	Accomplished
3.Stage of implementation (Jan 1, 2012~Dec 31, 2013):		
●Test the operation of related information system	Accounting Department IT Department	Accomplished
●Gather information and prepare balance sheet as of Jan 1, 2012, in accordance with IRFSs and comparative financial statements	Accounting Department	Accomplished
●Preparation of financial statements in accordance with IRFSs	Accounting Department	Actively in progress

(d)The TSRC group assessed differences between the current accounting standards and IFRS, and the significant differences were as follows:

(1)Reconciliations of Consolidated Balance Sheet on January 1, 2012

	ROC GAAP	Effect of Transition to IFRSs	IFRSs
Assets			
Current assets:			
Cash and cash equivalents	\$ 6,055,884	–	6,055,884
Notes receivable	2,493,559	–	2,493,559
Accounts receivable	5,937,012	–	5,937,012
Other financial assets—current	304,657	–	304,657
Inventories	7,040,206	–	7,040,206
Prepayments and other current assets (Note 1)	379,875	(34,523)	345,352
Total current assets	22,211,193	(34,523)	22,176,670
Funds and investments:			
Available-for-sale financial assets—noncurrent (Note 2)	–	1,196,384	1,196,384
Financial assets carried at cost—noncurrent (Note 2)	1,141,218	(1,141,218)	–
Investments accounted for by the equity method	1,005,468	–	1,005,468
Total funds and investments	2,146,686	55,166	2,201,852
Other financial assets—noncurrent	78,279	–	78,279
Property, plant and equipment:			
Costs:			
Land (Note 3)	286,262	1,401,418	1,687,680
Land improvements	77,113	3,565	80,678
Buildings (Note 3)	3,570,512	778,908	4,349,420
Machinery and equipment (Note 3)	15,390,953	474,949	15,865,902
Transportation equipment	30,039	–	30,039
Furniture and fixtures	610,869	208	611,077
Leased assets	94,596	–	94,596
Revaluation increment	434,913	(434,913)	–
Costs and revaluation increment	20,495,257	2,224,135	22,719,392
Less:accumulated depreciation (Note 3)	12,732,068	305,653	13,037,721
accumulated impairment (Note 3)	91,264	17,417	108,681
Construction in progress and prepayments for machinery and equipment	1,051,615	–	1,051,615
Net property, plant and equipment	8,723,540	1,901,065	10,624,605

	ROC GAAP	Effect of Transition to IFRSs	IFRSs
Intangible assets:			
Deferred pension cost (Note 4)	26,418	(26,418)	–
Intangible assets (Note 5)	3,330,028	(525,758)	2,804,270
Total intangible assets	3,356,446	(552,176)	2,804,270
Other assets:			
Rental assets (Note 3)	1,780,844	(1,780,844)	–
Idle assets (Note 3)	120,221	(120,221)	–
Differed income tax assets—noncurrent (Note 1)	–	70,450	70,450
Other assets—others (Note 5)	125,365	525,758	651,123
Total other assets	2,026,430	(1,304,857)	721,573
Total assets	\$ 38,542,574	64,675	38,607,249
Liabilities and Stockholders' Equity			
Current liabilities:			
Short-term borrowings	\$ 5,101,364	–	5,101,364
Short-term commercial papers payable	249,601	–	249,601
Notes and accounts payable	2,334,318	–	2,334,318
Accounts payable—related parties	276,570	–	276,570
Income tax payable	834,521	–	834,521
Long-term debts—current portion	1,067,183	–	1,067,183
Accrued expenses and other current liabilities	1,338,632	–	1,338,632
Total current liabilities	11,202,189	–	11,202,189
Long-term interest-bearing liabilities:			
Long-term debts	5,088,720	–	5,088,720
Other liabilities:			
Reserve for land value increment tax (Note 6)	56,683	(56,683)	–
Accrued pension liability (Note 4)	143,648	100,065	243,713
Returnable deposits	92,647	–	92,647
Deferred income tax liabilities (Note 1, 4 and 6)	1,124,831	75,599	1,200,430
Other liabilities—others	140,922	–	140,922
Total other liabilities	1,558,731	118,981	1,677,712
Total liabilities	17,849,640	118,981	17,968,621

	ROC GAAP	Effect of Transition to IFRSs	IFRSs
Stockholders' equity			
Capital:			
Common stock	7,149,004	–	7,149,004
Capital surplus:			
Additional paid-in capital	849	–	849
Others (Note 7)	68,154	(68,154)	–
Total Capital Surplus	69,003	(68,154)	849
Retained earnings:			
Legal reserve	2,523,529	–	2,523,529
Unappropriated earnings (Note 4, 6 and 7)	6,461,223	(78,992)	6,382,231
Total Retained Earnings	8,984,752	(78,992)	8,905,760
Other equity adjustments:			
Accumulated translation adjustments	1,002,365	–	1,002,365
Net loss not yet recognized as net pension cost (Note 4)	(44,940)	44,940	–
Unrealized gains on financial instruments (Note 2)	–	55,166	55,166
Reserve for asset revaluation increment (Note 6)	7,266	(7,266)	–
Total Other Equity Adjustments	964,691	92,840	1,057,531
Minority interests	3,525,484	–	3,525,484
Total stockholders' equity	20,692,934	(54,306)	20,638,628
Total liabilities and stockholders' equity	\$ 38,542,574	64,675	38,607,249

(2)Reconciliations of Consolidated Balance Sheet on December 31, 2012

	ROC GAAP	Effect of Transition to IFRSs	IFRSs
Assets			
Current assets:			
Cash and cash equivalents	\$ 5,147,163	–	5,147,163
Notes receivable	1,408,383	–	1,408,383
Accounts receivable, net	4,294,118	–	4,294,118
Other financial assets—current	280,314	–	280,314
Inventories	6,104,178	–	6,104,178
Prepayments and other current assets (Note 1)	544,665	(81,327)	463,338
Total current assets	17,778,821	(81,327)	17,697,494

	ROC GAAP	Effect of Transition to IFRSs	IFRSs
Funds and investments:			
Financial assets carried at cost— noncurrent (Note 2)	894,942	(894,942)	
Available-for-sale financial assets— noncurrent (Note 2)	—	1,045,086	1,045,086
Investments accounted for by the equity method	1,939,833	—	1,939,833
Total funds and investments	2,834,775	150,144	2,984,919
Other financial assets—noncurrent	22,507	—	22,507
Property, plant and equipment:			
Costs:			
Land (Note 3)	286,262	1,401,418	1,687,680
Land improvements	76,240	3,565	79,805
Buildings (Note 3)	3,598,145	778,908	4,377,053
Machinery and equipment (Note 3)	16,531,025	468,048	16,999,073
Transportation equipment	28,390	—	28,390
Furniture and fixtures	225,981	194	226,175
Leased assets	94,596	—	94,596
Revaluation increment	434,304	(434,304)	—
Total cost and revaluation increment	21,274,943	2,217,829	23,492,772
Less: accumulated depreciation and impairment	13,277,686	331,489	13,609,175
Construction in progress and prepayments for machinery and equipment	1,722,202	—	1,772,202
Net property, plant and equipment	9,719,459	1,886,340	11,605,799
Intangible assets (Note 5)	3,192,085	(499,715)	2,692,370
Deferred pension cost (Note 4)	21,133	(21,133)	—
Total intangible assets	3,213,218	(520,848)	2,692,370
Rental assets (Note 3)	\$ 1,766,119	(1,766,119)	—
Idle assets (Note 3)	120,221	(120,221)	—
Differed income tax assets—noncurrent (Note 1)	37,614	153,636	191,250
Other assets—others (Note 5)	66,734	499,715	566,449
Total other assets	1,990,688	(1,232,989)	757,699
Total assets	\$ 35,559,468	201,320	35,760,788

	ROC GAAP	Effect of Transition to IFRSs	IFRSs
Liabilities and Stockholders' Equity			
Current liabilities:			
Short-term borrowings	\$ 6,194,179	–	6,194,179
Short-term commercial papers payable	349,441	–	349,441
Notes and accounts payable	1,683,776	–	1,683,776
Accounts payable—related parties	58,134	–	58,134
Income tax payable	577,933	–	577,933
Dividend payable	–	–	–
Long-term debts—current portion	466,176	–	466,176
Accrued expenses and other current liabilities	1,291,220	–	1,291,220
Total current liabilities	10,620,859	–	10,620,859
Long-term interest-bearing liabilities:			
Long-term debts	5,293,081	–	5,293,081
Other liabilities:			
Reserve for land value increment tax (Note 6)	56,683	(56,683)	–
Accrued pension liability (Note 4)	181,245	103,466	284,711
Returnable deposits	107,047	–	107,047
Deferred income tax liabilities—noncurrent (Note 1, 4 and 6)	914,976	113,781	1,028,757
Other liabilities—others	265,900	–	265,900
Total other liabilities	1,525,851	160,564	1,686,415
Total liabilities	17,439,791	160,564	17,600,355
Stockholders' equity:			
Capital:			
Common stock	7,863,904	–	7,863,904
Capital surplus:			
Additional paid-in capital	849	–	849
Long-term investment paid-in-capital (Note 7)	68,154	(68,154)	–
Total Capital Surplus	69,003	(68,154)	849
Retained earnings:			
Legal reserve	3,097,705	–	3,097,705
Unappropriated earnings (Note 4, 6 and 7)	4,171,894	(70,201)	4,101,693
Total Retained Earnings	7,269,599	(70,201)	7,199,398

	ROC GAAP	Effect of Transition to IFRSs	IFRSs
Other equity adjustments:			
Accumulated translation adjustments	688,778	–	688,778
Net loss not yet recognized as net pension cost (Note 4)	(88,782)	88,782	–
Actuarial gains and losses (Note 4)	–	(52,549)	(52,549)
Unrealized gains (losses) on financial instruments (Note 2)	–	150,144	150,144
Reserve for asset revaluation increment (Note 6)	7,266	(7,266)	–
Total Other Equity Adjustments	607,262	179,111	786,373
Minority interests	2,309,909	–	2,309,909
Total stockholders' equity	18,119,677	40,756	18,160,433
Total liabilities and stockholders' equity	\$ 35,559,468	201,320	35,760,788

(3)Reconciliations of Consolidated Statement of Operations for the year ended December 31, 2012

	ROC GAAP	Effect of Transition to IFRSs	IFRSs
Gross sales	\$ 45,359,363	–	45,359,363
Less: sales returns	44,103	–	44,103
Net sales	45,315,260	–	45,315,260
Other operating income	49,115	–	49,115
	45,364,375	–	45,364,375
Operating cost:			
Cost of sales	39,298,509	–	39,298,509
Other operating cost	35,757	–	35,757
	39,334,266	–	39,334,266
Gross profit	6,030,109	–	6,030,109
Operating expenses :			
Selling expenses	944,670	–	944,670
General and administrative expenses (Note 3 and 4)	896,784	21,553	918,337
Research and development expenses	352,376	–	352,376
Total operating expenses	2,193,830	21,553	2,215,383
Operating income	3,836,279	(21,553)	3,814,726
Non-operating income and gains:			
Interest income	84,008	–	84,008
Investment income, net, accounted for by the equity method	9,592	–	9,592
Dividend income	41,445	–	41,445
Rental income	74,209	–	74,209
Other income	178,345	–	178,345
	387,599	–	387,599

	ROC GAAP	Effect of Transition to IFRSs	IFRSs
Non-operating expenses and losses:			
Interest expenses	228,157		228,157
Loss on disposal of property, net	4,647	—	4,647
Loss on disposal of investments, net	9,862	—	9,862
Foreign exchange loss, net	6,608	—	6,608
Other expenses (Note 3)	47,300	(32,144)	15,156
	<u>296,574</u>	<u>(32,144)</u>	<u>264,430</u>
Earnings before income tax	3,927,304	10,591	3,937,895
Income tax expense (Note 4)	747,962	1,800	749,762
Comprehensive income	<u>\$ 3,179,342</u>	<u>8,791</u>	<u>3,188,133</u>
Income attributable to:			
Shareholders of parent company	\$ 2,574,249	8,791	2,583,040
Non-controlling interest	605,093	—	605,093
	<u>\$ 3,179,342</u>	<u>8,791</u>	<u>3,188,133</u>

#### 4. Descriptions for reconciliations

1) The TSRC group recognizes deferred income tax assets and liabilities by considering income tax credits and all taxable temporary differences. According to IFRS 12, deferred income tax assets and liabilities should be classified as noncurrent assets and noncurrent liabilities and should be assessed to the extent that it is probable that the taxable temporary difference can be utilized and if the legal right to offset deferred income tax assets and liabilities exists. As of January 1 and December 31, 2012, the TSRC group reclassifies the deferred current income tax assets, which were recognized under the ROC GAAP, to noncurrent income tax assets, which amounted to \$34,523 thousand and \$81,327 thousand, respectively. In addition, because the TSRC group does not have any legal right to offset deferred income tax assets and liabilities under IFRS 12, they should be presented on a gross basis. The deferred noncurrent income tax assets and liabilities affected are \$35,927 thousand and \$72,309 thousand, respectively.

