

# **SESODA CORPORATION**

**2019 ANNUAL REPORT**



## Report to Shareholders

Enterprises have been conservative under the influence of the China-US trade war since the second half of 2018, to the extent that exports from major countries have declined. Taiwan has also been affected economically. However, the relocation of industrial facilities triggered by the trade war allowed for export growth in Taiwan in Q3 of 2019.

This optimistic perspective previously held that once China and the US reached preliminary agreements on trade, the tension would be eased. Unfortunately, the outbreak of COVID-19 made all previous forecasts inapplicable or adjusted downward. If the pandemic escalates beyond control, the impact would be highly detrimental.

The overall performance of the Company's potassium sulfate products was subpar last year mainly because Mainland China bolstered its exports with the elimination of the export taxes. Climate change and capacity expansion in the markets resulted in over-supply such that the market price stayed low for most of the time. The discontinuation of operations at the Company's Suao Plant in 2018 lasted until Q1 of 2019, which made the operations incomparable with the same period of the previous year. Fortunately, the direct investment in marine transport performed well albeit marginally, with the 14th and 15th new vessels commissioned to service which helped strengthen the profitability performance of the Company.

The outbreak of COVID-19 at the beginning of 2020 made the market situation unpredictable. The inquiry into the potassium sulfate market in the 1st quarter showed signs of growth for the time being. Whether or not the switching of orders from Mainland China under the influence of the pandemic could turn into real job orders, with acceptable price offers, are indicators that require further observation. In Taiwan, the upward adjustment of basic salaries and the backflow trickledown of capital investment by Taiwanese firms helped stimulate consumption in the private sector. Yet, the possible influence of the pandemic and the momentum of consumption rates in the domestic market are still uncertain. As for export sales, the backflow of capital investment by Taiwanese firms did yield an ongoing positive effect, but the influence of COVID-19 on most countries made all forecasting irrelevant. It is expected that the export performance of Taiwan in 2020 will not be optimistic.

Net sales in 2019 amounted to NT\$2,757,197 thousand, which was a decline of 2.52% from NT\$2,828,375 thousand in the same period of 2018. The drop in sale volume was the primary cause of the decline.

The operating income of the Company in 2019 amounted to NT\$51,797 thousand with a net income of NT\$ 274,641 thousand, which was a decrease of NT\$191,316 thousand (approximately -78.69%) and NT\$76,593 thousand (approximately -21.79%) in the same period of 2018 respectively. The rise in

material prices for self-manufactured items was the main cause of the decrease in operating income.

The control of COVID-19 worldwide and the subsequent development of the China-US trade war are vital factors affecting the global economy and also the economic performance of Taiwan. This is particularly the case for traditional industries such as textiles, petrochemicals, and iron and steel. For the macro economy and the industries of Taiwan, exports and investment will still be conditional on the control of the pandemic worldwide and subsequent developments in the China-US trade war. Such influence could be exerted through the financial market which would in turn influence the performance of domestic consumption as expressed in relevant data. This will be the primary factor affecting Taiwan in 2020. Likewise, the severance of the supply chain from China compelled Taiwan to appeal to other sources of products. In addition, the low Sulphur order of the International Maritime Organization will be effective in 2020. This is coupled with the low international crude oil price. These problems simply cannot be overlooked and will make operations in this year more complicated.

As for domestic sales, the Company also faces high competition in products due to the aforementioned situations, since the Company is in the basic chemical engineering industry. In the 1st quarter of the year, domestic sales have been handicapped by the low capacity utilization rate following material shortages caused by the uncertainty of the pandemic in Mainland China, to the extent that there is a scarcity of competitive items from suppliers. Hopefully, sale prices can be maintained at the same level.

COVID-19 caused a sudden drop in the demand for bulk materials since the beginning of 2020, such that the transport price index in market plummeted. At this point in time, vessels requiring renewal of contracts are significantly affected. Economic activities in Mainland China have shown signs of recovery since April 2020, but global economic recovery is yet to come.

Uncertainty within the macroeconomic environment will be intensified this year. The sustained tension in international trade and the proliferation of the pandemic will certainly hamper global economic growth. Yet, the entire Company will spare no effort in tackling the changes in the market to give assurance of sustainable development of the Company, by means of an adequate production capacity, flexible modes of operation, and the strengthening of competitive powers.

