

SESODA CORPORATION

2015 ANNUAL REPORT



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 had 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

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 of 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



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, 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, 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



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)

| | 2015 | | 2014 | |
|--|-------------------|------------|-------------------|------------|
| | Amount | % | Amount | % |
| Operating revenue | \$ 4,594,088 | 100 | 4,188,340 | 100 |
| Operating cost | <u>3,118,333</u> | <u>68</u> | <u>2,886,535</u> | <u>69</u> |
| Gross profit | <u>1,475,755</u> | <u>32</u> | <u>1,301,805</u> | <u>31</u> |
| Operating expenses: | | | | |
| Selling expenses | 336,895 | 7 | 297,537 | 7 |
| General and administrative expenses | 202,738 | 4 | 205,335 | 5 |
| Research and development expenses | <u>3,581</u> | <u>-</u> | <u>4,584</u> | <u>-</u> |
| Total operating expenses | <u>543,214</u> | <u>11</u> | <u>507,456</u> | <u>12</u> |
| Operating income | <u>932,541</u> | <u>21</u> | <u>794,349</u> | <u>19</u> |
| Non-operating income and expenses: | | | | |
| Other income | 1,724 | - | 4,031 | - |
| Other gains and losses | (283,147) | (6) | 83,236 | 2 |
| Finance costs | <u>(40,697)</u> | <u>(1)</u> | <u>(46,934)</u> | <u>(2)</u> |
| Total non-operating income and expenses | <u>(322,120)</u> | <u>(7)</u> | <u>40,333</u> | <u>-</u> |
| Net income before tax | 610,421 | 14 | 834,682 | 19 |
| Income tax expense | <u>127,792</u> | <u>3</u> | <u>181,396</u> | <u>4</u> |
| Net income | <u>482,629</u> | <u>11</u> | <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 | (253) | - | (17,134) | - |
| Income tax related to items that will not be reclassified subsequently | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>(253)</u> | <u>-</u> | <u>(17,134)</u> | <u>-</u> |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translation of foreign financial statements | 89,587 | 2 | 125,024 | 3 |
| Unrealized gains or losses on available-for-sale financial assets | 400 | - | (18,343) | - |
| Income tax related to items that may be reclassified subsequently | <u>(5,841)</u> | <u>-</u> | <u>(3,034)</u> | <u>-</u> |
| | <u>84,146</u> | <u>2</u> | <u>103,647</u> | <u>3</u> |
| Total other comprehensive income | <u>83,893</u> | <u>2</u> | <u>86,513</u> | <u>3</u> |
| Total comprehensive income | \$ <u>566,522</u> | <u>13</u> | \$ <u>739,799</u> | <u>18</u> |
| Net income attributable to: | | | | |
| Owners of parent | \$ 452,715 | 10 | 649,779 | 15 |
| Non-controlling interests | <u>29,914</u> | <u>1</u> | <u>3,507</u> | <u>-</u> |
| | \$ <u>482,629</u> | <u>11</u> | \$ <u>653,286</u> | <u>15</u> |
| Comprehensive income attributable to: | | | | |
| Owners of parent | \$ 536,673 | 12 | 735,547 | 18 |
| Non-controlling interests | <u>29,849</u> | <u>1</u> | <u>4,252</u> | <u>-</u> |
| | \$ <u>566,522</u> | <u>13</u> | \$ <u>739,799</u> | <u>18</u> |
| Basic earnings per share of common stock (expressed in New Taiwan dollars) | \$ <u>2.48</u> | | \$ <u>3.56</u> | |
| Diluted earnings per share of common stock (expressed in New Taiwan dollars) | \$ <u>2.45</u> | | \$ <u>3.53</u> | |



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: | | |
| Net income before tax | \$ <u>610,421</u> | <u>834,682</u> |
| Adjustments | | |
| Adjustments to reconcile profit and loss | | |
| Depreciation | 327,599 | 323,341 |
| Provision for allowance for doubtful accounts and sales discount | 6,816 | 4,818 |
| Share-based payments | 766 | 1,506 |
| 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 | - |
| 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 | <u>707,029</u> | <u>380,456</u> |
| Changes in operating assets: | | |
| Decrease (increase) in notes receivable | 10,239 | (12,004) |
| Decrease (increase) in accounts receivable | 7,022 | (90,567) |
| Decrease (increase) in inventories | 25,095 | (55,755) |
| Decrease (increase) in other monetary assets – current | 5,681 | (4,787) |
| Increase in other current assets | <u>(21,402)</u> | <u>(8,728)</u> |
| Total changes in operating assets, net | <u>26,635</u> | <u>(171,841)</u> |
| Changes in operating liabilities: | | |
| 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 | <u>(2,898)</u> | <u>(2,484)</u> |
| Total changes in operating liabilities, net | <u>(52,864)</u> | <u>174,207</u> |
| Total changes in operating assets and liabilities, net | <u>(26,229)</u> | <u>2,366</u> |
| Total adjustments | <u>680,800</u> | <u>382,822</u> |
| Cash inflow generated from operations | 1,291,221 | 1,217,504 |
| Interest received | 1,529 | 1,761 |
| Dividends received | 425 | 1,171 |
| Interest paid | (39,670) | (46,812) |
| Income tax paid | <u>(185,561)</u> | <u>(116,957)</u> |
| Net cash provided by operating activities | <u>1,067,944</u> | <u>1,056,667</u> |
| Cash flows from investing activities: | | |
| Acquisition of financial assets at fair value through profit or loss | (5,000) | (15,000) |
| Proceeds from sale of financial assets at fair value through profit or loss | 10,208 | 20,087 |
| Acquisition of available-for-sale financial assets | (12,960) | - |
| Acquisition of financial assets carried at cost | - | (74,097) |
| Proceeds from sale of financial assets carried at cost | 36,811 | - |
| Proceeds from sale of available-for-sale financial assets | - | 30,922 |
| 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 | <u>(275)</u> | <u>(1,012)</u> |
| Net cash used in investing activities | <u>(1,258,214)</u> | <u>(894,150)</u> |
| Cash flows from financing activities: | | |
| 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> | <u>(29,986)</u> |
| Net cash used in financing activities | <u>(162,211)</u> | <u>(93,878)</u> |
| Effects of changes in foreign exchange rates | <u>6,948</u> | <u>23,488</u> |
| Net increase (decrease) in cash and cash equivalents | <u>(345,533)</u> | <u>92,127</u> |
| Cash and cash equivalents at beginning of year | <u>1,006,196</u> | <u>914,069</u> |
| Cash and cash equivalents at end of year | \$ <u>660,663</u> | <u>1,006,196</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



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