2) As of January 1 and December 31, 2012, the TSRC group reclassifies financial assets carried at cost — noncurrent into available-for-sale financial assets — noncurrent, according to IAS 39, “Financial Instruments: Recognition and Measurement” which amounted to \$1,141,218 thousand and \$894,942 thousand, respectively. Unrealized gains on financial instruments on a basis of fair value are \$55,166 thousand and \$150,144 thousand, respectively.

3) As of January 1 and December 31, 2012, the TSRC group reclassifies rental assets and idle assets into property, plant and equipment, amounting to \$1,901,065 thousand and \$1,886,340 thousand, respectively. For the year ended December 31, 2012, related depreciation expenses recognized as non-operating expenses and losses amounting to \$32,144 thousand are reclassified into general and administrative expenses.

4) TSRC adopted a defined benefit retirement plan for all salaried employees. Under the ROC SFAS No. 18, TSRC is required to perform an actuarial calculation to recognize a pension liability and net periodic pension cost covering the service lives of participants, and unrecognized pension gain or loss are amortized during the remaining service period. On January 1, 2012, the TSRC group chooses the optional exemptions under IFRS 1, “First-time Adoption of International Financial Reporting Standards” and recognizes these unrecognized pension gain or loss as retained earnings immediately, which amounted to \$171,423 thousand, and were adjusted to reduce retained earnings \$154,412 thousand and deferred income tax liabilities \$17,011 thousand. Deferred pension costs and net loss not yet recognized as net pension cost amounting to \$26,418 thousand and \$44,940 thousand, respectively, were adjusted, too. In addition, for the year ended December 31, 2012, the differences of periodic pension costs resulting from the ROC SFAS No. 18 and IAS 19, amounting to \$10,591 thousand, and related tax expense and deferred tax liabilities amounting to \$1,800 thousand, were adjusted. And in accordance with IAS 19, deferred pension cost amounting to \$21,133 thousand, net loss not yet recognized as net pension cost amounting to \$88,782 thousand, and the benefit pension plan liabilities and other comprehensive income amounting to \$52,549 thousand, were adjusted.

5) As of January 1 and December 31, 2012, the TSRC group reclassifies the land use rights into other assets, which amounted to \$525,758 thousand and \$499,715 thousand, respectively.



6)As of January 1 and December 31, 2012, the TSRC group reclassifies a reserve for land value increment tax and a reserve for asset revaluation increment amounting to \$56,683 thousand and \$7,266 thousand, respectively, into deferred income tax liabilities — noncurrent and retained earnings.

7)As of January 1 and December 31, 2012, the TSRC group reclassifies the capital surplus resulting from long-term investment, accounted for by equity method, amounting to \$68,154 thousand, to retained earnings.

**(e)According to IFRS 1, "First-time Adoption of International Financial Reporting Standards," the company is required to determine and comply with the accounting policies effective at the date of transition to IFRSs in its opening Balance Sheet. Except for the optional exemptions and the mandatory exceptions under IFRS 1, retrospective adjustments should be provided. The optional exemptions that the TSRC group chooses are as follows:**

1).Retrospective adjustments would not be provided for mergers and acquisitions occurring before January 1, 2012.

2)Unrecognized actuarial gains and losses related to employee retirement benefits at the date of transition to IFRSs would be recognized as retained earnings immediately, and retrospective adjustments would not be provided.

3)Deemed cost exemption is used for fixed assets and investment properties, and therefore, the fair values under the Ruling No.1000032208 issued by the Financial Supervisory Commission, Executive Yuan are used as the deemed cost at the date of transition to IFRSs.

**(f)The TSRC group adopts IFRSs that have been recognized by Financial Supervisory Commission, Executive Yuan. The significant differences above and accounting policies chosen according to IFRS 1, "First-time Adoption of International Financial Reporting Standards," are assessed in accordance with current status, and these differences will be revised if the situation changes later.**

**(g)Certain amounts in the financial statements for the year ended December 31, 2011, have been reclassified to conform to the presentation of the financial statement for the year ended December 31, 2012, for purposes of comparison. These reclassifications do not have a significant impact on the presentation of the financial statements.**

## 11.Supplementary Disclosure Requirements

### (a)Substantial transactions:

1.Loans extended to other parties: None.

2.Guaranty provided to other parties:

Unit: in thousands of New Taiwan dollars / USD / RMB

No. (Note 1)	Corporation name	Object		The maximum guaranty credit line for one party	The maximum amount of guaranty	Balance as of 2012.12.31	Secured guaranty amount	The ratio of accumulated guarantee amounts to the Corporation's net equity	The maximum guaranty credit lines
		Name	Nature of relationship						
0	TSRC	TSRC (USA) Investment Corporation	Investee 100.00% owned by the Corporation	50% of the Corporation's issued share capital \$3,931,952	3,059,280 (USD105,000,000)	3,059,280 (USD105,000,000)	—	19.35%	1.5 times TSRC's total stockholders' equity \$23,714,652
0	TSRC	TSRC (Nantong) Industries Ltd.	Investee 100.00% owned by the Corporation		1,748,160 (USD60,000,000)	1,019,760 (USD35,000,000)	—	11.06%	
0	TSRC	TSRC-UBE (Nantong) Chemical Industrial Company Limited	Investee 55.00% owned by the Corporation		640,992 (USD22,000,000)	—	—	4.05%	
0	TSRC	TSRC (Jinan) Industries Ltd.	Investee 100.00% owned by the Corporation		65,556 (USD2,250,000)	65,556 (USD2,250,000)	—	0.41%	
0	TSRC	Lanxess-TSRC (Nantong) Chemical Industrial Company Limited	Investee 50.00% owned by the Corporation		1,183,030 (RMB145,000,000) (USD17,400,000)	1,183,030 (RMB145,000,000) (USD17,400,000)	—	7.48%	
0	TSRC	Indian Synthetic Rubber Limited	Investee 30.00% owned by the Corporation		970,229 (USD33,300,000)	970,229 (USD33,300,000)	—	6.14%	

Note 1: The information about endorsement/guarantee of the Company and subsidiaries is numbered as following:

- 1.0 for the Company.
2. Subsidiaries are numbered in Arabic numeric order as of 1.

Note 2: Relationship between the endorsed/guaranteed and the Company:

1. Companies that have transactions with the Company.
2. Subsidiaries where the Company has direct holdings of more than 50% of the common shares.
3. The investee of which the total common shares held by parent company and subsidiaries are more than 50% .
4. Parent company that holds more than 50% common shares directly, or indirectly via subsidiaries.
5. Companies that shall provide guarantee mutually pursuant to contracts in the same trade to meet the requirement for construction contracts.
6. Companies endorsed and guaranteed by shareholders subject to their respective shareholdings due to the joint venture.

Note 3: The said subsidiaries and indirect subsidiaries have been offset in the preparation of the consolidated financial statements.

### 3. Securities held as of December 31, 2012:

Unit: in thousands of New Taiwan dollars / shares

Name of the security holder	Type of security	Name of security	Nature of relationship	Recorded account	December 31, 2011				Remarks
					Unit	Book value	Holding percentage	Market price (net equity)	
TSRC	Commercial Paper	Repurchase securities	—	Cash and cash equivalents	—	<u>259,853</u>	—	<u>259,853</u>	—
TSRC	Stock	Trimurti Holding Corporation	Subsidiary	Investments under equity method	86,920,000	9,613,271	100.00%	9,629,367	—
TSRC	Stock	Hardison International Corporation	Subsidiary	Investments under equity method	3,896,305	431,332	100.00%	431,332	—
TSRC	Stock	Dymas Corporation	Subsidiary	Investments under equity method	1,161,004	78,694	19.48%	78,694	(Note 1)
TSRC	Stock	Taiwan Advanced Material Corp.	—	Investments under equity method	72,000,000	716,650	48.00%	716,650	—
		Subtotal				<u>10,839,947</u>		<u>10,856,043</u>	
TSRC	Stock	Taiwan High Speed Rail Corporation	—	Financial assets carried at cost -noncurrent	50,000,000	500,000	0.77%	(Note 2)	—
TSRC	Stock	Evergreen Steel Corporation	—	Financial assets carried at cost -noncurrent	12,148,000	209,878	2.97%	(Note 2)	—
TSRC	Stock	Thai Synthetic Rubbers Co., Ltd.	—	Financial assets carried at cost -noncurrent	599,999	65,143	5.42%	(Note 2)	—
TSRC	Stock	Hsin-Yung Enterprise Corp.	—	Financial assets carried at cost -noncurrent	5,657,000	64,296	3.90%	(Note 2)	—
		Subtotal				<u>839,317</u>			

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

Note 2: No public market price was available and no financial statements was provided by the investees for purposes of estimating the net equity.

Note 3: The amounts was offset in the consolidated statements.

**4. Accumulated holding amount of a single security in excess of \$100 million or 20% of TSRC's issued share capital:**

Unit: in thousands of New Taiwan dollars / shares

Corporation name	Marketable securities type and name	Financial statement account	Name of the counter-party	Relationship with TSRC	Beginning balance		Acquisition		Disposal				Loss on valuation	Ending balance	
					Shares	Amount	Shares	Amount	Shares	Selling price	Carrying value	Gains (losses) on disposal		Shares	Amount
TSRC	Taiwan Advanced Material Corp.	Investments under equity method	Newly established	—	—	—	72,000,000	720,000	—	—	—	—	(3,350)	72,000,000	716,650

**5. Acquisition of real estate in excess of \$100 million or 20% of TSRC's issued share capital: None.**

**6. Disposal of real estate in excess of \$100 million or 20% of TSRC's issued share capital: None.**

**7. Sales to and purchases from related parties in excess of \$100 million or 20% of TSRC's issued share capital: None**

**8. Receivables from related parties in excess of \$100 million or 20% of TSRC's issued share capital: None**

**9. Financial derivative instruments transactions: None.**

**(b) Investee information:**

**1. Relevant information about investees:**

Unit: in thousands of New Taiwan dollars / USD dollars / EUR dollars / shares

Name of investor	Name of investee	Address	Scope of business	Original cost		TSRC's ownership as of December 31, 2012			Net income (loss) of the investee	Investment income (loss) recognized by TSRC	Remarks
				June 30, 2012	June 30, 2011	Shares	Percentage	Book value			
TSRC	Trimurti Holding Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	1,005,495	1,005,495	86,920,000	100.00%	9,613,271	1,292,029	1,294,559	Subsidiary corporation
TSRC	Hardison International Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	109,442	125,142	3,896,305	100.00%	431,332	44,153	44,153	Subsidiary corporation
TSRC	Dymas Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	38,376	42,170	1,161,004	19.48%	78,694	50,397	9,817	Subsidiary corporation
TSRC	Taiwan Advanced Material Corp.	26F-2, No. 8, Minquan 2 <sup>nd</sup> Rd., Qianzhen Dist., Kaohsiung City, Taiwan (R.O.C.)	Production and sale of synthetic rubber product	720,000	—	72,000,000	48.00%	716,650	(6,979)	(3,350)	—
Trimurti Holding Corporation	Polybus Corporation Pte Ltd	9, Temasek Boulevard, 31F Suntec Tower 2, Singapore 038989	International commerce and trading	USA 65,101,000	USA 65,101,000	105,830,000	100.00%	7,054,175	1,289,098	1,289,098 (Note 1)	Indirectly owned subsidiary
Trimurti Holding Corporation	TSRC (HONG KONG) Limited.	Suite 2303 23F Great Eagle Centre 23 Harbour Road Wanchai HK	Investment Corporation	USA 77,850,000	USA 7,800,000	77,850,000	100.00%	2,582,399	66,378	66,378 (Note 1)	Indirectly owned subsidiary
Trimurti Holding Corporation	Indian Synthetic Rubber Limited	Room No.702, Indian Oil Bhawan, 1 Sri Aurobindo Marg, Yusuf Sarai, New Delhi-110016, India	Production and sale of synthetic rubber products	USA 20,990,309	USA 11,575,366	105,468,750	30.00%	546,754	(19,338)	(5,801)	—