Finally, I would very much like to thank all the Shareholders, Directors and staff for their support. May I wish you all good health and good luck.

R. Y. Chen  
Chairman  
SESODA CORPORATION



安侯建業聯合會計師事務所

KPMG

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

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

## Independent Auditor's Report

The Board of Directors  
Sesoda Corporation:

We have audited, in accordance with Republic of China generally accepted auditing standards and the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accounts, the consolidated balance sheets of Sesoda Corporation and subsidiaries (the Consolidated Companies) as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended. In our report dated March 27, 2020, based on our audits, we expressed an unqualified opinion on the Consolidated Companies' consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

KPMG

March 27, 2020

SESODA CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018  
(expressed in thousands of New Taiwan dollars)

	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 720,977	6	1,117,846	9
Financial assets at fair value through profit or loss – current	-	-	4,842	-
Notes receivable	153,218	1	176,751	2
Accounts receivable, net	429,517	4	279,927	2
Current tax assets	111	-	-	-
Inventories	422,776	3	389,716	3
Other financial assets – current	28,523	-	15,476	-
Other current assets	121,943	1	105,340	1
<b>Total current assets</b>	<b>1,877,065</b>	<b>15</b>	<b>2,089,898</b>	<b>17</b>
<b>Non-current assets:</b>				
Financial assets at fair value through profit or loss – non-current	3,026	-	-	-
Financial assets at fair value through other comprehensive income – non-current	241,156	2	212,873	2
Prepayments for investment	351	-	-	-
Investments accounted for using equity method	425,648	4	412,313	4
Property, plant and equipment	9,970,017	79	8,946,803	73
Right-of-use assets	23,625	-	-	-
Deferred tax assets	2,212	-	1,837	-
Prepayments for equipment	6,363	-	518,489	4
Refundable deposits	9,007	-	8,764	-
Net defined benefit assets	16,569	-	4,660	-
Other non-current assets	982	-	1,389	-
<b>Total non-current assets</b>	<b>10,698,956</b>	<b>85</b>	<b>10,116,128</b>	<b>83</b>
<b>Total assets</b>	<b>\$ 12,576,021</b>	<b>100</b>	<b>12,206,026</b>	<b>100</b>
<b>Liabilities and equity</b>				
<b>Current liabilities:</b>				
Short-term borrowings	\$ 984,730	8	-	-
Long-term borrowings – current portion	478,216	4	-	-
Accounts payable	192,784	2	207,530	2
Other payables	307,242	2	250,129	2
Current tax liabilities	542	-	23,833	-
Current lease liabilities	7,226	-	-	-
Other current liabilities	54,325	-	45,787	-
<b>Total current liabilities</b>	<b>2,025,065</b>	<b>16</b>	<b>2,149,825</b>	<b>18</b>
<b>Non-current liabilities:</b>				
Long-term borrowings	4,167,370	33	3,847,275	32
Deferred tax liabilities	434,722	4	408,377	3
Non-current lease liabilities	16,636	-	-	-
<b>Total non-current liabilities</b>	<b>4,618,728</b>	<b>37</b>	<b>4,255,652</b>	<b>35</b>
<b>Total liabilities</b>	<b>6,643,793</b>	<b>53</b>	<b>6,405,477</b>	<b>53</b>
<b>Equity attributable to owners of parent:</b>				
Common stock	2,115,203	17	2,014,479	16
Capital surplus	17,420	-	15,924	-
Retained earnings:				
Legal reserve	938,804	7	903,685	7
Special reserve	131,930	1	215,821	2
Unappropriated retained earnings	2,760,702	22	2,636,494	22
Other equity:	3,831,436	30	3,756,000	31
Exchange differences on translation of foreign financial statements	(68,465)	-	16,717	-
Unrealized gains or losses on financial assets measured at fair value through other comprehensive income	36,634	-	(2,571)	-
	(31,831)	-	14,146	-
Total equity attributable to owners of parent	5,932,228	47	5,800,549	47
<b>Total liabilities and equity</b>	<b>\$ 12,576,021</b>	<b>100</b>	<b>12,206,026</b>	<b>100</b>



