SESODA CORPORATION

2015 ANNUAL REPORT





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Report to Shareholders

During the beginning 2015, the U.S. and European economy were the main factors in driving the global economy as the global economy slowly recovers. During this time, the general public also had an optimistic view on the global economic recovery. However, during the middle of 2015, due to the expectations of the U.S. Dollar appreciating, overcapacity of manufacturing in China, and a lack of economic growth momentum; we saw a shrinkage in capital commitment to the emerging markets. This resulted in the devaluation of currencies in these markets. Japan, one of the largest economies, also saw a significant devaluation in its currency. All these factors provided a shock to the global economy. Overall commodities prices are also hovering around the low figures. These factors also resulted in the Dry Bulk Index to hit historical lows.

During 2015, the Company's potassium fertilizer business hard a very good year in terms of quantities sold and operational margin, based on the policy of "sell out all that is produced". The average sales price is relatively higher than 2014. In addition, the main raw material price, potassium chloride, remained quite stable. This helped widen the Company's operational margin: operating margin and operating profit. On the domestic front, even though the economic downturn and weaker demand put some pressure on pricing, we did not see a significant erosion on profitability due to the trading and agency characteristics of the business. Regarding our shipping business, the historical low freight rates have severely impacted our operating profit. Due to this reason, the Company recognized an asset impairment charge during 2015. The company will wait for the shipping market to rebound in order to improve the demand for dry bulk vessels towards another shipping boom. Finally, the Company's investment in the food and beverage business has not been able to generate a profit contribution due to the initial stages of developing this business.

Overall in 2015, even with the slowdown in economic growth, we were able to maintain good performance relating to sales of our chemical products. Thus, profitability sustained reasonably well!

The Company's net revenue in 2015 is NT\$3,685.73 million, an increase of 12.45% from NT\$3,277.53 million in 2014. The main reason is the increase in pricing of

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potassium sulfate and the increase in capacity from our expanded production lines. Our goal of selling out all products produced was reached as well.

In 2015, our net operating profit is NT\$814.68 million and the net profit after tax is NT\$452.72 million, which represents an increase of NT\$172.26 million (+27.41%) and a decrease of NT\$197.06 million (-30.33%) respectively compared to 2014. As mentioned before, the fertilizer business has completed two new sets of potassium sulfate production lines. With the added capacity, we have also witnessed an increase in pricing. Hence, with the increase in price and quantity, our sales margin and net operating profit has increased compared to last year. The non-operating losses are mainly from the impact of asset impairment charges for our subsidiary shipping company; a loss if about NT\$330 million. Thus, the net profit after tax for 2015 has decreased.

Looking ahead in 2016, we project the global economy to remain sluggish. Also, with the expectation of the U.S. Dollar appreciating, many countries will try to enhance their international competitiveness and get rid of the deflationary environment by an ease in monetary policy and devaluation.

Under the downturn in the global environment, agricultural commodities are also experiencing a negative impact and this will affect the demand for fertilizer products. However, based on the Company's strategy of diversifying sales, the Company will do its best to achieve our policy of selling out all products produced. But with the sales price decreasing, the weaker market demand, and the oversupply issue in China, we will handle this market with caution. Furthermore, to pursue product diversification, the Company will introduce new types of traded products such as sodium hydroxide to help increase our profits.

On the shipping investment front, the dry bulk shipping market in general is very weak and not expected to recover in the short period. On the food and beverage front, we will employ a more stable operating method as well as strengthen personnel training to achieve profitability in the shortest time possible. Finally, for our investment in the optical communications industry, our subsidiary East Tender Optoelectronics will maintain a relative steady growth potential driven by consumer electronic products as well as 4G communication demands.