Name of investor	Name of investee	Address	Scope of business	Original cost		TSRC's ownership as of December 31, 2012			Net income (loss) of the investee	Investment income (loss) recognized by TSRC	Remarks
				June 30, 2012	June 30, 2011	Shares	Percentage	Book value			
Trimurti Holding Corporation	TSRC(USA) Investment Corporation	2711Centerville Road, Suite 400, Country of New Castle, Wilmington, Delaware, 19808.	Investment Corporation	—	USA 70,050,000	—	—	—	—	—	Indirectly owned subsidiary (Note 3)
TSRC (HONG KONG) Limited.	TSRC (Shanghai) Industries Ltd.	No. 1406, YuShu Road, Song Jiang Zone, Shanghai, China	Production and sale of reengineering plastic, plastic compound metal and plastic elasticity engineering products	USA 5,500,000	USA 5,500,000	5,500,000	100.00%	265,258	21,696	21,696 (Note 1)	Indirectly owned subsidiary
TSRC (HONG KONG) Limited.	TSRC (Jinan) Industries Ltd.	No. 666 LinGang St., Yao Qiang Town, Li Cheng Zone, Jinan City, Shan Dong, PRC.	Production and sale of reengineering plastic, plastic compound metal and plastic elasticity engineering products	USA 2,250,000	USA 2,250,000	2,250,000	100.00%	(38,400)	(8,606)	(8,606) (Note 1)	Indirectly owned subsidiary
TSRC (HONG KONG) Limited.	TSRC(Lux.) Corporation S. a. r. l.	37, rue d'Anvers, L1130 Luxembourg	Trading and investment corporation	EUR 50,800,000	EUR 800,000	50,800,000	100.00%	2,315,789	54,719	54,719 (Note 1)	Indirectly owned subsidiary
TSRC (Lux.) Corporation S. a. r. l.	TSRC (USA) Investment Corporation	2711 Centerville Road, Suite 400, Country of New Castle, Wilmington, Delaware, 19808.	Investment corporation	USA 70,050,000	—	100	100.00%	2,261,586	19,653	19,653 (Note 1)	Indirectly owned subsidiary
TSRC(USA) Investment Corporation	Dexco Polymers L.P. (Note 2)	12012 Wickchester Lane, Suite 280, Houston, TX 77079	Production and sale of synthetic rubber products	USA 192,616,912	USA 192,616,912	100	100.00%	4,707,826	110,563	3,231 (Note 1)	Indirectly owned subsidiary (Note 3)
Polybus Corporation Pte Ltd	TSRC (Nantong) Industries Ltd.	No. 22 Tong Wang Road, Nantong Economic & Technological Development Zone, Nantong, Jiangsu, China	Production and sale of synthetic rubber products	USA 69,125,000	USA 43,885,000	69,125,000	100.00%	2,748,939	395,580	395,580 (Note 1)	Indirectly owned subsidiary
Polybus Corporation Pte Ltd	TSRC-UBE (Nantong) Chemical Industrial Company Ltd.	No. 22 Tong Wang Road, Nantong Economic & Technological Development Zone, Nantong, Jiangsu, China	Production and sale of synthetic rubber products	USA 22,000,000	USA 22,000,000	22,000,000	55.00%	1,077,668	279,938	153,966 (Note 1)	Indirectly owned subsidiary
Polybus Corporation Pte Ltd	Shen Hua Chemical Industrial Co., Ltd.	Shen Hua Road, Economic and Technological Development Zone, Nantong, Jiangsu Province	Production and sale of synthetic rubber products	USA 19,867,016	USA 19,867,016	26,974,368	65.44%	2,544,582	1,375,361	900,036 (Note 1)	Indirectly owned subsidiary
Polybus Corporation Pte Ltd	Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd.	NO.1 Shen Hua Road, Economic and Technological Development Zone, Nantong, Jiangsu Province	Production and sale of NRB	USA 12,400,000	USA 12,400,000	12,400,000	50.00%	339,117	(63,369)	(31,685)	—
Hardison International Corporation	Triton International Holdings Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	USA 50,000	USA 50,000	50,000	100.00%	102,121	3,797	3,797 (Note 1)	Indirectly owned subsidiary
Hardison International Corporation	Dymas Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	USA 4,798,566	USA 5,321,946	4,798,566	80.52%	325,278	50,397	40,580 (Note 1)	Indirectly owned subsidiary
Hardison International Corporation	TSRC Biotech Ltd.	4th Fl., Harbour Centre, P.O.BOX613, George Town, Grand Cayman	Investment Corporation	USA 3,020,210	USA 3,020,210	3,020,210	100.00%	5	(25)	(25) (Note 1)	Indirectly owned subsidiary
Triton International Holdings Corporation	Nantong Qix Storage Co., Ltd.	No. 111 He Xing Road, Nantong Economic & Technological Development Zone, Nantong, Jiangsu, China	Storehouse for chemicals	USA 1,500,000	USA 1,500,000	1,500,000	50.00%	92,935	7,590	3,795 (Note 1)	Indirectly owned subsidiary
Dymas Corporation	Asia Pacific Energy Development Co., Ltd.	Cayman Islands	Consulting for electric power facilities management and electrical system design	USA 11,285,122	USA 11,939,238	7,522,337	37.78%	337,312	133,478	50,428	—

Note 1: Investment income (loss) of the indirectly owned subsidiaries was recognized in current income (loss) of the holding company.

Note 2:TSRC (USA) Investment Corporation is limited partner of Dexco LLC and Dexco Polymers LP. Also, TSRC (USA) Investment Corporation invested Dexco LLC as general partner of Dexco Polymers LP. Because Dexco LLC does not have real operation, the related information of Dexco LLC is not disclosed.

Note 3:As of January 1, 2012, Trimurti Holding Corporation transferred its investment, TSRC (USA) Investment Corporation, to TSRC (Lux.) Corporation S.'a.r.l..

Note 4:The amounts were offset in the consolidated statements.

## 2.Loans extended to other parties: None.

Unit: in thousands of New Taiwan dollars

No.	Name	Name of counterparty	Account	Maximum balance during 2012	Ending balance	Balance used	Interest	Nature of financial activities	Total transaction amount	Reason for financing	Allowance for doubtful accounts	Assets pledged		Loan limit per party	Maximum amount available for loan
												Item	Value		
1	TSRC (Shanghai) Industries Ltd.	TSRC (Jinan) Industries Ltd.	Loans receivable	32,638 (RMB7,000,000)	32,638 (RMB7,000,000)	32,638 (RMB7,000,000)	4%	2	—	Operating use	—	—	—	— (Note 1)	— (Note 2)
2	Trimurti Holding Corporation	TSRC (Lux.) Corporation S.'a.r.l.	Loans	382,800 (EUR10,000,000)	382,800 (EUR10,000,000)	—	Libor+1%	2	—	Operating use	—	—	—	— (Note 1)	— (Note 2)

Note 1:The loan limit extended to per party of TSRC (Shanghai) Industries Ltd. and Trimurti Holding Corporation should not over 5% of total equity. However, if the counterparty is subsidiaries of 100.00% owned directly or indirectly by TSRC, there is no loan limit.

Note 2:The maximum loan extended to all parties of TSRC (Shanghai) Industries Ltd. and Trimurti Holding Corporation should not over 40% of total equity. However, if the counterparty is subsidiaries of 100.00% owned directly or indirectly by TSRC, there is no loan limit.

Note 3:TSRC (Shanghai) Industries Ltd., TSRC (Jinan) Industries Ltd., Trimurti Holding Corporation and TSRC (Lux) Corporation S.'a.r.l are 100.00% owned directly by TSRC.

Note 4:Nature of financial activities is as follows:

(1)if there are transactions between these two parties, number is “1” .

(2)if it is necessary to loan to other parties, number is “2” .

Note 5:The amounts were eliminated in the consolidated statements.

## 3.Guaranty provided to other parties: None.

## 4.Securities held as of December 31, 2012:

Unit: in thousands of New Taiwan dollars / shares

Name of the security holder	Type of security	Name of security	Nature of relationship	Recorded account	June 30, 2012				Remarks
					Unit	Book value	Holding percentage	Market price (net equity)	
Trimurti Holding Corporation	Stock	Polybus Corporation Pte. Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	105,830,000	7,054,175	100.00%	7,054,549	—
Trimurti Holding Corporation	Stock	TSRC (HONG KONG) Limited.	Investee accounted for by the equity method	Investments accounted for by the equity method	77,850,000	2,582,399	100.00%	2,582,399	—
Trimurti Holding Corporation	Stock	Indian Synthetic Rubber Limited	Investee accounted for by the equity method	Investments accounted for by the equity method	105,468,750	546,754	30.00%	546,754	—
TSRC (HONG KONG) Limited.	Certificate of ownership	TSRC (Shanghai) Industries Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	5,500,000	265,258	100.00%	265,258	—
TSRC (HONG KONG) Limited.	Certificate of ownership	TSRC (Jinan) Industries Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	2,250,000	(38,400)	100.00%	(38,400)	—
TSRC (HONG KONG) Limited.	Certificate of ownership	TSRC (Lux.) Corporation S.' a. r. l.	Investee accounted for by the equity method	Investments accounted for by the equity method	50,800,000	2,315,789	100.00%	2,315,789	—
TSRC (Lux.) Corporation S.'a.r.l	Stock	TSRC (USA) Investment Corporation	Investee accounted for by the equity method	Investments accounted for by the equity method	100	2,261,586	100.00%	2,261,586	—

Name of the security holder	Type of security	Name of security	Nature of relationship	Recorded account	June 30, 2012				Remarks
					Unit	Book value	Holding percentage	Market price (net equity)	
TSRC (USA) Investment Corporation	Certificate of ownership	Dexco Polymers L.P.	Investee accounted for by the equity method	Investments accounted for by the equity method	100	4,707,826	100.00%	2,140,460	—
Polybus Corporation Pte Ltd	Certificate of ownership	TSRC (Nantong) Industries Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	69,125,000	2,748,939	100.00%	2,748,939	—
Polybus Corporation Pte Ltd	Certificate of ownership	TSRC-UBE (Nantong) Chemical Industrial Company Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	22,000,000	1,077,668	55.00%	1,077,668	—
Polybus Corporation Pte Ltd	Certificate of ownership	Shen Hua Chemical Industrial Co. Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	26,974,368	2,544,582	65.44%	2,528,312	—
Polybus Corporation Pte Ltd	Certificate of ownership	Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	12,400,000	339,117	50.00%	339,117	—
Hardison International Corporation	Stock	Triton International Holdings Corporation	Investee accounted for by the equity method	Investments accounted for by the equity method	50,000	102,121	100.00%	102,121	—
Hardison International Corporation	Stock	Dymas Corporation	Investee accounted for by the equity method	Investments accounted for by the equity method	4,798,566	325,278	80.52%	325,278	—
Hardison International Corporation	Stock	TSRC Biotech Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	3,020,210	5	100.00%	5	—
TSRC Biotech Ltd.	Preferred stock	Pulse Meteric Inc.	—	Financial assets carried at cost-noncurrent	312,500	—	6.23%	(Note 1)	—
TSRC Biotech Ltd.	Stock	CytoPharm, Inc.	—	Financial assets carried at cost-noncurrent	95,108	—	0.30%	(Note 1)	—
Dymas Corporation	Stock	Thai Synthetic Rubbers Co., Ltd.	—	Financial assets carried at cost-noncurrent	837,552	55,625	7.57%	(Note 1)	—
Dymas Corporation	Stock	Asia Pacific Energy Development Co., Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	7,522,337	337,312	37.78%	337,312	—
Triton International Holdings Corporation	Certificate of ownership	Nantong Qix Storage Co., Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	1,500,000	92,935	50.00%	92,935	—

Note 1: No public market price was available and no financial statements provided by the investees for purposes of estimating the net equity.

Note 2: The amounts were eliminated in the consolidated statements.

**5. Accumulated holding amount of a single security in excess of \$100 million or 20% of TSRC's issued share capital:**

Unit: in thousands of New Taiwan dollars / shares

Corporation name	Marketable securities type and name	Financial statement account	Name of the counter-party	Relationship with TSRC	Beginning balance		Acquisition		Disposal				Ending balance	
					Shares	Amount	Shares	Amount	Shares	Selling price	Carrying value	Gains (losses) on disposal	Shares	Amount
Trimurti Holding Corporation	TSRC (HONG KONG) Limited	Investee accounted for by the equity method	—	—	7,800,000	7,800	70,050,000	70,050	—	—	—	—	77,850,000	77,850
Trimurti Holding Corporation	Indian Synthetic Rubber Limite	Investee accounted for by the equity method	—	—	56,250,000	11,575	49,218,750	9,415	—	—	—	—	105,468,750	20,990
Polybus Corporation Pte Ltd	TSRC (Nantong) Industries Ltd.	Investee accounted for by the equity method	—	—	43,885,000	43,885	25,240,000	25,240	—	—	—	—	69,125,000	69,125

**6. Acquisition of real estate in excess of \$100 million or 20% of TSRC's issued share capital: None.**

**7. Disposal of real estate in excess of \$100 million or 20% of TSRC's issued share capital: None.**

**8.Sales to and purchases from related parties in excess of \$100 million or 20% of TSRC's issued share capital:**

Unit: in thousands of New Taiwan dollars

Purchasing (selling) company	Counter-party	Relationship	Details of transaction				The status and reason for deviation from regular transaction		Accounts (notes) receivable (payable)		Remarks
			Nature	Amount	% of total purchases (sales)	Credit period	Unit price	Credit period	Balance	% of accounts (notes) receivable (payable)	
TSRC-UBE (Nantong) Chemical Industrial Company Ltd.	Marubeni Corporation	A director of TSRC UBE (Nantong) Chemical Industrial Co., Ltd.	Purchase	433,039	11.78%	30 days after shipping	—	—	(23,460)	(17.16)%	
Shen Hua Chemical Industrial Co. Ltd.	Marubeni Corporation	A director of Shen Hua Chemical Industrial Co. Ltd.	Purchase	728,499	6.00%	14 days	—	—	(34,674)	(6.55)%	
Polybus Corporation Pte Ltd	TSRC (Nantong) Industries Ltd.	Related Parties.	Purchase	986,815	85.40%	40 days	—	—	(159,223)	(89.86)%	
TSRC (Nantong) Industries Ltd	Polybus Corporation Pte Ltd	Related Parties.	Sale	(986,815)	(35.17)%	40 days	—	—	159,223	37.89%	
TSRC (Lux) Corporation S.'a.r.l	Dexco Polymers L.P.	Related Parties.	Purchase	1,503,607	98.83%	30 days	—	—	(113,127)	(93.04)%	
Dexco Polymers L.P.	TSRC (Lux) Corporation S.'a.r.l	Related Parties.	Sale	(1,503,607)	(27.97)%	30 days	—	—	113,127	20.62%	