**SESODA CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

**For the years ended December 31, 2019 and 2018**  
(expressed in thousands of New Taiwan dollars, except earnings per share)

	<b>2019</b>		<b>2018</b>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>Operating revenue</b>	\$ 4,343,168	100	4,068,623	100
<b>Operating cost</b>	<u>3,324,057</u>	<u>77</u>	<u>3,027,176</u>	<u>74</u>
<b>Gross profit</b>	<u>1,019,111</u>	<u>23</u>	<u>1,041,447</u>	<u>26</u>
<b>Operating expenses:</b>				
Selling expenses	295,328	7	286,156	7
Administrative expenses	273,006	6	245,590	6
Expected credit losses recognized (reversed)	<u>1,303</u>	<u>-</u>	<u>(8,653)</u>	<u>-</u>
<b>Total operating expenses</b>	<u>569,637</u>	<u>13</u>	<u>523,093</u>	<u>13</u>
<b>Operating income</b>	<u>449,474</u>	<u>10</u>	<u>518,354</u>	<u>13</u>
<b>Non-operating income and expenses:</b>				
Other income	16,554	-	5,924	-
Other gains and losses	38,653	1	39,852	1
Finance costs	(198,556)	(4)	(149,933)	(3)
Share of gain of associates accounted for using equity method	<u>16,264</u>	<u>-</u>	<u>8,510</u>	<u>-</u>
<b>Total non-operating income and expenses</b>	<u>(127,085)</u>	<u>(3)</u>	<u>(95,647)</u>	<u>(2)</u>
<b>Net income before tax</b>	322,389	7	422,707	11
<b>Income tax expense</b>	<u>47,748</u>	<u>1</u>	<u>70,971</u>	<u>2</u>
<b>Net income</b>	<u>274,641</u>	<u>6</u>	<u>351,736</u>	<u>9</u>
<b>Other comprehensive income:</b>				
Items that may not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation	7,818	-	8,165	-
Unrealized gain or loss from financial assets measured at fair value through other comprehensive income	35,515	1	(44,519)	(1)
Share of other comprehensive gain or loss of associates accounted for using equity method	(321)	-	352	-
Income tax related to items that may not be reclassified subsequently	<u>1,564</u>	<u>-</u>	<u>951</u>	<u>-</u>
	<u>41,448</u>	<u>1</u>	<u>(36,953)</u>	<u>(1)</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign financial statements	(84,834)	(2)	99,347	2
Share of other comprehensive gain or loss of associates accounted for using equity method	(348)	-	277	-
Income tax related to items that may be reclassified subsequently	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(85,182)</u>	<u>(2)</u>	<u>99,624</u>	<u>2</u>
Total other comprehensive income	<u>(43,734)</u>	<u>(1)</u>	<u>62,671</u>	<u>1</u>
<b>Total comprehensive income</b>	\$ <u>230,907</u>	<u>5</u>	\$ <u>414,407</u>	<u>10</u>
<b>Net income attributable to:</b>				
Owners of parent	\$ 274,641	6	351,180	9
Non-controlling interests	<u>-</u>	<u>-</u>	<u>556</u>	<u>-</u>
	\$ <u>274,641</u>	<u>6</u>	\$ <u>351,736</u>	<u>9</u>
<b>Comprehensive income attributable to:</b>				
Owners of parent	\$ 230,907	5	413,851	10
Non-controlling interests	<u>-</u>	<u>-</u>	<u>556</u>	<u>-</u>
	\$ <u>230,907</u>	<u>5</u>	\$ <u>414,407</u>	<u>10</u>
<b>Basic earnings per share of common stock (expressed in New Taiwan dollars)</b>	\$ <u>1.30</u>		<u>1.66</u>	
<b>Diluted earnings per share of common stock (expressed in New Taiwan dollars)</b>	\$ <u>1.29</u>		<u>1.65</u>	