Looking ahead in terms of the overall market sentiment for this year, there are lots of uncertain factors domestically and internationally. It will be hard to forecast the responsive measures of other countries, and it will also be hard to be optimistic on the global economic performance. The Company's staff will continue to work hard in order to maintain growth for the Company. Finally, we want to express our deepest thanks to our shareholders, directors, employees, and supervisors for all the years of support. Finally, we wish everyone good health and best of 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, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended. In our report dated March 1, 2016, 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 1, 2016

KPMG, a Taiwan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



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SESODA CORPORATION AND SUBSIDIARIES

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Consolidated Balance Sheets

December 31, 2015 and 2014 (expressed in thousands of New Taiwan dollars)

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December 31, 2014 Amount %	\$91,855 7 238,422 238,422 3 238,422 3 3,871 3 238,871 19,757 1 1 399,323 5 203,009 2 1 119,757 1 19,757 1 1 119,757 1 1 1 1 1 11,767,110 20 49,640 1<	85 20
December 31, 2015 I Amount %	\$ 480,375 6 293,957 6 293,957 6 293,957 6 293,957 6 293,957 6 293,957 6 234,351 1 112,884 1 112,884 1 112,884 1 112,884 1 112,884 1 112,884 1 12,915,262 18 18,975,194 2 190,092 2 2,887,815 22 2,887,815 22 190,092 2 190,092 54 2,129,365 54 2,129,365 54 2,129,365 54 2,129,365 54 199,668 2 199,668 2 199,668 2 2,129,365 54 2,129,365 54 2,129,365 54 2,129,365 54 2,129,365 54 2,129,365 54 2,129,365 54 2,129,365 54 3,018,755 100	8 14
Liabilities and Equity	Current liabilities: Short-term borrowings Long-term debtscurrent portion Notes payables Accounts payables Current tax liabilities Other current liabilities Current tax liabilities: Deferred tax liabilities Non-current liabilities Total non-current liabilities Requity attributable to owners of parents Common stock Common stock Capital surplus Retained earnings Legal reserve Unappropriated retained earnings Other equity interest: Exchange differences on translation of foreign financial sastenents Unrealized gains on available- for-sale financial sastenents	t.
2014 %	$\begin{array}{cccccccccccccccccccccccccccccccccccc$	1
December 31, 2014 Amount	1,006,196 5,005 552,604 539,124 197,299 552,604 106 2,60,616 5,183,272 2,929 8,54,232 8,54,232 6,310,765 6,310,765	
2015 %	100 1 1 1 1 1	9
December 31, 2015 Amount	 \$ 660,663 - 	
Assets	Current assets: Cash and cash equivalents Firancial assets at fair value through profit or loss - current Notes receivable, net Inventories Other monetary assets - current Other monetary assets - current Other nonetary assets Total current assets Non-current assets Non-current assets Prepayments for equipment Property, plant and equipment Property plant and equipment Prepayments for equipment Refindable deposits Other non-current assets Total non-current assets Total non-current assets	



SESODA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2015 and 2014 (expressed in thousands of New Taiwan dollars, except for earnings per share)

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	2015 Amount	%	2014 Amount	%
Operating revenue	\$ 4,594, 08 8	100	4,188,340	100
Operating cost	3,118,333	68	2,886,535	69
Gross profit	1,475,755	32	1 ,301,80 5	<u>31</u>
Operating expenses: Selling expenses General and administrative expenses Research and development expenses Total operating expenses Operating income	336,895 202,738 <u>3,581</u> <u>543,214</u> <u>932,541</u>	7 4 11 1	297,537 205,335 <u>4,584</u> <u>507,456</u> <u>794,349</u>	7 5 <u>12</u> 19
Non-operating income and expenses: Other income Other gains and losses Finance costs Total non-operating income and expenses	1,724 (283,147) (40,697) (322,120)	(6) (1) (7)	4,031 83,236 46,934) 40,333	2 (2)
Net income before tax	610,42 1	14	834,682	19
Income tax expense	<u> 127,792</u>	3	<u>181,396</u>	4
Net income	482,629	_11	<u>653,286</u>	<u>15</u>
Other comprehensive income: Items that will not be reclassified subsequently to profit or loss: Remeasurement of defined benefit obligation Income tax related to items that will not be reclassified subsequently Items that may be reclassified subsequently to profit or loss: Exchange differences on translation of foreign financial statements Unrealized gains or losses on available-for-sale financial assets Income tax related to items that may be reclassified subsequently	(253) (253) 89,587 400 (5,841) 84,146	2 2	(17,134) (17,134) 125,024 (18,343) (3,034) 103,647	-
Total other comprehensive income Total comprehensive income	<u>83,893</u> \$ <u>566,522</u>	2 13	<u>86,513</u> <u>739,799</u>	<u>3</u> 18
Net income attributable to: Owners of parent Non-controlling interests	\$ 452,715 	10 1 11	649,779 <u>3,507</u> _653,286	15
Comprehensive income attributable to: Owners of parent Non-controlling interests	\$ 536,673 	12 1 13	735,547 <u>4,252</u> 739,799	18
Basic earnings per share of common stock (expressed in New Taiwan dollars) Diluted earnings per share of common stock (expressed in New Taiwan			<u>3.56</u>	
dollars)	\$ <u>2.45</u>		3.53	