Note: The amounts were eliminated in the consolidated statements

**9.Receivables from related parties in excess of \$100 million or 20% of TSRC's issued share capital:**

Unit: in thousands of New Taiwan dollars

Corporation name	Counter-party	Relationship	Amount	Turnover	Overdue Amount		Subsequent receivable amount	Allowance for Uncollectible accounts
					Amount	Processing		
TSRC (Nantong) Industries Ltd.	Polybus Corporation Pte Ltd	Related Parties.	159,223	—	—	—	75,123	—

**10.Financial derivative instruments transactions: None.**



**(c)Investment in China:**

**1.Summary of investment in China:**

Unit: in thousands of New Taiwan dollars

Name of investee	Scope of business	Issued capital	Investment method	Accumulated remittance from Taiwan as of January 1, 2012	Amount remitted from or repatriated to Taiwan		Accumulated remittance from Taiwan as of December 31, 2012	Direct or indirect investment holding percentage	Investment income (loss) recognized in December 31, 2012	Book value as of December 31, 2012	Accumulated amount repatriated to Taiwan as of December 31, 2012
					Remittance	Repatriation					
Shen Hua Chemical Industrial company Ltd.	Production and sale of synthetic rubber	USD 41,220,000	Invest through third country first and then invest in China	—	—	1,410,094	—	65.44%	900,036	2,544,582	4,379,389
Changzhou Asia Pacific Co-generation Co., Ltd. (note 1)	Power generation and sale of electricity and heat	USD 23,100,000	Invest through third country first and then invest in China	111,659 (USD3,832,350)	—	—	111,659 (USD3,832,350)	28.34%	50,428	337,312	—
TSRC (Shanghai) Industries Ltd.	Production and sale of reengineering plastic, plastic compound metal and plastic elasticity engineering products	USD 5,500,000	Invest through third country first and then invest in China	114,213 (USD3,920,000)	—	—	114,213 (USD3,920,000)	100.00%	21,696	265,258	—
Nantong Qix Storage Co., Ltd.	Storehouse for chemicals	USD 3,000,000	Invest through third country first and then invest in China	43,704 (USD1,500,000)	—	—	43,704 (USD1,500,000)	50.00%	3,795	92,935	—
TSRC-UBE (Nantong) Chemical Industrial Co., Ltd.	Production and sale of synthetic rubber products	USD 40,000,000	Invest through third country first and then invest in China	29,136 (USD1,000,000)	—	—	29,136 (USD1,000,000)	55.00%	153,966	1,077,668	—
TSRC (Nantong) Industries Company Ltd.	Production and sale of synthetic rubber products	USD 69,125,000	Invest through third country first and then invest in China	193,696 (USD6,648,000)	—	—	193,696 (USD6,648,000)	100.00%	395,580	2,748,939	—
TSRC (Jinan) Industries Ltd.	Production and sale of reengineering plastic, plastic compound metal and plastic elasticity engineering products	USD 2,250,000	Invest through third country first and then invest in China	65,556 (USD2,250,000)	—	—	65,556 (USD2,250,000)	100.00%	(8,606)	(38,400)	—
Lanxess-TSRC (Nantong) Chemical Industrial Company Ltd.	Production and sale of NRB	USD 24,800,000	Invest through third country first and then invest in China	—	—	—	—	50.00%	(31,685)	339,117	—

Note 1: Invest through third country first and then invest in China

Note 2: Wujing Asia Pacific Co-generation Co., Ltd was duly passed at Board of Directors to merged with Changzhou Asia Pacific Co-generation Co., Ltd. Wujing Asia Pacific Co-generation Co., Ltd. was changed name as Changzhou Asia Pacific Co-generation Co., Ltd.



## 2.Limitation on investment in Mainland China:(in thousands of New Taiwan dollars)

Accumulated remittance from Taiwan to China as of December 31, 2012	Investment amount approved by Investment Commission, Ministry of Economic Affairs	The maximum investment amount set by Investment Commission, Ministry of Economic Affairs
557,965(USD19,150,350)	3,673,914(Note 4)(USD126,095,351)	(Note 4)

Note 1: Foreign currencies in this report were translated based on the exchange rate at balance sheet date.

Note 2: The above related information disclosure was provided by TSRC. The investment amount was approved by the Investment of Commission.

Note 3: 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, TSRC met the criteria of operational headquarters under the Statue of Industrial Innovation and obtained the approval from the Industrial Development Bureau, Ministry of Economic Affairs, on November 11, 2012. As it has an operational headquarters status, TSRC is not subject to the limitation as to the amount of investment in Mainland China as of December 31, 2012.

Note 4: This amount includes capital increase out of earnings, approved by Investment of Commission, MOEA.

## 3.Substantial transactions directly or through third country with investees in China:

### (1) Sales and accounts receivable

Sales to related parties are summarized as follows:

	2012
	Amount
TSRC (Shanghai) Industries Ltd.	\$ 47,517
TSRC (Nantong) Industries Ltd.	57,108
TSRC (Jinan) Industries Ltd.	22,083
	<u>\$ 126,708</u>

The related accounts receivable resulting from the above sales as of December 31, 2012 as follows:

	Dec.31, 2012
	Amount
TSRC (Shanghai) Industries Ltd.	\$ 2,511
TSRC (Nantong) Industries Ltd.	9,069
TSRC (Jinan) Industries Ltd.	1,115
	<u>\$ 12,695</u>

### (2) Services revenue

Nature	Name	Services revenue 2012	Receivables 2012.12.31
Management and technology services	Shen Hua Chemical Industrial Co., Ltd.	\$ 35,468	27,869
Management and technology services	TSRC (Nantong) Industries Ltd.	18,026	14,402
Management and technology services	TSRC-UBE (Nantong) Chemical Industrial Company Limited	10,844	8,865
Management and technology services & trademark rights	TSRC (Shanghai) Industries Ltd.	5,335	4,508
Management and technology services & trademark rights	TSRC(Jinan) Industries Ltd.	2,897	2,444
Management and technology services	Lanxess-TSRC (Nantong) Chemical Industrial Corporation Limited	4,663	3,002
		<u>\$ 77,233</u>	<u>61,090</u>

(3) For the year ended December 31, 2012, TSRC reached a construction management services agreement with TSRC (Nantong) Industrial Co., Ltd., and received revenue of USD \$200,000, recorded as a reduction of related expenses. As of December 31, 2012, receivables arising from the above transaction amounted to \$5,827 thousand, recorded in other financial assets—current.

(4)Guarantees

As of December 31, 2012, TSRC's guarantees for bank loans of investees were as follows:

	Dec.31, 2012
TSRC (Nantong) Industries Ltd.	\$ 1,019,760
Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd.	1,183,030
TSRC (Jinan) Industries Ltd.	65,556
	<u>\$ 2,268,346</u>

(5)Reimbursements

	Dec.31, 2012
TSRC (Jinan) Industries Ltd.	<u>\$ 2,507</u>

(6) TSRC provided technology as capital injection in TSRC (Nantong) Industries Ltd. and TSRC—UBE (Nantong) Chemical Industrial Company Limited. Such revenue from technology provided as equity investment was deferred until such revenue is realized through the investee's amortization over its useful life. For the year ended December 31, 2012, revenue from technology provided as equity investment was amortized as follows:

	Dec.31, 2012
TSRC (Nantong) Industries Ltd.	\$ 13,305
TSRC-UBE (Nantong) Chemical Industrial Company Limited	3,235
	<u>\$ 16,540</u>

**4.Significant transactions and business relationship between parent company and subsidiaries:**

(1)For the year ended December 31, 2011

No. (Note 1)	Company Name	Counter part	Relationship (Note 2)	Intercompany Transaction			
				Account	Amount	Terms	Percentage of total consolidated net sales or assets
0	TSRC	TSRC (Shanghai) Industries Ltd.	1	Sales	47,517	The selling prices are not significantly different from those for other customers; the collection period was two to three months.	0.10%
0	TSRC	TSRC (Shanghai) Industries Ltd.	1	Accounts Receivable	2,511	"	—
0	TSRC	TSRC (Nantong) Industries Ltd.	1	Sales	57,108	"	0.13%
0	TSRC	TSRC (Nantong) Industries Ltd.	1	Accounts Receivable	9,069	"	0.03%
0	TSRC	TSRC (Jinan) Industries Ltd.	1	Sales	22,083	"	0.05%
0	TSRC	TSRC (Jinan) Industries Ltd.	1	Accounts Receivable	1,115	"	—
0	TSRC	Polybus Corporation Pte. Ltd.	1	Sales	67,965	"	0.15%
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC(Jinan) Industries Ltd	3	Sales	157	"	—
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC(Jinan) Industries Ltd	3	Accounts Receivable	182	"	—
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC (Nantong) Industries Ltd.	3	Sales	15,608	"	0.03%
4	Shen Hua Chemical Industrial Co., Ltd.	Polybus Corporation Pte. Ltd.	3	Sales	58,887	"	0.13%
5	TSRC (Nantong) Industries Ltd.	TSRC (Shanghai) Industries Ltd.	3	Sales	65,442	"	0.14%
5	TSRC (Nantong) Industries Ltd.	TSRC (Shanghai) Industries Ltd.	3	Accounts Receivable	17,175	"	0.05%

No. (Note 1)	Company Name	Counter part	Relationship (Note 2)	Intercompany Transaction			
				Account	Amount	Terms	Percentage of total consolidated net sales or assets
5	TSRC (Nantong) Industries Ltd.	TSRC (Jinan) Industries Ltd.	3	Sales	6,720	"	0.01%
5	TSRC (Nantong) Industries Ltd.	TSRC (Jinan) Industries Ltd.	3	Accounts Receivable	6,321	"	0.02%
5	TSRC (Nantong) Industries Ltd.	Polybus Corporation Pte Ltd	3	Sales	986,821	"	2.18%
5	TSRC (Nantong) Industries Ltd.	Polybus Corporation Pte Ltd.	3	Accounts Receivable	159,222	"	0.45%
1	TSRC (Shanghai) Industries Ltd.	TSRC (Jinan) Industries Ltd.	3	Sales	2,322	"	0.01%
1	TSRC (Shanghai) Industries Ltd.	TSRC (Jinan) Industries Ltd.	3	Accounts Receivable	351	"	—
1	TSRC(Shanghai) Industries Ltd.	TSRC	2	Sales	279	"	—
1	TSRC(Shanghai) Industries Ltd.	TSRC	2	Accounts Receivable	275	"	—
3	TSRC(Jinan) Industries Ltd	TSRC	2	Sales	1,515	"	—
3	TSRC(Jinan) Industries Ltd.	TSRC(Shanghai) Industries Ltd.	3	Sales	703	The selling prices are not significantly different from those for other customers; the collection period was two to three months.	—
3	TSRC(Jinan) Industries Ltd	TSRC(Shanghai) Industries Ltd.	3	Accounts Receivable	271	"	—
9	Dexco Polymers L.P.	TSRC (Lux.) Corporation S.' a. r. l.	3	Sales	1,504,688	"	3.32%
9	Dexco Polymers L.P.	TSRC (Lux.) Corporation S.' a. r. l.	3	Accounts Receivable	122,349	"	0.34%
0	TSRC	TSRC(Jinan) Industries Ltd	1	Purchase	1,515	The purchase cost is not significantly different from those for other customers; the terms were two to three months.	—
0	TSRC	TSRC(Shanghai) Industries Ltd.	1	Purchase	279	"	—
0	TSRC	TSRC(Shanghai) Industries Ltd.	1	Accounts Payable	275	"	—
1	TSRC (Shanghai) Industries Ltd.	TSRC	2	Purchase	47,517	"	0.10%
1	TSRC (Shanghai) Industries Ltd.	TSRC	2	Accounts Payable	2,511	"	0.01%
3	TSRC (Jinan) Industries Ltd.	TSRC	2	Purchase	22,083	"	0.05%
3	TSRC (Jinan) Industries Ltd.	TSRC	2	Accounts Payable	1,115	"	—
3	TSRC (Jinan) Industries Ltd.	TSRC (Shanghai) Industries Ltd.	3	Purchase	2,322	"	0.01%
3	TSRC (Jinan) Industries Ltd.	TSRC (Shanghai) Industries Ltd.	3	Accounts Payable	351	"	—
3	TSRC(Jinan) Industries Ltd	Shen Hua Chemical Industrial Co., Ltd.	3	Purchase	157	"	—
3	TSRC(Jinan) Industries Ltd	Shen Hua Chemical Industrial Co., Ltd.	3	Accounts Payable	182	"	—
5	TSRC (Nantong) Industries Ltd.	TSRC	2	Purchase	57,108	"	0.13%
5	TSRC (Nantong) Industries Ltd.	TSRC	2	Accounts Payable	9,069	"	0.03%
5	TSRC (Nantong) Industries Ltd.	Shen Hua Chemical Industrial Co., Ltd.	3	Purchase	15,608	"	0.03%
8	Polybus Corporation Pte Ltd.	TSRC	2	Purchase	67,965	"	0.15%
8	Polybus Corporation Pte Ltd.	TSRC (Nantong) Industries Ltd.	3	Purchase	986,821	"	2.18%
8	Polybus Corporation Pte Ltd.	TSRC (Nantong) Industries Ltd.	3	Accounts Payable	159,222	"	0.45%
8	Polybus Corporation Pte Ltd.	Shen Hua Chemical Industrial Co., Ltd.	3	Purchase	58,887	The purchase cost is not significantly different from those for other customers; the terms were two to three months.	0.13%
1	TSRC(Shanghai) Industries Ltd.	TSRC(Nantong) Industries Ltd.	3	Purchase	65,442	"	0.14%