**SESODA CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Changes in Equity**

**For the years ended December 31, 2019 and 2018**  
(expressed in thousands of New Taiwan dollars)

	Total equity attributable to owners of parent									
	Retained earnings					Other equity interest				
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total	Exchange differences on translation of foreign financial statements	Unrealized gain or loss on financial assets measured at fair value through other comprehensive income	Total	Total equity attributable to owners of parent
<b>Balance as of January 1, 2018</b>	\$ 2,014,479	13,967	854,604	131,971	2,613,286	3,599,861	(82,907)	42,643	(40,264)	5,588,043
Appropriation of retained earnings:										
Legal reserve	-	-	49,081	-	(49,081)	-	-	-	-	-
Special reserve	-	-	-	83,850	(83,850)	-	-	-	-	-
Cash dividends	-	-	-	-	(201,448)	(201,448)	-	-	-	(201,448)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(1,209)
Net income in 2018	-	-	-	-	351,180	351,180	-	-	-	351,180
Other comprehensive income in 2018	-	-	-	-	7,566	7,566	99,624	(44,519)	55,105	62,671
Total comprehensive income in 2018	-	-	-	-	358,746	358,746	99,624	(44,519)	55,105	413,851
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	260	260	-	(260)	(260)	-
Changes in ownership interests in subsidiaries	-	-	-	-	(2,101)	(2,101)	-	-	-	(2,101)
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	(8,381)
Changes in equity of associates accounted for using equity method	-	468	-	-	682	682	-	(435)	(435)	715
Changes in capital surplus	-	1,489	-	-	-	-	-	-	-	1,489
<b>Balance as of December 31, 2018</b>	2,014,479	15,924	903,685	215,821	2,636,494	3,756,000	16,717	(2,571)	14,146	5,800,549
Appropriation of retained earnings:										
Legal reserve	-	-	35,119	-	(35,119)	-	-	-	-	-
Cash dividends	-	-	-	-	(100,724)	(100,724)	-	-	-	(100,724)
Stock dividends	100,724	-	-	-	(100,724)	(100,724)	-	-	-	-
Reversal of special reserve	-	-	-	(83,891)	83,891	-	-	-	-	-
Net income in 2019	-	-	-	-	274,641	274,641	-	-	-	274,641
Other comprehensive income in 2019	-	-	-	-	5,933	5,933	(85,182)	35,515	(49,667)	(43,734)
Total comprehensive income in 2019	-	-	-	-	280,574	280,574	(85,182)	35,515	(49,667)	230,907
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-
Changes in equity of associates accounted for using equity method	-	-	-	-	(3,690)	(3,690)	-	3,690	3,690	-
Changes in capital surplus	-	13	-	-	-	-	-	-	-	13
Changes in equity of associates accounted for using equity method	-	1,483	-	-	-	-	-	-	-	1,483
<b>Balance as of December 31, 2019</b>	\$ 2,115,203	17,420	938,804	131,930	2,760,702	3,831,436	(68,465)	36,634	(31,831)	5,932,228

# SESODA CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018  
(expressed in thousands of New Taiwan dollars)

	<u>2019</u>	<u>2018</u>
<b>Cash flows from (used in) operating activities:</b>		
Net income before tax	\$ 322,389	422,707
Adjustments		
Adjustments to reconcile profit and loss		
Depreciation	464,142	372,748
Expected credit loss recognized (reversed)	1,303	(8,653)
Loss (gain) on financial assets at fair value through profit or loss	(252)	158
Interest expense	198,556	149,933
Interest income	(7,745)	(4,304)
Dividend income	(8,809)	(1,620)
Share of gain of associates accounted for using equity method	(16,264)	(8,510)
Loss (gain) on disposal of property, plant and equipment	(1,143)	1,135
Property, plant and equipment transferred to expenses	39,625	41,742
Gain on disposal of associates accounted for using equity method	(1,197)	-
Total adjustments to reconcile profit and loss	<u>668,216</u>	<u>542,629</u>
Changes in operating assets:		
Decrease in financial assets at fair value through profit or loss	5,066	-
Decrease in notes receivable	23,533	48,626
(Increase) decrease in accounts receivable	(150,893)	72,250
Decrease in other receivable from related parties	-	7
(Increase) decrease in inventories	(33,434)	16,755
Increase in other current assets	(16,711)	(11,717)
(Increase) decrease in other financial assets – current	(10,080)	2,506
Increase in net defined benefit assets	(4,091)	-
Total changes in operating assets, net	<u>(186,610)</u>	<u>128,427</u>
Changes in operating liabilities:		
Decrease in accounts payable	(14,746)	(130,859)
Increase in other payables	81,344	20,412
Increase (decrease) in other current liabilities	8,538	(5,333)
Decrease in net defined benefit liabilities	-	(3,875)
Total changes in operating liabilities, net	<u>75,136</u>	<u>(119,655)</u>
Total changes in operating assets and liabilities, net	<u>(111,474)</u>	<u>8,772</u>
Total adjustments	<u>556,742</u>	<u>551,401</u>

