

SESODA CORPORATION

2017 ANNUAL REPORT



Report to Shareholders

Looking back at year 2017, the world benefited from a steady recovery of the international economy. Various domestic and foreign economic indexes all showed a growing trend, especially the growth rates of the two big economies, U.S.A. and China, which exceeded expectations. In addition, the doubts of economic and political instability in Europe due to Brexit faded gradually; accordingly, the global economic outlook appeared to be more optimistic than originally expected. Although the overall economy was showing an upward trend, the negative impact of individual factors had significant adverse effects on some industries. The U.S. Dollar weakened as the New Taiwan Dollar appreciated significantly, which caused a negative impact on the export-oriented industries in Taiwan. The continuous rise of crude oil prices increased operating costs of shipping and the ocean freight rates.

In summary, the fertilizer industry was not in an ideal state. In addition to falling agricultural and grain prices which affected the demand for fertilizers, the excessive expansion of the market led to oversupply which could not be immediately absorbed, therefore gradually driving down fertilizer prices. Our Company's main product, potassium sulfate, although benefited from a very diverse international market, prices could not be increased due to global over production in the last few years. Furthermore, since almost all potassium sulfate production was exported, the impact of the USD weakening was substantial. Although the Company was able to maintain full production in 2017, profits in this sector were obviously suppressed due to the reasons mentioned above. On the other hand, the chemical trading business benefited from Mainland China's production cost and environmental controls, showing apparently good growth. However, due to the trading agent nature of this business ("buy high / sell high" and "buy low / sell low"), contribution to profitability was relatively limited. With regards to our investments in our shipping business, there was a small uptick in the shipping industry which started during the 2nd half of 2017, with ocean freight rates gradually increasing. Our Company's other major investment is in optical communications industry, which contributed significantly to the Company's profits in 2017, driven by the strong demand for cloud and 4G communication products.

Looking forward to this coming year, our view of the international economy as a whole will continue to be optimistic; however, the US' attitude towards international free trade and trade policies, whether the US-China trade disputes can be resolved amicably, and especially the continued weak US Dollar and the changes in China's economic growth and policy will remain to impact our Company's profits. Our Company will stand to adopt a prudent approach expanding into more markets, and with the commissioning of two new production lines in the second half of the year; hopefully, that will raise the Company's profits.

Net operating profit for year 2017 was 420,836,000 NT dollars, and the net profit after tax was 490,813,000 NT dollars, which showed a decrease of 35,465,000 NT dollars (about -7.77%) and a decrease of 81,327,000 (about -14.21%) respectively, compared to the full year 2016. The decrease in operating profit was mainly due to the international competition on potassium sulfate, the market was not able to timely absorb increased production volumes, together with the strong appreciation of the New Taiwan Dollar, which resulted in declined profit per unit.

In 2017, although various economic indicators showed stable and positive development, and the sentiment for 2018 is optimistic in general, unstable factors still exist, such as: 1) the rise of protectionism from the Trump administration, 2) bilateral trade disputes between China and the United States (whether or not that will lead to higher barriers to world trade), 3) the continuous geopolitical disputes around the world, and finally 4) the attitude of the Federal Reserve of the United States towards continuous weakening of the U.S. Dollar, etc. These are all factors that will continue to exist and need to be dealt with carefully.

Agricultural commodity and raw material markets showed recovery and stability since the fourth quarter of last year. Although facing with supply exceeding demand issue in the potassium sulfate market, our Company's potassium sulfate prices were still able to command steady increases, due to steady increases of our primary raw material potash prices. However, the U.S. Dollar exchange rates will continue to play a major role in influencing the profitability of our Company. Furthermore, our other chemical products will also be affected by the market in Mainland China. It is expected that the supply-side regulations will stay due to environmental protection factors in the Mainland, hence the market prices will be relatively stable.

The dry bulk shipping market should continue to improve from the fourth quarter of last year, as a result of the increase in the demand for bulk commodities and the slowdown in the supply of ships.

Looking into this year's overall environment, there are still a lot of uncertainties. The responding measures to be used by countries are also difficult to predict. At present, there are still many variables that is out of our control. Members of our Company will continue to dedicate our efforts to keep our Company growing and thriving in the ever-changing market.

Finally, we want to express our deepest gratitude for the support from our shareholders, directors, supervisors and all the staff in our Company, and wish everybody good health and good luck.