No. (Note 1)	Company Name	Counter part	Relationship (Note 2)	Intercompany Transaction			
				Account	Amount	Terms	Percentage of total consolidated net sales or assets
1	TSRC(Shanghai) Industries Ltd.	TSRC(Nantong) Industries Ltd.	3	Accounts Payable	17,175	"	0.05%
1	TSRC(Shanghai) Industries Ltd.	TSRC(Jinan) Industries Ltd.	3	Purchase	703	"	—
1	TSRC(Shanghai) Industries Ltd.	TSRC(Jinan) Industries Ltd.	3	Accounts Payable	271	"	—
3	TSRC(Jinan) Industries Ltd.	TSRC(Nantong) Industries Ltd.	3	Purchase	6,720	"	0.01%
3	TSRC(Jinan) Industries Ltd.	TSRC(Nantong) Industries Ltd.	3	Accounts Payable	6,321	"	0.02%
7	TSRC (Lux.) Corporation S.' a. r. l.	Dexco Polymers L.P.	3	Purchase	1,504,688	"	3.32%
7	TSRC (Lux.) Corporation S.' a. r. l.	Dexco Polymers L.P.	3	Accounts Payable	122,349	"	0.34%
0	TSRC	TSRC(Shanghai) Industries Ltd.	1	Other income	5,335	The transaction is not significantly different from those for other customers; the terms were one to twelve months.	0.01%
0	TSRC	TSRC(Shanghai) Industries Ltd.	1	Other financial assets — current	4,508	"	0.01%
0	TSRC	TSRC(Jinan) Industries Ltd.	1	Other income	2,897	"	0.01%
0	TSRC	TSRC(Jinan) Industries Ltd.	1	Other financial assets — current	4,951	"	0.01%
0	TSRC	TSRC(Nantong) Industries Ltd.	1	Other income	18,026	"	0.04%
0	TSRC	TSRC(Nantong) Industries Ltd.	1	Other financial assets — current	20,229	"	0.06%
0	TSRC	TSRC-UBE(Nantong) Chemical Industrial Company Limited	1	Other income	10,844	"	0.02%
0	TSRC	TSRC-UBE(Nantong) Chemical Industrial Company Limited	1	Other financial assets — current	8,865	"	0.02%
0	TSRC	Shen Hua Chemical Industrial Co., Ltd.	1	Other income	35,468	"	0.08%
0	TSRC	Shen Hua Chemical Industrial Co., Ltd.	1	Other financial assets — current	27,869	"	0.08%
0	TSRC	Dexco Polymers L.P.	1	Other income	26,675	"	0.06%
4	Shen Hua Chemical Industrial Co., Ltd.	Nantong Qix Storage Co., Ltd.	3	Other income	5,421	"	0.01%
4	Shen Hua Chemical Industrial Co., Ltd.	Nantong Qix Storage Co., Ltd.	3	Other Receivables	472	"	—
7	TSRC (Lux.) Corporation S.' a. r. l.	Dexco Polymers L.P.	3	Other Revenue	5,086	The transaction is not significantly different from those for other customers; the terms were one to twelve months.	0.01%
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC	2	Other Revenue	1,268	"	—
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC	2	Other financial assets — current	1,267	"	—
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC(Nantong) Industries Ltd.	3	Other Revenue	5,460	"	0.01%
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC(Nantong) Industries Ltd.	3	Other financial assets — current	406	"	—
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC-UBE(Nantong) Chemical Industrial Company Limited	3	Other Revenue	3,931	"	0.01%
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC-UBE(Nantong) Chemical Industrial Company Limited	3	Other financial assets — current	33	"	—
5	TSRC(Nantong) Industries Ltd.	TSRC-UBE(Nantong) Chemical Industrial Company Limited	3	Other Revenue	228,745	"	0.50%
5	TSRC(Nantong) Industries Ltd.	TSRC-UBE(Nantong) Chemical Industrial Company Limited	3	Accounts Receivable	20,416	"	0.06%
11	TSRC (USA) Investment Corporation	TSRC	2	Other Revenue	13,688	"	0.03%

No. (Note 1)	Company Name	Counter part	Relationship (Note 2)	Intercompany Transaction			
				Account	Amount	Terms	Percentage of total consolidated net sales or assets
11	TSRC (USA) Investment Corporation	TSRC	2	Other financial assets – current	13,521	"	0.04%
9	Dexco Polymers L.P.	TSRC	2	Other Revenue	17,813	"	0.04%
8	Polybus Corporation Pte Ltd	TSRC	2	Other financial assets – current	4,965	"	0.01%
0	TSRC	Polybus Corporation Pte Ltd	1	Accrued expense	4,965	"	0.01%
0	TSRC	TSRC (USA) Investment Corporation	1	Operating expense	13,688	"	0.03%
0	TSRC	TSRC (USA) Investment Corporation	1	Accrued expense	13,521	"	0.04%
0	TSRC	Dexco Polymers L.P.	1	Research and development expense	17,813	"	0.04%
0	TSRC	Shen Hua Chemical Industrial Co., Ltd.	1	Research and development expense	1,268	"	—
0	TSRC	Shen Hua Chemical Industrial Co., Ltd.	1	Accrued expense	1,267	"	—
1	TSRC(Shanghai) Industries Ltd.	TSRC	2	Administrative expense	5,335	"	0.01%
1	TSRC(Shanghai) Industries Ltd.	TSRC	2	Accrued expense	4,508	"	0.01%
3	TSRC(Jinan) Industries Ltd.	TSRC	2	Administrative expense	2,897	"	0.01%
3	TSRC(Jinan) Industries Ltd.	TSRC	2	Accrued expense	4,951	"	0.01%
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC	2	Administrative expense	35,468	The transaction is not significantly different from those for other customers; the terms were one to twelve months.	0.08%
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC	2	Accrued expense	27,869	"	0.08%
5	TSRC(Nantong) Industries Ltd.	TSRC	2	Administrative expense	18,026	"	0.04%
5	TSRC(Nantong) Industries Ltd.	TSRC	2	Accrued expense	20,229	"	0.06%
6	TSRC-UBE(Nantong) Chemical Industrial Company Limited	TSRC	2	Operating expense	10,844	"	0.02%
6	TSRC-UBE(Nantong) Chemical Industrial Company Limited	TSRC	2	Accrued expense	8,865	"	0.02%
9	Dexco Polymers L.P.	TSRC (Lux.) Corporation S' a. r. l.	3	Operating expense	5,086	"	0.01%
9	Dexco Polymers L.P.	TSRC	2	Administrative expense	26,675	"	0.06%
5	TSRC(Nantong) Industries Ltd.	Shen Hua Chemical Industrial Co., Ltd.	3	Administrative expense	5,460	"	0.01%
5	TSRC(Nantong) Industries Ltd.	Shen Hua Chemical Industrial Co., Ltd.	3	Accrued expense	406	"	—
6	TSRC-UBE(Nantong) Chemical Industrial Company Limited	Shen Hua Chemical Industrial Co., Ltd.	3	Administrative expense	3,931	"	0.01%
6	TSRC-UBE(Nantong) Chemical Industrial Company Limited	Shen Hua Chemical Industrial Co., Ltd.	3	Accrued expense	33	"	—
6	TSRC-UBE(Nantong) Chemical Industrial Company Limited	TSRC(Nantong) Industries Ltd.	3	Manufacturing cost	228,745	"	0.50%
6	TSRC-UBE(Nantong) Chemical Industrial Company Limited	TSRC(Nantong) Industries Ltd.	3	Accrued expense	20,416	"	0.06%
12	Nantong Qix Storage Co., Ltd.	Shen Hua Chemical Industrial Co., Ltd.	3	Manufacturing cost	5,421	"	0.01%
12	Nantong Qix Storage Co., Ltd.	Shen Hua Chemical Industrial Co., Ltd.	3	Accounts Payable	472	"	—
0	TSRC	TSRC (Nantong) Industries Ltd.	1	—	1,019,760	—	(Note 4)

No. (Note 1)	Company Name	Counter part	Relationship (Note 2)	Intercompany Transaction			
				Account	Amount	Terms	Percentage of total consolidated net sales or assets
0	TSRC	TSRC (Jinan) Industries Ltd.	1	—	65,556	—	(Note 4)
0	TSRC	TSRC (USA) Investment Corporation	1	—	3,059,280	—	(Note 4)
1	TSRC(Shanghai) Industries Ltd.	TSRC(Jinan) Industries Ltd.	3	Prepayments and other current assets	32,638	—	0.09%
3	TSRC(Jinan) Industries Ltd.	TSRC(Shanghai) Industries Ltd.	3	Other current liabilities	32,638	—	0.09%

(2)For the year ended December 31, 2011

No. (Note 1)	Company Name	Counter part	Relationship (Note 2)	Intercompany Transaction			
				Account	Amount	Terms	Percentage of total consolidated net sales or assets
0	TSRC	TSRC (Shanghai) Industries Ltd.	1	Sales	55,675	The selling prices are not significantly different from those for other customers; the collection period was two to three months.	0.10%
0	TSRC	TSRC (Shanghai) Industries Ltd.	1	Accounts Receivable	17,454	"	0.05%
0	TSRC	TSRC (Nantong) Industries Ltd.	1	Sales	52,320	"	0.09%
0	TSRC	TSRC (Nantong) Industries Ltd.	1	Accounts Receivable	16,476	"	0.04%
0	TSRC	TSRC (Jinan) Industries Ltd.	1	Sales	40,348	"	0.07%
0	TSRC	TSRC (Jinan) Industries Ltd.	1	Accounts Receivable	13,391	"	0.03%
0	TSRC	Polybus Corporation Pte Ltd	1	Sales	55,565	"	0.10%
0	TSRC	Polybus Corporation Pte Ltd	1	Accounts Receivable	49,475	"	0.13%
0	TSRC	Trimurti Holding Corporation	1	Other receivables	2,792	"	—
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC (Nantong) Industries Ltd.	3	Sales	253,566	"	0.46%
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC-UBE (Nantong) Chemical Industrial Company Limited	3	Sales	161,170	"	0.29%
4	Shen Hua Chemical Industrial Co., Ltd.	Polybus Corporation Pte Ltd	3	Sales	364,189	"	0.61%
4	Shen Hua Chemical Industrial Co., Ltd.	Polybus Corporation Pte Ltd	3	Accounts Receivable	4,447	"	0.01%
5	TSRC (Nantong) Industries Ltd.	TSRC (Shanghai) Industries Ltd.	3	Sales	68,998	"	0.12%
5	TSRC (Nantong) Industries Ltd.	TSRC (Shanghai) Industries Ltd.	3	Accounts Receivable	7,863	"	0.02%
5	TSRC (Nantong) Industries Ltd.	TSRC (Jinan) Industries Ltd.	3	Sales	26,783	"	0.05%
5	TSRC (Nantong) Industries Ltd.	TSRC (Jinan) Industries Ltd.	3	Accounts Receivable	9,300	"	0.02%
5	TSRC (Nantong) Industries Ltd.	Polybus Corporation Pte Ltd	3	Sales	960,967	"	1.73%
5	TSRC (Nantong) Industries Ltd.	Polybus Corporation Pte Ltd	3	Accounts Receivable	207,524	"	0.54%
6	TSRC-UBE (Nantong) Chemical Industrial Company Limited	Polybus Corporation Pte Ltd	3	Sales	2,953	"	—
1	TSRC (Shanghai) Industries Ltd.	TSRC (Jinan) Industries Ltd.	3	Sales	6,762	"	0.01%
1	TSRC (Shanghai) Industries Ltd.	TSRC (Jinan) Industries Ltd.	3	Accounts Receivable	8,098	"	0.02%
3	TSRC (Jinan) Industries Ltd.	TSRC (Shanghai) Industries Ltd.	3	Sales	1,254	The selling prices are not significantly different from those for other customers; the collection period was two to three months.	—

