

SESODA CORPORATION

2016 ANNUAL REPORT



Report to Shareholders

Reviewing the global economic and political situation in 2016, endless black swan incidents occurring both domestically and internationally, which aggravates originally fragile economic prospect and impacts various confidence indicators. Unsettling refugee situation in Eastern Europe and Brexit, not only affect European political circle, but also causes populism arises. China's economy slows down and its over supply weakens the demands of commodities and raw materials, jointly, impacts shipping industries, makes the export-centric countries face severe stagnant growth; luckily the economic related indicators improve from the fourth quarter, the new U.S. president, Trump, whose wavering international trading policies might have another wave of bumpiness, the global economic growth is therefore still lack-of-confidence situation.

The company's main business is fertilizer industry, overall industry in 2016 was under the impact of global climate changes and lack of consumer confidence, the prices of agricultural products dropped gradually, hence reduced the demand of fertilizer; fortunately, benefited from the company's diversified market sales strategy, it effectively reduced the risk of over-dependent on single market, all the Company's potassium sulfate product produced were sold, and the unit profit could maintain at a reasonable level; on the basic chemical business that are mainly trading items, although the demand slowdown and the market price falls, still could maintain profitability; for the reinvestment in shipping industry, under the condition of global shipping downturn, the shipping freight continues staying at the rock bottom, this part of operation is under a relative tough position; and another reinvestment in optical communication electronics company, the strong demand for cloud computing and 4G telecommunication products, it has contributed considerable profit to the Company.

Looking at coming year, the atmosphere to international economic situation seems to become more optimistic, but the new U.S. government's attitude and policy toward international free trade, and the elections in several EU countries, plus the suspicion toward mainland China's economic growth, all might cause fast changes to overall economic situations, the Company needs to be very careful and conservative to counter the ever-changing international situation.

The Company's net operating income for 2016 is 3,103,366,000 NT dollars, a slide of 15.8% from the 3,685,732,000 NT dollars of 2015. Analyzing the reasons, the key is the falling sales prices, however the sales volume sustains as in 2015, and all the products made are sold.

The net operating earnings for 2016 compares to in 2015 is 456,301,000 NT dollars which decreased 358,375,000 NT dollars (about -44.0%), and the net profit after tax is 572,140,000 NT dollars that increased 119,425,000 NT dollars (about +26.4%) respectively. The reduction in operation profit is the expansion in SOP capacity worldwide in 2015, in addition to poor demand and falling market price in global fertilizer market in 2016; and the non-operation revenue/expenses includes the recognized asset impairment in the shipping subsidiary is 171,418,000 NT dollars, and the recognition of operation profit in East Tender Optoelectronic Corporation and the gain from disposal of East Tender Optoelectronic Corporation's stocks is 335,304,000 NT dollars, hence the net profit after tax increase compared with those of 2015.

Looking at the year of 2017, the overall wholesale agricultural products and commodity have shown signs of steady recovery. The company's potassium sulfate fertilizer shall remain stable, the expectation for falling price in the market is relieved, in addition, the Company's diversified sales strategy has been proven succeed, as usual that all the product produced is to be sold and can have a certain amount of profit. Other chemical products would be impacted by China market, it is expected that Mainland China would continue to enforce environmental protection and to control supplier side of chemical industry, hence the market price would be relatively stable.

Bulk shipping should be benefited by the increase in the demand for commodity and raw material and the reduction in the shipping space supply, hence the price could slowly climb from the rock bottom; another reinvestment enterprise, Easter Tender Optoelectronic Corporation, is expected to be continuously benefited by the hot demand for consumer products and cloud related products, the company would keep good profitability and smoothly to be listed in the stock market within this year.

The overall environment looks promising from current situation, there still exist many variables; the Company staff will continue to contribute our best to keep the Company grow and thrive.

Finally, we want to express our deepest appreciations to our shareholders, directors, supervisors and all staff in the Company, and wish everybody 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 Auditors' 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, 2016 and 2015, 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, 2017, 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.



