

# SESODA CORPORATION

## 2014 ANNUAL REPORT

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SESODA





## **Report to Shareholders**

During 2014, the U.S. economy has improved as the unemployment rate continues to decline. However, in Japan, “Abenomics” was unable to get Japan’s economy back to normal. In addition, China’s economic growth is slowing down while the European economy appears to be shrinking. All of these factors have impacted the global economy. Due to more supply than demand, raw material prices, in general, are hovering in the low region. These low material prices have also been a main factor in driving down the Baltic Dry Index.

The Company’s potassium fertilizer business is doing well compared to other fertilizer products due to the imbalance of supply and demand. All products were sold out during the year, even though prices have gradually increased. While our selling price have increased, the cost for our main raw material, potassium chloride, remained relatively stable; hence, the Company’s operating margin and net profit margin have increased. On the other hand, prices for most of the other basic chemical materials were and still suffering from the global economic downturn. The demand for these other products has obviously weakened, and market prices were unable to increase. Fortunately for the Company, these products belong to our trading operation; hence, not much of an impact in terms of eroding our profit margin. Finally, although the dry bulk shipping market is at a low point, our shipping portfolio has been able to maintain profitability due to mid-to-long term chartering contracts at rates above market levels.

Looking ahead, Europe has executed its plan to buy a lot of bonds from 2015 onwards in order fight deflation and to stimulate the European economy. And although the US economic outlook is far more optimistic, it is facing the strong dollar and low oil prices in the international economic environment. The Company will maintain caution in terms of dealing with the global economic situation and at the same time, strengthen the capability of our 2

new expansion lines - 11<sup>th</sup> and 12<sup>th</sup> potassium sulfate production lines. The 2 new lines will help increase our revenue and profit for future growth.

The Company's net operating revenue for 2014 is 3,277,530,000 NT dollars, a slight increase of 1.77% from 3,220,387,000 NT dollars in 2013. The main reason is the increase in the price for our potassium fertilizer and the selling out of all products produced.

In 2014, the net operating profit is 639,417,000 NT dollars and the net profit after tax is 649,779,000 NT dollars, which is an increase of 362,077,000 NT dollars and 215,396,000 NT dollars respectively compared with 2013. As mentioned above, the fertilizer industry faced a tight supply situation, which resulted in increases in selling price, gross profit margin, and operating margin. The company's non-operating income derives from the reinvestment profit from our shipping portfolio and the decrease in disposing investment income. Due to all the reasons mentioned above, there is a substantial increase in annual net profit after tax for 2014.

In the coming year, it is expected that the US economy will continue to recover. In addition to the US recovery, a strong US dollar, an expected interest rate hike, and low oil prices will have a positive impact on the global economy. The effects of Japan and Europe's monetary quantitative easing measures may be gradually revealed, China's industrial restructuring and economic growth slowdown effect will be obvious. Due to these global factors, the Company will continue to operate conservatively in order to deal with the global economic challenges.

In 2015, the Company's potassium fertilizer business should continue to blossom and we expect the demand and price should continue to grow steadily. Furthermore, our 2 new production lines are completed in time for production expansion; this should provide significant contribution for our potassium business. Other basic chemical products will face the impact of the



overall global environment and oversupply situation in the China market so the Company is prepared to react accordingly.

The Company's shipping portfolio should be able to benefit from a stable income due to our mid-to-long term contracts. Furthermore, the ordering of new ships in a depressed market where ship prices are relatively low will help build on our existing foundation for future growth. Finally, the increase in demand for consumer electronic products and 4G-communication will help boost business for our subsidiary, East-Tender Optoelectronics Corp.

Looking forward, the market will benefit from the low oil prices, so we are quite optimistic; however, we can never be too cautious. The Company's staff will continue to work hard in order to maintain organic growth. Finally, we want to express our deepest thanks to our shareholders, directors, supervisors, and all our employees for their continued support. We wish everybody good health and good luck!

Bill Y.F. Chien  
Chairman  
SESODA CORPORATION



## **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, 2014 and 2013, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended. In our report dated March 23, 2015, 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.