No. (Note 1)	Company Name	Counter part	Relationship (Note 2)	Intercompany Transaction			
				Account	Amount	Terms	Percentage of total consolidated net sales or assets
9	Dexco Polymers L.P.	TSRC (Lux.) Corporation S' a. r. l.	3	Sales	99,137	"	0.18%
9	Dexco Polymers L.P.	TSRC (Lux.) Corporation S' a. r. l.	3	Accounts Receivable	64,853	"	0.17%
1	TSRC (Shanghai) Industries Ltd.	TSRC	2	Purchase	55,675	"	0.10%
1	TSRC (Shanghai) Industries Ltd.	TSRC	2	Accounts Payable	17,545	"	0.03%
1	TSRC (Shanghai) Industries Ltd.	TSRC (Jinan) Industries Ltd.	3	Purchase	1,254	"	—
1	TSRC (Shanghai) Industries Ltd.	TSRC (Nantong) Industries Ltd.	3	Purchase	68,998	"	0.12%
1	TSRC (Shanghai) Industries Ltd.	TSRC (Nantong) Industries Ltd.	3	Accounts Payable	7,863	"	0.02%
3	TSRC (Jinan) Industries Ltd.	TSRC (Shanghai) Industries Ltd.	3	Purchase	6,762	"	0.01%
3	TSRC (Jinan) Industries Ltd.	TSRC (Shanghai) Industries Ltd.	3	Accounts Payable	8,098	"	0.02%
3	TSRC (Jinan) Industries Ltd.	TSRC	2	Purchase	40,348	"	0.07%
3	TSRC (Jinan) Industries Ltd.	TSRC	2	Accounts Payable	13,391	"	0.03%
3	TSRC (Jinan) Industries Ltd.	TSRC (Nantong) Industries Ltd.	3	Purchase	26,783	"	0.05%
3	TSRC (Jinan) Industries Ltd.	TSRC (Nantong) Industries Ltd.	3	Accounts Payable	9,300	"	0.02%
5	TSRC (Nantong) Industries Ltd.	TSRC	2	Purchase	52,320	"	0.09%
5	TSRC (Nantong) Industries Ltd.	TSRC	2	Accounts Payable	16,476	"	0.04%
5	TSRC (Nantong) Industries Ltd.	Shen Hua Chemical Industrial Co., Ltd.	3	Purchase	253,566	"	0.46%
6	TSRC-UBE (Nantong) Chemical Industrial Company Limited	Shen Hua Chemical Industrial Co., Ltd.	3	Purchase	161,170	The purchase cost is not significantly different from those for other customers; the terms were two to three months.	0.29%
8	Polybus Corporation Pte Ltd	TSRC	2	Purchase	55,565	"	0.10%
8	Polybus Corporation Pte Ltd	TSRC	2	Accounts Payable	49,475	"	0.13%
8	Polybus Corporation Pte Ltd	TSRC-UBE (Nantong) Chemical Industrial Company Limited	3	Purchase	2,953	"	0.01%
8	Polybus Corporation Pte Ltd	Shen Hua Chemical Industrial Co., Ltd.	3	Purchase	364,189	"	0.61%
8	Polybus Corporation Pte Ltd	Shen Hua Chemical Industrial Co., Ltd.	3	Accounts Payable	4,447	"	0.01%
8	Polybus Corporation Pte Ltd.	TSRC (Nantong) Industries Ltd.	3	Purchase	960,967	"	1.73%
8	Polybus Corporation Pte Ltd.	TSRC (Nantong) Industries Ltd.	3	Accounts Payable	207,524	"	0.54%
10	TSRC (Lux.) Corporation S' a. r. l.	Dexco Polymers L.P.	3	Purchase	99,137	"	0.18%
10	TSRC (Lux.) Corporation S' a. r. l.	Dexco Polymers L.P.	3	Accounts Payable	64,853	"	0.17%
0	TSRC	TSRC (Shanghai) Industries Ltd.	1	Other income	5,238	"	0.01%
0	TSRC	TSRC (Shanghai) Industries Ltd.	1	Other financial assets — current	4,434	"	0.01%
0	TSRC	TSRC (Jinan) Industries Ltd.	1	Other income	3,991	"	0.01%
0	TSRC	TSRC (Jinan) Industries Ltd.	1	Other financial assets — current	3,368	"	0.01%

No. (Note 1)	Company Name	Counter part	Relationship (Note 2)	Intercompany Transaction			
				Account	Amount	Terms	Percentage of total consolidated net sales or assets
0	TSRC	TSRC (Nantong) Industries Ltd.	1	Other income	12,289	"	0.02%
0	TSRC	TSRC (Nantong) Industries Ltd.	1	Other financial assets – current	7,917	"	0.01%
0	TSRC	TSRC-UBE (Nantong) Chemical Industrial Company Limited	1	Other income	22,551	"	0.04%
0	TSRC	TSRC-UBE (Nantong) Chemical Industrial Company Limited	1	Other financial assets – current	7,216	"	0.02%
0	TSRC	Shen Hua Chemical Industrial Co., Ltd.	1	Other income	43,832	"	0.08%
0	TSRC	Shen Hua Chemical Industrial Co., Ltd.	1	Other financial assets – current	32,472	"	0.08%
4	Shen Hua Chemical Industrial Co., Ltd.	Nantong Qix Storage Co., Ltd.	3	Other income	5,456	"	0.01%
4	Shen Hua Chemical Industrial Co., Ltd.	Nantong Qix Storage Co., Ltd.	3	Other Receivable	576	"	—
0	Trimurti Holding Corporation	TSRC	2	Other payables	2,792	The transaction is not significantly different from those for other customers; the terms were two to three months.	0.01%
1	TSRC (Shanghai) Industries Ltd.	TSRC	2	Operating expense	5,238	"	0.01%
1	TSRC (Shanghai) Industries Ltd.	TSRC	2	Accrued expense	4,434	"	0.01%
1	TSRC (Shanghai) Industries Ltd.	TSRC	2	Accrued expense	11,340	The transaction is not significantly different from those for other customers; the terms were two to three months.	0.03%
3	TSRC (Jinan) Industries Ltd.	TSRC	2	Accrued expense	2,507	"	0.01%
3	TSRC (Jinan) Industries Ltd.	TSRC	2	Operating expense	3,991	"	0.01%
3	TSRC (Jinan) Industries Ltd.	TSRC	2	Accrued expense	3,368	"	0.01%
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC	2	Operating expense	43,832	"	0.08%
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC	2	Accrued expense	32,472	"	0.08%
5	TSRC (Nantong) Industries Ltd.	TSRC	2	Operating expense	12,289	"	0.02%
5	TSRC (Nantong) Industries Ltd.	TSRC	2	Accrued expense	7,917	"	0.02%
6	TSRC-UBE (Nantong) Chemical Industrial Company Limited	TSRC	2	Operating expense	22,551	"	0.04%
6	TSRC-UBE (Nantong) Chemical Industrial Company Limited	TSRC	2	Accrued expense	7,216	"	0.02%
0	TSRC	TSRC (Nantong) Industries Ltd.	1	—	757,250	—	(Note 4)
0	TSRC	TSRC-UBE (Nantong) Chemical Industrial Company Limited	1	—	666,380	—	(Note 4)
0	TSRC	TSRC (Jinan) Industries Ltd.	1	—	68,153	—	(Note 4)
0	TSRC	TSRC (USA) Investment Corporation	1	—	3,180,450	—	(Note 4)



Note 1: Company numbering is as follow:

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

Note 2: Relationship with transaction party numbering is as follows:

1. Parent company to subsidiary-1
2. Subsidiary to parent company-2
3. Subsidiary to subsidiary-3

Note 3: For balance sheet items, the percentage of total consolidated assets/liabilities is determined based on the ending balance of balance sheet items divided by total consolidated assets. For profit or loss items, the percentage of net or loss items divided by total consolidated income/loss

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

## 12. Segment Information

There are three service departments which should be reported as follows:

Synthetic rubber services department, Non-synthetic rubber services department, and others. The synthetic rubber services department produces and sells of synthetic rubber products. Non-synthetic rubber services department produces and sells of reengineering plastic and plastic elasticity engineering products. Other services department provides storage service.

### (a) Segment information and adjustments:

	2012				
	Synthetic rubber services department	Non-synthetic rubber services department	Others	Adjustments	Total
Revenue					
Revenue from external customers	\$ 44,497,247	818,013	49,115	—	45,364,375
Revenue from inter-department	2,833,188	4,820	—	(2,838,008)	—
Interest income	80,570	1,634	3,013	(1,209)	84,008
Total Revenue	\$ 47,411,005	824,467	52,128	(2,839,217)	45,448,383
Interest expense	\$ 225,168	4,198	—	(1,209)	228,157
Depreciation and Amortization	\$ 859,272	33,474	57,315	(16,541)	933,520
Net investment income	\$ 1,253,723	—	104,398	(1,348,529)	9,592
Profit/Loss	\$ 5,225,055	19,016	163,060	(1,479,827)	3,927,304
Long-term investments accounted for by equity method	\$ 11,215,792	—	847,338	(10,123,297)	1,939,833
Capital expenditure of non-current asset	\$ 12,181,165	281,268	2,530,898	(69,966)	14,923,365
Total assets	\$ 46,239,618	1,002,293	3,044,294	(14,726,737)	35,559,468
Total liability	\$ 17,753,417	415,744	61,982	(791,352)	17,439,791

	2011				
	Synthetic rubber services department	Non-synthetic rubber services department	Others	Adjustments	Total
Revenue					
Revenue from external customers	\$ 54,258,564	764,311	52,443	—	55,075,318
Revenue from inter-department	2,037,744	104,074	—	(2,141,818)	—
Interest income	65,398	739	2,019	—	68,156
Total Revenue	<u>\$ 56,361,706</u>	<u>869,124</u>	<u>54,462</u>	<u>(2,141,818)</u>	<u>55,143,474</u>
Interest expense	<u>\$ 202,754</u>	<u>3,040</u>	<u>—</u>	<u>—</u>	<u>205,794</u>
Depreciation and Amortization	<u>\$ 746,557</u>	<u>63,347</u>	<u>28,917</u>	<u>(16,541)</u>	<u>822,280</u>
Net investment income	<u>\$ 3,481,592</u>	<u>—</u>	<u>82,496</u>	<u>(3,498,975)</u>	<u>65,113</u>
Profit/Loss	<u>\$ 13,869,929</u>	<u>(9,081)</u>	<u>125,202</u>	<u>(3,547,204)</u>	<u>10,438,846</u>
Long-term investments accounted for by equity method	<u>\$ 10,033,423</u>	<u>—</u>	<u>794,266</u>	<u>(9,512,475)</u>	<u>1,315,214</u>
Capital expenditure of non-current asset	<u>\$ 13,824,935</u>	<u>205,362</u>	<u>2,703,811</u>	<u>(86,506)</u>	<u>16,647,602</u>
Total assets	<u>\$ 43,238,514</u>	<u>1,013,133</u>	<u>4,350,383</u>	<u>(10,059,456)</u>	<u>38,542,574</u>
Total liability	<u>\$ 18,751,367</u>	<u>410,998</u>	<u>63,213</u>	<u>(1,375,938)</u>	<u>17,849,640</u>

**(b)Geography information**

Sales from external customers:

Areas	2012	2011
Asia	\$ 39,939,004	45,762,858
Others	5,425,371	9,312,460
Total	<u>\$ 45,364,375</u>	<u>55,075,318</u>

Non-current asset:

Areas	2012	2011
Asia	\$ 11,801,878	13,107,255
Others	3,121,387	3,540,347
Total	<u>\$ 14,923,265</u>	<u>14,647,602</u>

(c)For the years ended December 31, 2012 and 2011, the TSRC group had no major customer who constituted 10% or more of the net sales, and therefore it is not necessary to disclose information about significant customers.

6.Any financial difficulty experienced by the company or its affiliates, and the effect brought by the difficulty upon the company's financial situation - None.

**Review and analysis of the company's  
financial condition and business  
performance, and risk management**

## Review and analysis of the company's financial condition and business performance, and risk management

### I. Financial condition:

Unit: NT\$1,000

Fiscal year Item	2012	2011	Variation	
			Amount	%
Current assets	5,257,379	6,970,348	(1,712,969)	-24.58%
Long-term investment	11,684,596	11,605,591	79,005	0.68%
Fixed assets	2,260,060	2,087,607	172,453	8.26%
Other assets	1,986,485	1,972,507	13,978	0.71%
Total assets	21,188,520	22,636,053	(1,447,533)	-6.39%
Current liabilities	4,106,642	3,955,914	150,728	3.81%
Other liabilities	1,272,110	1,512,689	(240,579)	-15.90%
Total liabilities	5,378,752	5,468,603	(89,851)	-1.64%
Capital stock	7,863,904	7,149,004	714,900	10.00%
Capital Surplus	69,003	69,003	0	0.00%
Retained earnings	7,269,599	8,984,752	(1,715,153)	-19.09%
Total shareholders' equity	15,809,768	17,167,450	(1,357,682)	7.91%

Notes to changes exceeding 20% of the ratio and amounted over NT\$10 million:

1. The reduced of liquid assets mainly came from The decrease of cash and cash equivalents resulting from the increase of reinvestment in this period.

## II. Business performance:

### (1) Analysis and Comparison of business performance

Unit: NT\$1,000

Fiscal year Item	2012	2011	Amount change	Percentage change (%)
Total operating revenue	17,075,794	20,629,837	(3,554,043)	-17.23%
Less: Return of sales	13,436	4,173	9,263	221.97%
Discount of sales	5,922	13,506	(7,584)	-56.15%
Net operating revenue	17,056,436	20,612,158	(3,555,722)	-17.25%
Cost of operation	14,744,081	16,093,130	(1,349,049)	-8.38%
Gross profit	2,312,355	4,519,028	(2,206,673)	-48.83%
Operating expenses	1,095,229	1,187,211	(91,982)	-7.75%
Business profit	1,217,126	3,331,817	(2,114,691)	-63.47%
Non-operating income	1,691,310	3,892,623	(2,201,313)	-56.55%
Non-operating expenses and loss	161,940	189,139	(27,199)	-14.38%
Net profit before tax	2,746,496	7,035,301	(4,288,805)	-60.96%
Less: income tax expenses	172,247	1,288,622	(1,116,375)	-86.63%
Cumulative effect of changes in accounting principles	—	4,914	(4,914)	N/A
Net profit of the current period	2,574,249	5,741,765	(3,167,516)	-55.17%

Notes to changes:

1. For analysis of the change in gross profit, please refer to the "Analysis of the change in gross profit" .
2. The reduced of non-operating income and profit mainly came from the reduced of investment income and dividend income recognized under the equity method.