R. Y. Chen
Chairman
SESODA CORPORATION



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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, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended. In our report dated March 26, 2018, 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 26, 2018



SESODA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016
(expressed in thousands of New Taiwan dollars, except for earnings per share)

	2017		2016	
	Amount	%	Amount	%
Operating revenue	\$ 3,876,952	100	4,114,685	100
Operating cost	<u>2,767,461</u>	<u>72</u>	<u>2,874,499</u>	<u>70</u>
Gross profit	<u>1,109,491</u>	<u>28</u>	<u>1,240,186</u>	<u>30</u>
Operating expenses:				
Selling expenses	323,043	8	340,223	8
Administrative expenses	229,809	6	238,343	6
Research and development expenses	-	-	5,714	-
Total operating expenses	<u>552,852</u>	<u>14</u>	<u>584,280</u>	<u>14</u>
Operating income	<u>556,639</u>	<u>14</u>	<u>655,906</u>	<u>16</u>
Non-operating income and expenses:				
Other income	1,410	-	1,055	-
Other gains and losses	58,226	2	123,704	2
Finance costs	(97,434)	(3)	(58,861)	(1)
Share of gain of associates accounted for using equity method	<u>64,763</u>	<u>2</u>	<u>735</u>	-
Total non-operating income and expenses	<u>26,965</u>	<u>1</u>	<u>66,633</u>	<u>1</u>
Net income before tax	583,604	15	722,539	17
Income tax expense	<u>91,540</u>	<u>2</u>	<u>95,744</u>	<u>2</u>
Net income	<u>492,064</u>	<u>13</u>	<u>626,795</u>	<u>15</u>
Other comprehensive income:				
Items that may not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation	6,625	-	(9,049)	-
Share of other comprehensive loss of associates accounted for using equity method	(329)	-	(88)	-
Income tax related to items that may not be reclassified subsequently	<u>(3,862)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>10,158</u>	<u>-</u>	<u>(9,137)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign financial statements	(229,589)	(6)	(49,197)	(1)
Unrealized gains or losses on available-for-sale financial assets	904	-	(2,300)	-
Share of other comprehensive loss of associates accounted for using equity method	(875)	-	(844)	-
Income tax related to items that may be reclassified subsequently	<u>(4,213)</u>	<u>-</u>	<u>(3,725)</u>	<u>-</u>
	<u>(225,347)</u>	<u>(6)</u>	<u>(48,616)</u>	<u>(1)</u>
Total other comprehensive income	<u>(215,189)</u>	<u>(6)</u>	<u>(57,753)</u>	<u>(1)</u>
Total comprehensive income	\$ <u>276,875</u>	<u>7</u>	\$ <u>569,042</u>	<u>14</u>
Net income attributable to:				
Owners of parent	\$ 490,813	13	572,140	14
Non-controlling interests	<u>1,251</u>	<u>-</u>	<u>54,655</u>	<u>1</u>
	\$ <u>492,064</u>	<u>13</u>	\$ <u>626,795</u>	<u>15</u>
Comprehensive income attributable to:				
Owners of parent	\$ 275,624	7	514,387	13
Non-controlling interests	<u>1,251</u>	<u>-</u>	<u>54,655</u>	<u>1</u>
	\$ <u>276,875</u>	<u>7</u>	\$ <u>569,042</u>	<u>14</u>
Basic earnings per share of common stock (expressed in New Taiwan dollars)	\$ <u>2.44</u>		\$ <u>2.84</u>	
Diluted earnings per share of common stock (expressed in New Taiwan dollars)	\$ <u>2.42</u>		\$ <u>2.82</u>	

SESODA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016
(expressed in thousands of New Taiwan dollars)

	Total equity attributable to owners of parent										Non-controlling interests	Total
	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, 2016	\$ 1,827,191	10,798	752,119	132,062	2,003,634	2,887,815	189,668	424	190,092	4,915,896	129,363	5,045,259
Appropriation of retained earnings:												
Legal reserve	-	-	45,272	-	(45,272)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(91,360)	(91,360)	-	-	-	(91,360)	-	(91,360)
Stock dividends	91,360	-	-	-	(91,360)	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(56)	56	-	-	-	-	-	-	-
Changes in ownership interests in subsidiaries	-	(9)	-	-	-	-	-	-	-	(9)	-	(9)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(41,374)	(41,374)
Net income in 2016	-	-	-	-	572,140	572,140	-	-	-	572,140	54,655	626,795
Other comprehensive income	-	-	-	-	(9,137)	(9,137)	(46,337)	(2,279)	(48,616)	(57,753)	-	(57,753)
Total comprehensive income	-	-	-	-	563,003	563,003	(46,337)	(2,279)	(48,616)	514,387	54,655	569,042
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(135,998)	(135,998)
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
Appropriation of retained earnings:												
Legal reserve	-	-	57,213	-	(57,213)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(95,928)	(95,928)	-	-	-	(95,928)	-	(95,928)
Stock dividends	95,928	-	-	-	(95,928)	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(35)	35	-	-	-	-	-	-	-
Changes in equity of associates accounted for using equity method	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid to non-controlling interests	-	1,670	-	-	-	-	-	-	-	1,670	-	1,670
Net income in 2017	-	-	-	-	490,813	490,813	-	-	-	-	(964)	(964)
Other comprehensive income	-	-	-	-	10,158	10,158	(226,238)	891	(225,347)	490,813	1,251	492,064
Total comprehensive income	-	-	-	-	500,971	500,971	(226,238)	891	(225,347)	275,624	1,251	276,875
Changes in capital surplus	-	1,508	-	-	-	-	-	-	-	1,508	-	1,508
Balance as of December 31, 2017	\$ 2,014,479	13,967	854,604	131,971	2,590,638	3,577,213	(82,907)	(964)	(83,871)	5,521,788	6,933	5,528,721