A handwritten signature in black ink that reads "KPMG".

March 23, 2015

SESODA CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2014 and 2013  
(expressed in thousands of New Taiwan dollars)

Assets	December 31, 2014	December 31, 2013	Liabilities and Equity	December 31, 2014	December 31, 2013
	Amount	%		Amount	%
<b>Current assets:</b>			<b>Current liabilities:</b>		
Cash and cash equivalents	\$ 1,006,196	12	Short-term borrowings	\$ 591,855	7
Financial assets at fair value through profit or loss – current	5,005	-	Long-term debts – current portion	238,422	3
Available-for-sale financial assets – current	-	-	Notes payable	23,871	-
Notes receivable	147,299	2	Accounts payable	399,323	5
Accounts receivable, net	552,604	6	Accrued expenses	203,009	2
Inventories	539,124	6	Current tax liabilities	119,757	1
Other monetary assets – current	19,592	-	Other current liabilities	49,640	1
Other current assets	62,968	1	<b>Total current liabilities</b>	<b>1,625,877</b>	<b>19</b>
<b>Total current assets</b>	<b>2,332,788</b>	<b>27</b>	<b>Non-current liabilities:</b>		
<b>Non-current assets:</b>			Long-term debts	1,767,110	20
Available-for-sale financial assets – non-current	106	-	Deferred tax liabilities	488,428	6
Financial assets carried at cost – non-current	260,616	3	Accrued pension liabilities	18,909	-
Property, plant and equipment	5,183,272	60	<b>Total non-current liabilities</b>	<b>2,274,447</b>	<b>26</b>
Deferred tax assets	2,929	-	<b>Total liabilities</b>	<b>3,900,324</b>	<b>45</b>
Prepayments for business facilities	854,232	10	<b>Equity attributable to owners of parent:</b>		
Refundable deposits	8,498	-	Common stock	1,740,182	20
Other non-current assets	1,112	-	Capital surplus	10,300	-
<b>Total non-current assets</b>	<b>6,310,765</b>	<b>73</b>	Retained earnings:		
			Legal reserve	687,141	8
			Special reserve	132,128	2
			Unappropriated retained earnings	1,963,749	23
				<b>2,783,018</b>	<b>33</b>
			Other equity interest:		
			Exchange differences on translation of foreign financial statements	106,240	1
			Unrealized gains on available-for-sale financial assets	12	-
				<b>18,363</b>	<b>-</b>
			Total equity attributable to owners of parent	<b>106,252</b>	<b>1</b>
			Non-controlling interests	4,639,752	54
			<b>Total equity</b>	<b>103,477</b>	<b>1</b>
			<b>Total liabilities and equity</b>	<b>4,743,229</b>	<b>55</b>
<b>Total assets</b>	<b>\$ 8,643,553</b>	<b>100</b>		<b>\$ 8,643,553</b>	<b>100</b>
				<b>7,622,762</b>	<b>100</b>