Expected sales volume and the projection standards

Unit: ton

Name of product	2013	
	Expected sales volume	Projection standard
SBR 、BR 、TPE	196,795	Subject to the requirement of the market and customers
TPR	3,200	Subject to the requirement of the market and customers Forecast growth
Total	199,995	

**(2) Analysis of the change in gross profit**

Unit: NT\$1,000

Product	Change	Causes for changes			
		Difference in selling price	Difference in cost price	Difference in sale portfolio	Difference in quantity
Rubber products	(2,210,878)	(2,292,544)	368,428	(10,299)	(276,463)
Others	4,205				
Total	(2,206,673)				

Explanation: The reduced in gross profit this year over last year is a result of an reduced in the selling price more than that in the cost of raw materials.

**III. Cash flow:**

Unit: NT\$1,000

Cash balance at the beginning	Net cash flow from operating activities of the year	Cash inflow (outflow) of the year	Remainder (deficit) of cash	Remedy for insufficient cash	
				Investment plan	Financial plan
1,432,954	2,684,716	(3,512,369)	605,301	—	—

**(1) Analysis of change in cash flow in the current year:**

1. Operating activities: Mainly generated from the cash inflow of the income generated from operating activities at NT\$2,565,795,000 of assets, liabilities Net cash inflow arising from changes in NT\$118,921,000.
2. Investing activities: The net cash inflow from investing activities amounting to NT\$812,349,000 was mainly due to an increase in available-for-sale financial assets, NT\$ 10,250,000 purchase and construction of fixed assets, NT\$345,025,000 Of funds and investments increase, NT\$476,545,000.
3. Financing activities: Net cash flow from finances amounting to NT\$2,700,020,000 was mainly due to the increase short-term loans amounting to NT\$875,410,000, the decrease in long-term loans amounting to NT\$100,000,000 and the payout of cash dividends amounting to NT\$3,569,152,000.

**(2) Remedy for insufficient cash and analysis on volume: None****(3) Analysis of cash flow in the following year:**

Unit: NT\$1,000

Cash balance at the beginning(1)	Projected cash flow from operation of the year (2)	Projected cash outflow of the year(3)	Projected remainder (deficit) of cash (1)+(2)-(3)	Remedy for insufficient cash	
				Investment plan	Financial plan
605,301	1,589,000	(1,413,000)	781,301	—	—

**IV. Effect upon financial operations of any major capital expenditure: 2012 year not significant capital outlay plan****V. The company's reinvestment policy, the main reasons for profit/loss generated thereby the plan for improving re-investment profitability, and investment plans for the following year:**

Due to the European Debt Crisis and sluggish demand in China in 2012, as well as the drastic fluctuation of raw material price, the Company's operation and profit dropped slightly. In order to maintain the leadership in the synthetic rubber industry, the Company will develop new productivity in India and TSRC (Nantong) Industries Ltd. China next year to maintain the Company's entire operating performance.

**VI. Analysis and assessment of risk management****(1) The effect of interest rate and exchange rate fluctuation and inflation on the profit of the company and the countermeasures**

Interest rate: 40% of the balance of the Company's loan was a loan at USD. The US dollar funding interest rate in 2012 is slightly lower than that in 2011. The net expenses 2012 were NT\$24,704 thousand, i.e. 0.14% of the yearly operating revenue, which produced no material effect to the Company's operation. The Company will continue evaluating the income and expenditure of cash in the future manage the cash position and save interest expenses.

Exchange rate: In 2012, the major exposure of the Company in foreign currency was USD. The Company offset the exchange income generated from the change of foreign exchange rate applicable to the receivable accounts denominated by foreign currency against the exchange income generated from the short-term loan denominated by foreign currency to control possible effects from exchange rate fluctuation.

In 2012, the Company loss exchange interest amounting to NT\$2,699,000. In the future, the Company will continue to manage its net exposure position and take necessary measures for hedging in line with the fluctuation of exchange rates.

Inflation: The Executive Yuan Office of Budgeting, Accounting and Statistics announced that the CPI annual increase rate in Taiwan was 1.61% in 2012. Therefore, profits of the Company did not cause any effect.

**(2) Policy on high risk and high leverage investments, loans to a third party, guarantee and endorsement and derivative trade, and the main cause for profit or loss, and countermeasures**

The undertaking of high-risk and high-leverage activities and lending to a third party: The Company only acts in favor of investees appraised under the equity method in guarantees and endorsements, and engaged in derivative trade only for the control of exchange rate fluctuation through hedging as dictated by business needs. The Company will handle the said trades according to the existing "Procedure for asset acquisition and disposition", "Procedure for granting loan to others" and "Procedure for making endorsement/guarantee".

**(3) R&D spending in the future**

Unit: NT\$1,000

Project name	Expected R&D spending
High Performance SSBR Development for Green Tire	30,000
Consolidate high-level manufacturing process technology	20,000
Develop new-model environment-friendly TPE rubber materials.	30,000

**(4) Major change in government policies and laws domestically and overseas. The effect on the financial position and operation of the company, and countermeasures**

The company has always complied with government's laws and regulations and monitored the change in government policies and laws domestically and overseas. The change in government policies and laws in the country and overseas in the recent year did not cause any effect to the company's finance and operations.

**(5) The effect of the changes in technologies and industry on the financial position and operation of the company, and countermeasures: No**

**(6) The effect of change in corporate image on corporate crisis management and countermeasures:**

The Company adheres to the value highlighting honesty and integrity, reward for innovation and teamwork, namely, take social responsibility and continue innovation and development, cherish resources on the earth and enhance welfare for humans, fulfill business performance and become leading enterprise. Meanwhile, the Company is dedicated to providing high value-added products and systematic resolutions through the production process respecting environmental protection and, therefore, becomes the first priority of high polymer material suppliers. The Company will work with customers to create the competitive strength and complete the mission successfully. The Company's corporate identity highlighting the creation of fine-quality life for the social public remains unchanged. Also, no corporate risk took place in the Company.

**(7) Expected benefits from mergers and acquisitions, possible risk, and countermeasures: No**

**(8) Expected benefits from capacity and plant expansion, possible risk, and countermeasures: No**

**(9) Risk deriving from over concentration of purchase or sales:**

Purchase: Capacity of the suppliers of butadiene, the company's major raw material, is limited. In order to stabilize the source of raw materials and in consideration of the acquisition cost, the company entered into the supply contract with the domestic major suppliers to concentrate the supply. If the domestic suppliers suffer force majeure, the company still can acquire the raw material from foreign suppliers. Therefore, there is no likelihood of short supply of the raw materials.

Sales: The company's major customers are domestic and foreign tire suppliers. The company's financial structure is well-established, and the sales department will control the credit line of customers. The credit investigation on customers is conducted on an on-going basis. There are not likely to have credit risk.

**(10) The effect and risk from massive transfer of equity by or replacement of directors, supervisors or shareholders holdings more than 10% of the capital stock, and countermeasures: No**

**(11) The effect and the risk deriving from the change in management on the company, and countermeasures: No**

**(12) Litigious and non-litigious matters between the Company and the Company's directors, supervisors, presidents, responsible persons and top ten shareholders with more than 10% shareholding, and subsidiaries: No**

**(13) Other major risk and countermeasures: No**

**VII. Others important matters: No**

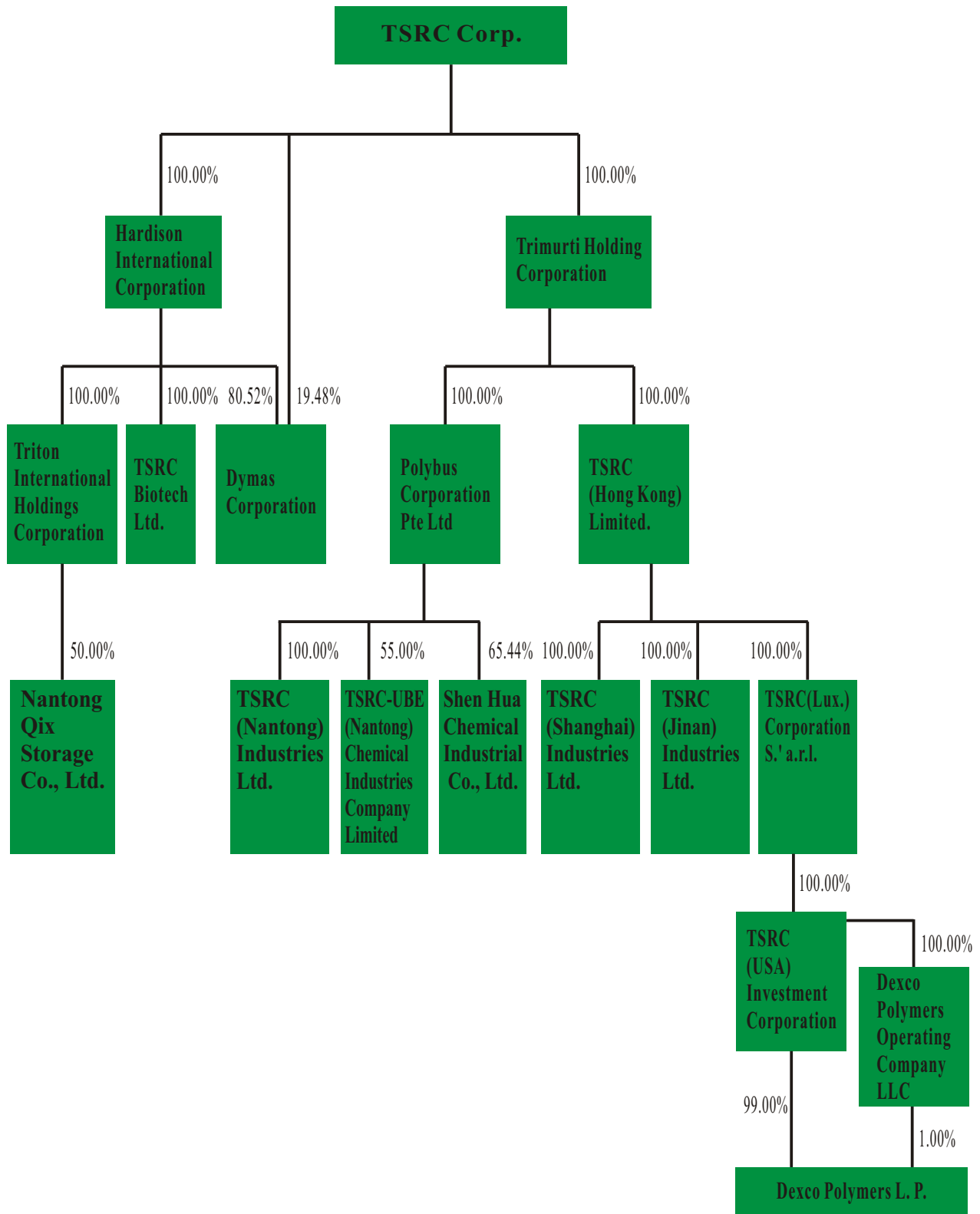
## Special Notices



## Special Notices

### I.Information about the company's affiliates

#### (1)Organizational chart of affiliates



## (2) Profiles of company's affiliates

Name of enterprise	Date of establishment	Address	Paid-in capital	Principal business
Trimurti Holding Corporation	1994.03.10	Palm Grove, House, P.O. Box 438, Road Town, Tortola, B.V.I.	USD86,920,000	Investment Corporation
Hardison International Corporation	1994.03.11	Palm Grove, House, P.O. Box 438, Road Town, Tortola, B.V.I.	USD3,896,000	Investment Corporation
Dymas Corporation	1991.03.19	Palm Grove, House, P.O. Box 438, Road Town, Tortola, B.V.I.	USD5,960,000	Investment Corporation
Polybus Corporation Pte Ltd	1995.02.25	9 Temasek Boulevard, 31F Suntec Tower 2, Singapore 038989	SGD105,830,000	Trading and investment corporation
TSRC (Hong Kong) Limited.	2008.03.19	Suite 2303 23F Great Eagle Centre 23 Harbour Road Wanchai HK	USD77,850,000	Investment Corporation
Triton International Holdings Corporation	1993.05.24	Palm Grove House P.O. Box 438, Road Town, Tortola, B.V.I.	USD50,000	Investment Corporation
TSRC Biotech Ltd.	1997.08.07	4 <sup>th</sup> Fl., Harbour Centre, P.O.BOX613, George Town, Grand Cayman	USD3,020,000	Investment Corporation
TSRC (Lux.) Corporation S.' a. r. l.	2011.07.26	37 rued avenue L1130 Luxembourg	EUR50,800,000	Trading and investment corporation
TSRC (USA) Investment Corporation	2011.01.27	2711 Centerville Road, Suite 400, Country of New Castle, Wilmington, Delaware, 19808	USD70,050,000	Investment Corporation
Dexco Polymers L. P.	2002.02.02	12012 Wickchester Lane, Suite 280, Houston, TX 77079	Note	Production and sale of synthetic rubber products
TSRC (Shanghai) Industries Ltd.	2001.02.22	No. 1406, Yu Shu Road, Hi-tech Park Songjiang Zone, Shanghai, P.R.C.	USD5,500,000	Production and sale of compounding materials
TSRC (Jinan) Industries Ltd.	2006.09.15	No. 666 LinGang St., Yao Qiang Town, Li Cheng Zone, Jinan City, Shan Dong, PRC.	USD2,250,000	Production and sale of reengineering plastic, plastic compound metal and plastic elasticity engineering products
Shen Hua Chemical Industrial Co., Ltd.	1996.03.29	NO.1 Shen Hua Road, Nantong Economic & Technology Development Area, Nantong Jiangsu, P.R.C.	USD41,220,000	Production and sale of synthetic rubber products
TSRC (Nantong) Industries Ltd.	2006.09.05	No. 22 Tong Wang Road, Nantong Economic & Technological Development Area, Nantong Jiangsu, P.R.C.	USD69,125,000	Production and sale of synthetic rubber products
TSRC-UBE (Nantong) Chemical Industries Company Limited	2006.12.06	No. 22 Tong Wang Road, Nantong Economic & Technological Development Area, Nantong Jiangsu, P.R.C.	USD40,000,000	Production and sale of synthetic rubber products
Nantong Qix Storage Co., Ltd.	2004.04.28	No. 111 He Xing Road, Nantong Economic & Technological Development Area, Nantong, Jiangsu, P.R.C.	USD3,000,000	Storehouse for chemicals

Note: TSRC (USA) Investment Corporation Dexco Polymers Operating Company LLC and Dexco Polymers L.P., a limited partner; another investment Dexco Polymers Operating Company LLC (Dexco LLC) as of the Dexco Polymers L.P. partner, and not an operating company, Thus, no information related to Dexco LLC is further disclosed.