SESODA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(expressed in thousands of New Taiwan dollars)

	2017	2016
Cash flows from (used in) operating activities:		
Net income before tax	\$ 583,604	722,539
Adjustments		
Adjustments to reconcile profit and loss		
Depreciation	315,520	284,152
Provision for allowance for sales discount	8,148	10,267
Share-based payments	-	1,790
Share of gain of associates accounted for using equity method	(64,763)	(735)
Loss on disposal of property, plant and equipment	5,874	7,929
Gain on disposal of investments	(460)	(2,234)
Gain on disposal of associates accounted for using equity method	(59,324)	(278,274)
Gain on financial assets at fair value through profit or loss	(30)	(108)
Impairment loss on non-financial assets	-	171,418
Property, plant and equipment transferred to expenses	37,515	30,201
Interest income	(1,277)	(853)
Interest expense	97,434	58,861
Dividend income	-	(161)
Total adjustments to reconcile profit and loss	338,637	282,253
Changes in operating assets:		
Increase in notes receivable	(50,879)	(37,438)
Decrease in accounts receivable	140,662	36,165
Decrease (increase) in other receivable from related parties	668	(675)
Decrease (increase) in inventories	(72,420)	175,359
Decrease (increase) in other financial assets – current	180	(2,384)
Decrease (increase) in other current assets	(18,989)	9,732
Total changes in operating assets, net	(778)	180,759
Changes in operating liabilities:		
Decrease in notes payable	(13,269)	(15,884)
Increase (decrease) in accounts payable	56,383	(51,873)
Increase (decrease) in other payables	1,191	(21,726)
Increase (decrease) in other current liabilities	(968)	12,007
Decrease in net defined benefit liabilities	(3,146)	(8,161)
Total changes in operating liabilities, net	40,191	(85,637)
Total changes in operating assets and liabilities, net	39,413	95,122
Total adjustments	378,050	377,375

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SESODA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flow

For the years ended December 31, 2017 and 2016
(expressed in thousands of New Taiwan dollars)

	2017	2016
Cash inflow generated from operations	\$ 961,654	1,099,914
Interest received	1,277	853
Dividends received	25,125	39,729
Interest paid	(97,780)	(62,668)
Income tax paid	<u>(62,010)</u>	<u>(186,322)</u>
Net cash flows from operating activities	<u>828,266</u>	<u>891,506</u>
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through profit or loss	(3,000)	(5,000)
Proceeds from disposal of financial assets at fair value through profit or loss	3,030	5,108
Proceeds from disposal of financial assets carried at cost	460	-
Proceeds from disposal of available-for-sale financial assets	-	8,849
Proceeds from capital reduction of financial assets carried at cost	12,503	4,965
Acquisition of associates accounted for using equity method	-	(250,116)
Proceeds from disposal of associates accounted for using equity method	70,251	146,367
Acquisition of property, plant and equipment	(1,702,817)	(1,205,107)
Proceeds from disposal of property, plant and equipment	5,224	3,951
Decrease in refundable deposits	5,550	2,068
Increase in other non-current assets	<u>(594)</u>	<u>(814)</u>
Net cash used in investing activities	<u>(1,609,393)</u>	<u>(1,289,729)</u>
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term borrowings	(78,955)	204,500
Proceeds from long-term debts	1,458,533	588,575
Repayments of long-term debts	(271,219)	(338,637)
Cash dividends paid	(95,928)	(91,360)
Dividends paid to non-controlling interests	(964)	(41,374)
Changes in non-controlling interests	-	27,019
Previous years' cash dividends received	<u>1,508</u>	<u>-</u>
Net cash flows from financing activities	<u>1,012,975</u>	<u>348,723</u>
Effects of changes in foreign exchange rates	<u>(109,831)</u>	<u>16,422</u>
Net increase (decrease) in cash and cash equivalents	122,017	(33,078)
Cash and cash equivalents at beginning of year	<u>627,585</u>	<u>660,663</u>
Cash and cash equivalents at end of year	\$ <u>749,602</u>	<u>627,585</u>

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