SESODA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2014 and 2013

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

	2014		2013	
	Amount	%	Amount	%
Operating revenue	\$ 4,188,340	100	4,050,573	100
Operating costs	<u>2,886,535</u>	<u>69</u>	<u>3,128,876</u>	<u>77</u>
Gross profit	1,301,805	31	921,697	23
Operating expenses:				
Selling expenses	297,537	7	278,198	7
General and administrative expenses	205,335	5	170,528	4
Research and development expenses	<u>4,584</u>	<u>-</u>	<u>5,886</u>	<u>-</u>
Total operating expenses	<u>507,456</u>	<u>12</u>	<u>454,612</u>	<u>11</u>
Operating income	<u>794,349</u>	<u>19</u>	<u>467,085</u>	<u>12</u>
Non-operating income and expenses:				
Other income	4,031	-	1,814	-
Other gains and losses	83,236	2	119,552	3
Finance costs	<u>(46,934)</u>	<u>(2)</u>	<u>(32,940)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>40,333</u>	<u>-</u>	<u>88,426</u>	<u>2</u>
Net income before tax	834,682	19	555,511	14
Income tax expense	<u>181,396</u>	<u>4</u>	<u>117,579</u>	<u>3</u>
Net income	<u>653,286</u>	<u>15</u>	<u>437,932</u>	<u>11</u>
Other comprehensive income				
Exchange differences on translation of foreign financial statements	125,024	3	38,801	1
Unrealized losses on available-for-sale financial assets	(18,343)	-	(31,504)	(1)
Actuarial gains (losses) on defined benefit plans	(17,134)	-	1,777	-
Deduction: income tax relating to components of other comprehensive income	<u>3,034</u>	<u>-</u>	<u>(620)</u>	<u>-</u>
Total other comprehensive income	<u>86,513</u>	<u>3</u>	<u>9,694</u>	<u>-</u>
Total comprehensive income	<u>\$ 739,799</u>	<u>18</u>	<u>447,626</u>	<u>11</u>
Net income attributable to:				
Owners of parent	\$ 649,779	15	434,383	11
Non-controlling interests	<u>3,507</u>	<u>-</u>	<u>3,549</u>	<u>-</u>
	<u>\$ 653,286</u>	<u>15</u>	<u>437,932</u>	<u>11</u>
Comprehensive income attributable to:				
Owners of parent	\$ 735,547	18	444,622	11
Non-controlling interests	<u>4,252</u>	<u>-</u>	<u>3,004</u>	<u>-</u>
	<u>\$ 739,799</u>	<u>18</u>	<u>447,626</u>	<u>11</u>
Basic earnings per share of common stock (expressed in New Taiwan dollars)	<u>\$ 3.73</u>		<u>2.50</u>	
Diluted earnings per share of common stock (expressed in New Taiwan dollars)	<u>\$ 3.71</u>		<u>2.48</u>	



## Consolidated Statements of Changes in Equity

**For the years ended December 31, 2014 and 2013  
(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 equity attributable to owners of parent	Non-controlling interests	
Balance as of January 1, 2013	\$ 1,578,397	8,101	598,245	-	1,439,019	2,037,264	(54,460)	49,867	3,619,169	125,683	3,744,852
Appropriation of retained earnings:											
Legal reserve	-	-	45,458	-	(45,458)	-	-	-	-	-	-
Special reserve	-	-	-	132,276	(132,276)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(78,919)	(78,919)	-	-	(78,919)	-	(78,919)
Stock dividends	78,919	-	-	-	(78,919)	(78,919)	-	-	-	-	-
Reversal of special reserve	-	-	-	(74)	74	-	-	-	-	-	-
Employee stock options	-	1,218	-	-	-	-	-	-	1,218	654	1,872
Net income in 2013	-	-	-	-	434,383	434,383	-	-	434,383	3,549	437,932
Other comprehensive income	-	-	-	-	2,322	2,322	39,421	(31,504)	10,239	(545)	9,694
Total comprehensive income	-	-	-	-	436,705	436,705	39,421	(31,504)	444,622	3,004	447,626
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	(655)	(655)
Balance as of December 31, 2013	1,657,316	9,319	643,703	132,202	1,540,226	2,316,131	(15,039)	18,363	3,986,090	128,686	4,114,776
Appropriation of retained earnings:											
Legal reserve	-	-	43,438	-	(43,438)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(82,866)	(82,866)	-	-	(82,866)	-	(82,866)
Stock dividends	82,866	-	-	-	(82,866)	(82,866)	-	-	-	-	-
Reversal of special reserve	-	-	-	(74)	74	-	-	-	-	-	-
Employee stock options	-	981	-	-	-	-	-	-	981	525	1,506
Net income in 2014	-	-	-	-	649,779	649,779	-	-	649,779	3,507	653,286
Other comprehensive income	-	-	-	-	(17,160)	(17,160)	121,279	(18,351)	85,768	745	86,513
Total comprehensive income	-	-	-	-	632,619	632,619	121,279	(18,351)	735,547	4,252	739,799
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	(29,986)	(29,986)
Balance as of December 31, 2014	\$ 1,740,182	10,300	687,141	132,128	1,963,749	2,783,018	106,240	12	4,639,752	103,477	4,743,229