March 27, 2017

Consolidated Balance Sheets

December 31, 2016 and 2015
(expressed in thousands of New Taiwan dollars)

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SESODA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

(expressed in thousands of New Taiwan dollars, except for earnings per share)

	2016		2015	
	Amount	%	Amount	%
Operating revenue	\$ 4,114,685	100	4,594,088	100
Operating cost	<u>2,874,499</u>	<u>70</u>	<u>3,118,333</u>	<u>68</u>
Gross profit	<u>1,240,186</u>	<u>30</u>	<u>1,475,755</u>	<u>32</u>
Operating expenses:				
Selling expenses	340,223	8	336,895	7
General and administrative expenses	238,343	6	202,738	4
Research and development expenses	<u>5,714</u>	<u>-</u>	<u>3,581</u>	<u>-</u>
Total operating expenses	<u>584,280</u>	<u>14</u>	<u>543,214</u>	<u>11</u>
Operating income	<u>655,906</u>	<u>16</u>	<u>932,541</u>	<u>21</u>
Non-operating income and expenses:				
Other income	1,055	-	1,724	-
Other gains and losses	123,704	2	(283,147)	(6)
Finance costs	(58,861)	(1)	(40,697)	(1)
Share of gain of associates and joint ventures accounted for using equity method	<u>735</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating income and expenses	<u>66,633</u>	<u>1</u>	<u>(322,120)</u>	<u>(7)</u>
Net income before tax	722,539	17	610,421	14
Income tax expense	<u>95,744</u>	<u>2</u>	<u>127,792</u>	<u>3</u>
Net income	<u>626,795</u>	<u>15</u>	<u>482,629</u>	<u>11</u>
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation	(9,137)	-	(253)	-
Income tax related to items that will not be reclassified subsequently	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(9,137)</u>	<u>-</u>	<u>(253)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign financial statements	(50,062)	(1)	89,587	2
Unrealized gains or losses on available-for-sale financial assets	(2,279)	-	400	-
Income tax related to items that may be reclassified subsequently	<u>3,725</u>	<u>-</u>	<u>(5,841)</u>	<u>-</u>
	<u>(48,616)</u>	<u>(1)</u>	<u>84,146</u>	<u>2</u>
Total other comprehensive income	<u>(57,753)</u>	<u>(1)</u>	<u>83,893</u>	<u>2</u>
Total comprehensive income	\$ <u>569,042</u>	<u>14</u>	\$ <u>566,522</u>	<u>13</u>
Net income attributable to:				
Owners of parent	\$ 572,140	14	452,715	10
Non-controlling interests	<u>54,655</u>	<u>1</u>	<u>29,914</u>	<u>1</u>
	\$ <u>626,795</u>	<u>15</u>	\$ <u>482,629</u>	<u>11</u>
Comprehensive income attributable to:				
Owners of parent	\$ 514,387	13	536,673	12
Non-controlling interests	<u>54,655</u>	<u>1</u>	<u>29,849</u>	<u>1</u>
	\$ <u>569,042</u>	<u>14</u>	\$ <u>566,522</u>	<u>13</u>
Basic earnings per share of common stock (expressed in New Taiwan dollars)	\$ <u>2.98</u>		\$ <u>2.36</u>	
Diluted earnings per share of common stock (expressed in New Taiwan dollars)	\$ <u>2.96</u>		\$ <u>2.34</u>	

SESODA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015
(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 gains on available-for-sale financial assets	Total	Total equity attributable to owners of parent
Balance as of January 1, 2015	\$ 1,740,182	10,300	687,141	132,128	1,963,749	2,783,018	106,240	12	106,252	4,639,752
Appropriation of retained earnings:										
Legal reserve	-	-	64,978	-	(64,978)	-	-	-	-	-
Cash dividends	-	-	-	-	(261,027)	(261,027)	-	-	-	(261,027)
Stock dividends	87,009	-	-	-	(87,009)	(87,009)	-	-	-	-
Reversal of special reserve	-	-	-	(66)	66	-	-	-	-	-
Changes in ownership interests in subsidiaries	-	498	-	-	-	-	-	-	-	-
Net income in 2015	-	-	-	-	452,715	452,715	-	-	-	498
Other comprehensive income	-	-	-	-	118	118	83,428	412	83,840	29,914
Total comprehensive income	-	-	-	-	452,833	452,833	83,428	412	83,840	29,914
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	(65)
Balance as of December 31, 2015	1,827,191	10,798	752,119	132,062	2,003,634	2,887,815	189,668	424	190,092	4,915,896
Appropriation of retained earnings:										
Legal reserve	-	-	45,272	-	(45,272)	-	-	-	-	-
Cash dividends	-	-	-	-	(91,360)	(91,360)	-	-	-	(91,360)
Stock dividends	91,360	-	-	-	(91,360)	(91,360)	-	-	-	-
Reversal of special reserve	-	-	-	(56)	56	-	-	-	-	-
Changes in ownership interests in subsidiaries	-	(9)	-	-	-	-	-	-	-	(9)
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(942)
Net income in 2016	-	-	-	-	572,140	572,140	-	-	-	54,655
Other comprehensive income	-	-	-	-	(9,137)	(9,137)	(46,337)	(2,279)	(48,616)	(57,753)
Total comprehensive income	-	-	-	-	563,003	563,003	(46,337)	(2,279)	(48,616)	54,655
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	(176,430)
Balance as of December 31, 2016	\$ 1,918,551	10,789	797,391	132,006	2,338,701	3,268,098	143,331	(1,855)	141,476	5,338,914
										6,646
										5,345,560