(Continued)



# SESODA CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Cash Flow

For the years ended December 31, 2019 and 2018

(expressed in thousands of New Taiwan dollars)

	<u>2019</u>	<u>2018</u>
Cash inflow generated from operations	\$ 879,131	974,108
Interest received	8,737	2,329
Dividends received	18,234	34,521
Interest paid	(208,502)	(148,146)
Income tax paid	<u>(46,795)</u>	<u>(102,324)</u>
<b>Net cash flows from operating activities</b>	<u>650,805</u>	<u>760,488</u>
<b>Cash flows from (used in) investing activities:</b>		
Proceeds from disposal of financial assets at fair value through other comprehensive income	-	6,601
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	-	1,827
Acquisition of financial assets at fair value through profit or loss	(3,106)	(5,000)
Acquisition of associates accounted for using equity method	-	(31,134)
Proceeds from disposal of associates accounted for using equity method	2,954	-
Acquisition of property, plant and equipment	(1,225,731)	(1,458,844)
Proceeds from disposal of property, plant and equipment	1,143	1,905
Increase in refundable deposits	(243)	(5,870)
Decrease in other non-current assets	407	1,406
<b>Net cash used in investing activities</b>	<u>(1,224,576)</u>	<u>(1,489,109)</u>
<b>Cash flows from (used in) financing activities:</b>		
Increase in short-term loans	5,984,599	4,983,794
Repayments of short-term loans	(6,110,374)	(4,431,325)
Increase in long-term loans	1,038,634	1,050,624
Repayments of long-term loans	(565,338)	(302,068)
Payment of lease liabilities	(6,985)	-
Cash dividends paid	(100,724)	(201,448)
Dividends paid to non-controlling interests	-	(1,209)
Changes in non-controlling interests	-	(8,381)
Previous years' cash dividends received	<u>1,483</u>	<u>1,489</u>
<b>Net cash flows from financing activities</b>	<u>241,295</u>	<u>1,091,476</u>
<b>Effects of changes in foreign exchange rates</b>	<u>(64,393)</u>	<u>5,389</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<u>(396,869)</u>	<u>368,244</u>
<b>Cash and cash equivalents at beginning of year</b>	<u>1,117,846</u>	<u>749,602</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>\$ 720,977</u></u>	<u><u>1,117,846</u></u>

總公司: 台北市敦化南路二段99號23樓  
電 話: (02) 2704-7272〔代表〕  
傳 真: (02) 2704-3380

蘇澳總廠: 宜蘭縣蘇澳鎮新城一路120號  
電 話: (03) 990-5121〔代表〕  
傳 真: (03) 990-3235

彰化廠: 彰化縣伸港鄉工西一路1之6號  
電 話: (04) 798-8931  
傳 真: (04) 798-8933

台中廠: 台中市大甲區工十路12號  
電 話: (04) 2681-6685  
傳 真: (04) 2681-6686

**Headquarters:**  
23F., No.99, Sec. 2, Dunhua S. Rd., Taipei City, Taiwan, R.O.C.  
Tel: (02)2704-7272  
Fax: (02)2704-3380

**Suao Plant:**  
No.120, Xincheng 1st Rd., Su' ao Township,  
Yilan County, Taiwan, R.O.C.  
Tel: (03)990-5121 Fax: (03)990-3235

**Chang Hwa Plant:**  
No.1-6, Gongxi 1st Rd., Shengang Township,  
Changhua County, Taiwan, R.O.C.  
Tel: (04)798-8931 Fax: (04)798-8933

**Tai Chung Plant:**  
No.12, Gong 10th Rd., Dajia Dist,  
Taichung City, Taiwan, R.O.C.  
Tel: (04)2681-6685 Fax: (04)2681-6686