SESODA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2014 and 2013  
(expressed in thousands of New Taiwan dollars)

	2014	2013
<b>Cash flows from operating activities:</b>		
Net income before tax	\$ 834,682	555,511
Adjustments		
Adjustments to reconcile profit and loss		
Depreciation	323,341	291,043
Provision for allowance for doubtful accounts and sales discount	4,818	-
Reversal of impairment loss	-	(2,300)
Share-based payments	1,506	1,872
Loss (gain) on disposal of property, plant and equipment	(2,738)	64
Gain on sale of investments	(17,636)	(45,424)
Loss (gain) on financial assets at fair value through profit or loss	(218)	126
Property, plant and equipment transferred to expenses	27,531	17,495
Interest income	(1,911)	(1,092)
Interest expense	46,934	32,940
Dividend income	(1,171)	(722)
Total adjustments to reconcile profit and loss	<u>380,456</u>	<u>294,002</u>
Changes in operating assets:		
Notes receivable	(12,004)	14,434
Accounts receivable	(90,567)	65,217
Inventories	(55,755)	129,387
Other monetary assets -- current	(4,787)	29,135
Other current assets	<u>(8,728)</u>	<u>4,126</u>
Changes in operating assets, net	<u>(171,841)</u>	<u>242,299</u>
Changes in operating liabilities:		
Notes payable	6,852	(4,026)
Accounts payable	115,635	(268,926)
Accrued expenses	50,527	3,132
Other current liabilities	3,677	(15,303)
Accrued pension liabilities	<u>(2,484)</u>	<u>(2,847)</u>
Changes in operating liabilities, net	<u>174,207</u>	<u>(287,970)</u>
Changes in operating assets and liabilities, net	<u>2,366</u>	<u>(45,671)</u>
Total adjustments	<u>382,822</u>	<u>248,331</u>
Cash inflow generated from operations	1,217,504	803,842
Interest received	1,761	1,598
Dividends received	1,171	722
Interest paid	(46,812)	(31,967)
Income tax paid	<u>(116,957)</u>	<u>(39,680)</u>
Net cash provided by operating activities	<u>1,056,667</u>	<u>734,515</u>
<b>Cash flows from investing activities:</b>		
Acquisition of financial assets at fair value through profit or loss	(15,000)	(10,000)
Proceeds from sale of financial assets at fair value through profit or loss	20,087	-
Acquisition of available-for-sale financial assets	-	(85)
Acquisition of financial assets carried at cost	(74,097)	(29,210)
Proceeds from sale of available-for-sale financial assets	30,922	119,110
Proceeds from sale of financial assets carried at cost	-	474
Proceeds from liquidation and capital reduction of financial assets carried at cost	4,138	3,143
Purchase of property, plant and equipment	(248,163)	(65,372)
Proceeds from sale of property, plant and equipment	46,904	800
Increase in prepayments for business facilities	(651,715)	(913,285)
Decrease (increase) in refundable deposits	(6,214)	3,049
Decrease (increase) in other non-current assets	<u>(1,012)</u>	<u>2,195</u>
Net cash used in investing activities	<u>(894,150)</u>	<u>(889,181)</u>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term borrowings	255,300	(145,161)
Increase in long-term debts	-	817,040
Repayments of long-term debts	(236,326)	(126,299)
Distribution of cash dividends	(82,866)	(78,919)
Changes in non-controlling interests	<u>(29,986)</u>	<u>(655)</u>
Net cash provided by (used in) financing activities	<u>(93,878)</u>	<u>466,006</u>
Effects of changes in foreign exchange rates	<u>23,488</u>	<u>(112,994)</u>
Net increase in cash and cash equivalents	92,127	198,346
Cash and cash equivalents at beginning of year	<u>914,069</u>	<u>715,723</u>
Cash and cash equivalents at end of year	<u>\$ 1,006,196</u>	<u>914,069</u>

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