		Total	4,114,776		ï	(82,866)		ï	1,506	653,286	86,513	739,799	(29,986)	4,743,229	,	(261.027)		1	766	482,629	83,893	566,522	(4.231)	5,045,259
	Non-	controlling interests	128,686		Ŀ,	1	ı		525	3,507	745	4.252	(29,986)	103,477			з	a k	268	29,914	(65)	29,849	(4,231)	129,363
	Total equity attributable	to owners of parent	3,986,090		ĸ	(82,866)			186	649,779	85,768	735.547		4,639,752		(261.027)		a	498	452,715	83,958	536,673	20 2 1	4,915,896
100 100 100 100 100 100 100 100 100 100		Total	3,324		ï	ĸ	I	I	x	×	102,928	102,928	3	106,252	ŋ	9	9	9	a.	0	83,840	83,840	-	190,092
ent Other equity interest	Unrealized gains on	available-for-sale financial assets	18,363		ĩ	ï	ï	X	ï	1	(18,351)	(18.351)		12	ij	5	3,	ā.	Ŧ	Ĩ.	412	412	2 H 2	424
Total equity attributable to owners of parent	Exchange differences on translation of	foreign financial statements	(15,039)		Ĩ.	•	ĩ	ĩ	Ĩ	a	121,279	121.279	•	106,240		. 0	r	·		ł	83,428	83,428	1	189,668
/ attributable to		Total	2,316,131		ł	(82,866)	(82,866)	,	I	649,779	(17,160)	632,619		2,783,018	20	(261.027)	(87,009)	I		452,715	118	452,833		2,887,815
Total equity	Unappropriated	retained earnings	1,540,226		(43,438)	(82,866)	(82,866)	74	a	649,779	(17,160)	632,619	•	1,963,749	10L0 171	(261,027)	(81,009)	66	R	452,715	118	452,833	•	2,003,634
Dotaina		Special reserve	132,202		i	1	ä	(74)		5		3	3	132,128				(99)	Ē	1	1	·		132,062
		Legal reserve	643,703		43,438	ä	9	•	9	9			•	687,141	010 17	-	÷	ŝ	¢		·	•		752.119
		Capital surplus	615,6			-	ą	9	186	•	•		3	10,300		<u> </u>		6	498	ſ	9	ņ	E.	10,798
		Common stack	\$ 1,657,316		ł	р я	82,866	.15	st.	3 1 3	,	4	•	1,740,182		6 1	87,009	•	ł	ï	1	1	ĩ	\$ <u>1.827,191</u>
			Balance as of January 1, 2014	Appropriation of retained earnings:	Legal reserve	Cash dividends	Stock dividends	Reversal of special reserve	Employee stock options	Net income in 2014	Other comprehensive income	Total comprehensive income	Decrease in non-controlling interests	Balance as of December 31, 2014	Appropriation of retained earnings:	Legal reserve Cach dividende	Stock dividends	Reversal of special reserve	Employee stock options	Net income in 2015	Other comprehensive income	Total comprehensive income	Decrease in non-controlling interests	Balance as of December 31, 2015

SESODA CORPORATION AND SUBSIDIARIES

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Consolidated Statements of Changes in Equity