## (3) Ruled as holdings by the same shareholders of the subsidiaries: No

**(4)The business covered by all group enterprises and breakdown thereof:**

Name of enterprise	Business covered	Affiliation with business	Breakdown
Trimurti Trading Corporation	Investment Corporation, reinvestment in Polybus Corporation Pte Ltd. and TSRC (Hong Kong) Limited and TSRC (USA) Investment Corporation	No	Recognized as the company's offshore investee
Hardison International Corporation	Investment Corporation, reinvestment in Dymas Corporation · Triton International Holdings Corporation and TSRC Biotech Ltd.	No	Recognized as the company's offshore investee
Dymas Corporation	Investment Corporation	No	Recognized as the company's offshore investee
Polybus Corporation Pte Ltd	Trading and investment corporation, reinvestment in Shen Hua Chemical Industrial, TSRC (Nantong) Industries Ltd. and TSRC-UBE (Nantong) Chemical Industries Company Limited	Yes	This company is an overseas subsidiary of the Company, Responsible for the part of the company's sales activities certain sales activities of TSRC (Nantong) Industries Ltd. and Shen Hua Chemical Industrial Co., Ltd.
TSRC (Hong Kong) Limited.	Investment Corporation, reinvestment in TSRC (Shanghai) Industries Ltd. and TSRC (Jinan) Industries Ltd. And TSRC(Lux.) Corporation S.' a. r. l.	No	Recognized as the company's offshore investee
Triton International Holdings Corporation	Investment Corporation, reinvestment in Nantong Qix Storage Co., Ltd. In Nantong	No	Recognized as the company's offshore investee
TSRC Biotech Ltd.	Investment Corporation	No	Recognized as the company's offshore investee
TSRC (Lux.) Corporation S.' a. r. l.	Trading and investment corporation, reinvestment in TSRC (USA) Investment Corporation	Yes	This company is an overseas subsidiary of the Company and is responsible for certain sales activities of Dexco Polymers L.P.
TSRC (USA) Investment Corporation	Investment Corporation, reinvestment in Dexco Polymers L. P. and Dexco Polymers Operating Company LLC	No	Recognized as the company's offshore investee
Dexco Polymers L. P.	Production and sale of synthetic rubber products	No	Recognized as the company's offshore investee. The company provides the information services of the Company
TSRC (Shanghai) Industries Ltd.	Production and sale of compounding materials	Yes	This organization is an overseas subsidiary of the Company. The Company sells certain products and provides management and technical services to this organization.
TSRC (Jinan) Industries Ltd.	Production and sale of reengineering plastic, plastic compound metal and plastic elasticity engineering products	Yes	The company's offshore investee, to which the company sells a part of formula to this company in management and technology services
Shen Hua Chemical Industrial Co., Ltd.	Production and sale of synthetic rubber products	Yes	This organization is an overseas subsidiary of the Company. The Company provides management and technical services to this organization.
TSRC (Nantong) Industries Ltd.	Production and sale of synthetic rubber products	Yes	Recognized as the company's offshore investee; The Company sold a part of the products and provided the management and technical service together with TSRC (Nantong) Chemical Industries Company Limited.
TSRC-UBE (Nantong) Chemical Industries Company Limited	Production and sale of synthetic rubber products	Yes	This organization is an overseas subsidiary of the Company. The Company provides management and technical services to this organization.
Nantong Qix Storage Co., Ltd.	Storehouse for chemicals	No	Recognized as the company's offshore investee

**(5) Profiles of Directors, Supervisors and Presidents of the company's affiliates:**

Name of enterprise	Job title	Name of representative	Shares held	
			Share(s)	Shareholding
Trimurti Holding Corporation	Director	Wei-Hua Tu	—	—
	Director	Hendrick Lam	—	—
	Director	John Chen	—	—
Hardison International Corporation	Director	Hendrick Lam	—	—
	Director	Wei-Hua Tu	—	—
Dymas Corporation	Director	Hendrick Lam	—	—
	Director	Wei-Hua Tu	—	—
Polybus Corporation Pte Ltd	Director	John Chen	—	—
	Director	George Kiang	—	—
	Director	Wei-Hua Tu	—	—
TSRC (Hong Kong) Limited.	Director	Wei-Hua Tu	—	—
	Director	Hendrick Lam	—	—
	Director	John Chen	—	—
TSRC (Lux.) Corporation S.' a. r. l.	Director	Wei-Hua Tu	—	—
	Director	Hendrick Lam	—	—
	Director	John Chen	—	—
	Director	Christopher J. Mudd	—	—
	Director	David Maria	—	—
	President	Juergen Schneider	—	—
TSRC (USA) Investment Corporation	Director	Otto Cheng	—	—
	Director	Danny Lee	—	—
	Director	Liang Chang	—	—
	Director	Wei-Hua Tu	—	—
	President	Wei-Hua Tu	—	—
Triton International Holdings Corporation	Director	Wei-Hua Tu	—	—
	Director	John Chen	—	—
TSRC Biotech Ltd.	Director	Wei-Hua Tu	—	—
	Director	Hendrick Lam	—	—
Dexco Polymers L.P.	President	Christopher J. Mudd	—	—
TSRC (Shanghai) Industries Ltd.	Chairman	Wei-Hua Tu	—	—
	Director	Kuo Huang-Cheng	—	—
	Director	Hendrick Lam	—	—
	Supervisor	John Chen	—	—
	President	Kuo Huang-Cheng	—	—
TSRC (Jinan) Industries Ltd.	Chairman	Wei-Hua Tu	—	—
	Director	Kuo Huang-Cheng	—	—
	Director	Hendrick Lam	—	—
	Supervisor	John Chen	—	—
	President	Sean Cheng	—	—
Shen Hua Chemical Industrial Co., Ltd.	Chairman	Wei-Hua Tu	—	—
	Director	John Chen	—	—
	Director	Gino C. Y. Chen	—	—
	Director	George Kiang	—	—
	Director	Jiang Chao Yang	—	—
	Director	Lu Qiang Xin	—	—
	Director	Tano Yasuhisa	—	—
	President	Jiang Chao Yang	—	—

Name of enterprise	Job title	Name of representative	Shares held	
			Share(s)	Shareholding
TSRC (Nantong) Industries Ltd.	Chairman	Wei-Hua Tu	—	—
	Director	Hendrick Lam	—	—
	Director	Chin-Bao Lu	—	—
	Supervisor	John Chen	—	—
	President	Chin-Bao Lu	—	—
TSRC-UBE (Nantong) Chemical Industries Company Limited	Chairman	Wei-Hua Tu	—	—
	Director	Gino C. Y. Chen	—	—
	Director	John Chen	—	—
	Director	Hideyuki Sugishita	—	—
	Director	Tano Yasuhisa	—	—
	Supervisor	Yoshihiro (Harry) Hirahara	—	—
	President	Jim Chien	—	—
Nantong Qix Storage Co., Ltd.	Chairman	Wei-Hua Tu	—	—
	Director	Jiang Chao Yang	—	—
	Director	Luo Delong	—	—
	Director	Ben Xuebing	—	—

**(6)Operation in Review of Affiliated Enterprises**

Unit: NT\$1,000

Name of enterprise	Capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating income (loss)	Gain/loss current period (after tax)	EPS after tax (NTD)
Trimurti Holding Corporation	2,528,961	11,975,896	2,347,578	9,628,318	0	-63,810	1,292,029	14.86
Hardison International Corporation	113,523	431,332	0	431,332	0	-153	44,153	9.99
Dymas Corporation	173,638	403,972	0	403,972	0	-33	50,397	7.62
Polybus Corporation Pte Ltd	2,097,792	7,395,298	343,748	7,051,550	1,189,557	-29,901	1,289,098	12.18
TSRC (Hong Kong) Limited.	2,268,238	2,583,757	1,359	2,582,398	0	-562	66,378	8.51
TSRC (Lux.) Corporation S.' a. r. l.	2,072,504	2,256,040	126,005	2,130,035	1,554,632	30,094	54,719	68.40
TSRC (USA) Investment Corporation	2,040,977	5,217,238	2,955,718	2,261,520	0	-28,849	19,653	0
Dexco Polymers L.P.	0	2,575,951	435,491	2,140,460	5,375,817	125,451	110,563	0
Triton International Holdings Corporation	1,457	102,121	0	102,121	0	-26	3,797	75.94
TSRC Biotech Ltd.	87,997	5	0	5	0	-25	-25	-0.01
TSRC (Shanghai) Industries Ltd.	160,248	376,569	111,312	265,257	448,586	29,088	21,696	0
TSRC (Jinan) Industries Ltd.	65,556	117,296	155,696	-38,400	115,523	-4,251	-8,606	0
Shen Hua Chemical Industrial Co., Ltd.	1,200,986	6,317,446	2,453,889	3,863,557	14,871,929	1,744,254	1,375,361	0
TSRC (Nantong) Industries Ltd.	1,278,633	5,111,214	2,362,275	2,748,939	2,805,505	228,162	395,580	0
TSRC-UBE (Nantong) Chemical Industries Company Limited	1,165,440	3,464,783	1,505,386	1,959,397	4,735,480	354,114	279,938	0
Nantong Qix Storage Co., Ltd.	87,408	242,097	56,226	185,871	49,115	7,607	7,590	0

(Note) Spot exchange rate on the balance sheet date under the title of assets=USD1:NTD 29.136.

Spot exchange rate on the balance sheet date under the title of income=USD1:NTD 29.6176.

**II.State of the company's private placement of marketable securities: No.****III.Holding or disposal of the company's shares by the company's subsidiaries: No.****IV.Other matters to be supplemented Number**

## Other disclosures

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## Other disclosures

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### **I.The relevant license acquired by the personnel related to transparency of financial information as specified by the competent authority**

Basic proficiency test of enterprise internal control held by Securities and Futures Institute (SFI): 4 persons in Accounting Department

The R.O.C. Qualified Internal Auditors: 2 persons in Audit Office and 1 persons in Accounting Department

License for Share Registration Personnel from Securities and Futures Institute: 5 persons in Accounting Department

CPA license: 1 persons in Finance Department and 1 persons in Accounting Department

### **II.Employees' ethics**

The Company published the “Code of Dutiful Conduct” for the employees in 2002, followed by 5 amendments which clearly specifying that, in performing relevant internal and external company tasks under their duties in the company, employees must comply with the regulations about the effective utilization of resources and assets, the protection of trade secrets, the prohibition of insider trading, anti-trust rules, fair trade, avoidance of conflict between the company and personal interests, avoidance of private benefits, the prohibition of bribery, and regulations for network use and second jobs. Corresponding sanctions are also put in place.

### **III.Protection measures for working environment and employees' safety**

The company holds emergency response actions, disaster prevention and safety training, annual health inspection, health symposiums and metal philosophy consultations to ensure the working environment and employees' safety. Meanwhile, according to the update Safety Policy in 2005, the company also discloses that its core value focuses on human beings and pursues the zero disaster through the operations of technology, safety culture, responsibility and communication.



**Any circumstances referred to in Paragraph 2(2) of Article 36 of the Securities and Exchange Act which might materially affect shareholders' equity or the price of the company's securities**

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**Any circumstances referred to in Paragraph 2(2) of Article 36 of the Securities and Exchange Act which might materially affect shareholders' equity or the price of the company's securities-No.**

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**TSRC Corporation**

Chairman:Shao Yu Wang



## **TSRC CORPORATION**

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