SESODA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015
(expressed in thousands of New Taiwan dollars)

	2016	2015
Cash flows from operating activities:		
Net income before tax	\$ <u>722,539</u>	<u>610,421</u>
Adjustments		
Adjustments to reconcile profit and loss		
Depreciation	284,152	327,599
Provision for allowance for doubtful accounts and sales discount	10,267	6,816
Share-based payments	1,790	766
Share of gain of associates and joint ventures accounted for using equity method	(735)	-
Loss on disposal of property, plant and equipment	7,929	6,322
Gain on sale of investments	(2,234)	(34,088)
Gain on disposal of investments accounted for using equity method	(278,274)	-
Gain on financial assets at fair value through profit	(108)	(203)
Impairment loss on non-financial assets	171,418	332,777
Property, plant and equipment transferred to expenses	30,201	28,067
Interest income	(853)	(1,299)
Interest expense	58,861	40,697
Dividend income	<u>(161)</u>	<u>(425)</u>
Total adjustments to reconcile profit and loss	<u>282,253</u>	<u>707,029</u>
Changes in operating assets:		
Decrease (increase) in notes receivable	(37,438)	10,239
Decrease in accounts receivable	36,165	7,022
Increase in other receivable due from related parties	(675)	-
Decrease in inventories	175,359	25,095
Decrease (increase) in other monetary assets – current	(2,384)	5,681
Decrease (increase) in other current assets	<u>9,732</u>	<u>(21,402)</u>
Total changes in operating assets, net	<u>180,759</u>	<u>26,635</u>
Changes in operating liabilities:		
Increase (decrease) in notes payable	(15,884)	5,282
Decrease in accounts payable	(51,873)	(65,444)
Increase (decrease) in other payables	(21,726)	29,210
Increase (decrease) in other current liabilities	12,007	(19,014)
Decrease in net defined benefit liabilities	<u>(8,161)</u>	<u>(2,898)</u>
Total changes in operating liabilities, net	<u>(85,637)</u>	<u>(52,864)</u>
Total changes in operating assets and liabilities, net	<u>95,122</u>	<u>(26,229)</u>
Total adjustments	<u>377,375</u>	<u>680,800</u>

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SESODA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flow

For the years ended December 31, 2016 and 2015
(expressed in thousands of New Taiwan dollars)

	2016	2015
Cash inflow generated from operations	\$ 1,099,914	1,291,221
Interest received	853	1,529
Dividends received	39,729	425
Interest paid	(62,668)	(39,670)
Income tax paid	<u>(186,322)</u>	<u>(185,561)</u>
Net cash provided by operating activities	<u>891,506</u>	<u>1,067,944</u>
Cash flows from investing activities:		
Acquisition of financial assets at fair value through profit or loss	(5,000)	(5,000)
Proceeds from sale of financial assets at fair value through profit or loss	5,108	10,208
Acquisition of available-for-sale financial assets	-	(12,960)
Proceeds from sale of financial assets carried at cost	-	36,811
Proceeds from disposal of available-for-sale financial assets	8,849	-
Proceeds from liquidation and capital reduction of financial assets carried at cost	4,965	8,205
Acquisition of investments accounted for using equity method	(250,116)	-
Proceeds from disposal of investments accounted for using equity method	146,367	-
Purchase of property, plant and equipment	(1,164,190)	(867,268)
Proceeds from sale of property, plant and equipment	3,951	17,081
Increase in prepayments for equipment	(40,917)	(443,002)
Decrease (increase) in refundable deposits	2,068	(2,014)
Increase in other non-current assets	<u>(814)</u>	<u>(275)</u>
Net cash used in investing activities	<u>(1,289,729)</u>	<u>(1,258,214)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	204,500	(111,480)
Increase in long-term debts	588,575	502,887
Repayments of long-term debts	(338,637)	(288,360)
Cash dividends	(91,360)	(261,027)
Dividends paid to non-controlling interest	(942)	-
Changes in non-controlling interests	<u>27,019</u>	<u>(4,231)</u>
Net cash used in financing activities	<u>389,155</u>	<u>(162,211)</u>
Effects of changes in foreign exchange rates	<u>(24,010)</u>	<u>6,948</u>
Net decrease in cash and cash equivalents	(33,078)	(345,533)
Cash and cash equivalents at beginning of year	<u>660,663</u>	<u>1,006,196</u>
Cash and cash equivalents at end of year	<u>\$ 627,585</u>	<u>660,663</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



產品商標