For the years ended December 31, 2015 and 2014 (expressed in thousands of New Taiwan dollars)



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SESODA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014 (expressed in thousands of New Taiwan dollars)

	2015	2014
Cash flows from operating activities:	a (10.401	004 (00
Net income before tax	\$ 610,421	834,682
Adjustments		
Adjustments to reconcile profit and loss	327,599	323,341
Depreciation Provision for allowance for doubtful accounts and sales discount	6,816	4,818
	766	1,506
Share-based payments Loss (gain) on disposal of property, plant and equipment	6,322	(2,738)
Gain on sale of investments	(34,088)	(17,636)
Gain on financial assets at fair value through profit or loss	(203)	(218)
Impairment loss on non-financial assets	332,777	100 N
Property, plant and equipment transferred to expenses	28,067	27,531
Interest income	(1,299)	(1,911)
Interest expense	40,697	46,934
Dividend income	(425)	(1,171)
Total adjustments to reconcile profit and loss	707,029	380,456
Changes in operating assets:	10.220	(12 004)
Decrease (increase) in notes receivable	10,239 7,022	(12,004) (90,567)
Decrease (increase) in accounts receivable	25,095	(55,755)
Decrease (increase) in inventories	5,681	(4,787)
Decrease (increase) in other monetary assets - current	(21,402)	(8,728)
Increase in other current assets	26,635	(171,841)
Total changes in operating assets, net Changes in operating liabilities:		a n dana karan ak
Increase in notes payable	5,282	6,852
Increase (decrease) in accounts payable	(65,444)	115,635
Increase in other payables	29,210	50,527
Increase (decrease) in other current liabilities	(19,014)	3,677
Decrease in net defined benefit liabilities	(2,898)	<u>(2,484</u>)
Total changes in operating liabilities, net	(52,864)	174,207
Total changes in operating assets and liabilities, net	<u>(26,229</u>)	2,366
Total adjustments	680,800	382,822
Cash inflow generated from operations	1,291,221	1,217,504
Interest received	1,529 425	1,761 1,171
Dividends received	(39,670)	(46,812)
Interest paid	(185,561)	(116,957)
Income tax paid	1,067,944	1,056,667
Net cash provided by operating activities	2-1 <u>2-12-12-12-</u>	
Cash flows from investing activities:	(5.000)	(15 000)
Acquisition of financial assets at fair value through profit or loss	(5,000) 10,208	(15,000) 20,087
Proceeds from sale of financial assets at fair value through profit or loss	(12,960)	20,007
Acquisition of available-for-sale financial assets	(12,900)	(74,097)
Acquisition of financial assets carried at cost	36,811	-
Proceeds from sale of financial assets carried at cost Proceeds from sale of available-for-sale financial assets	505875675 1 <u>0</u> 1	30,922
Proceeds from sale of available-for-sale inflational assets Proceeds from liquidation and capital reduction of financial assets carried at cost	8,205	4,138
Purchase of property, plant and equipment	(867,268)	(248,163)
Proceeds from sale of property, plant and equipment	17,081	46,904
Increase in prepayments for equipment	(443,002)	(651,715)
Increase in refundable deposits	(2,014)	(6,214)
Increase in other non-current assets	(275)	(1,012)
Net cash used in investing activities	<u>(1,258,214</u>)	(894,150)
Cash flows from financing activities:		ar 6000460
Increase (decrease) in short-term borrowings	(111,480)	255,300
Increase in long-term debts	502,887	-
Repayments of long-term debts	(288,360)	(236,326)
Cash dividends	(261,027)	(82,866)
Changes in non-controlling interests	<u>(4,231)</u>	(29,986) (03,878)
Net cash used in financing activities	(162,211)	<u>(93,878)</u>
Effects of changes in foreign exchange rates	6,948	23,488
Net increase (decrease) in cash and cash equivalents	(345,533)	92,127
Cash and cash equivalents at beginning of year	1,006,196	914,069
Cash and cash equivalents at end of year	\$ <u>660,663</u>	1,006,196
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