

SESODA CORPORATION

2018 ANNUAL REPORT

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Report to Shareholders

The global economic backdrop continued a positive outlook in the first half of 2018, all economic indicators are trending upward. However, the Trump Government initiated trade protection policies and gradually increased customs tariffs on imports from China in the second half of the year. China also adopted countermeasures that led to a further escalation of the trade war between China and US. The simultaneous announcement of trade negotiations between the US and advanced economies including EU and Japan triggered lower confidence levels in key global economies including emerging markets and decreased the willingness of enterprises to invest. Due to the impact of China's economic slowdown and the US-China Trade war in the 4th quarter, global economic instability increased and economic indicators in all countries showed signs of deterioration.

Overall conditions for our potassium sulfate production had been very challenging. The demand patterns caused by climate change, and expanded production capacities have led to an oversupply, and the market prices stuck at low gear. All these factors coupled with the serious impact of production stoppage order issued by the Yilan County Government due to an environmental incident resulted in profits for the last year falling significantly short of expectations. Fortunately, returns from reinvestments in the shipping industry which has a more positive outlook and commissioning of new ships contributed to overall profitability in 2018.

Starting in 2019, economic indicators seem to be pessimistic. The unforeseeable risks associated with the uncertainty surrounding US-China trade policies, worsening conditions in emerging markets, the economic downturn in China, and geopolitical concerns warrants a cautious approach in 2019. As for the work stoppage order imposed by Yilan County Government on the Suao Factory on October 11, the county government approved a trial run for January 14 this year. The work stoppage order was revoked as per resolution of the Appeals Review Committee of the Environmental Protection Administration of the Executive Yuan on February. Furthermore, bulk carriers No. 14 and 15 built were added to the fleet in the first quarter of this year. Looking ahead, the Company is confident in its ability to maintain positive performance in the face of global economic uncertainties in view of the commissioning of 14 potassium sulfate production lines and the addition of new ships to its fleet.

In 2018, net operating profits amounted to NT\$ 243,113,000, while the net income reached NT\$ 351,180,000. This represents a decrease by NT\$ 177,723,000 (around -42.23%) and NT\$ 139,633,000 (around -28.45%) compared to 2017 respectively. The main reason for the decreased operating profits lies in the stoppage of the potassium sulfate production line ordered on October 11, 2018.

Due to the increasing uncertainty of the global economic outlook in the wake of the adoption of trade protection policies by the US coupled with the sluggish outlook of major economies including the Eurozone and China and decreasing trade volumes, there is only limited room for export sale growth. Due to the fact that Taiwan is an export-reliant economy, the expected impact is particularly serious.

Despite the expectation in certain level of growth in the field of bulk agricultural products and raw materials, the potassium sulfate fertilizer market is facing with an oversupply. This situation coupled with tariff reductions by the Chinese government to strengthen exports in an effort to unload excess production capacities has resulted in fiercer market competition. Moreover, there are only small number of countries have concluded free trade agreements with Taiwan, which provides further concern for our exporting potassium sulfate. The demand for other basic chemical products which is affected by demand patterns of the electronic and solar energy industries is strongly linked to the overall economic outlook.

As for reinvestments in bulk shipping, the accelerated replacement of old ships is an expected result of the imminent enactment of new environmental laws worldwide. Due to the limited supply of new ships by shipyards, a gradual increase of freight rates is expected. The company's bulk carrier fleet which currently consists of 15 ships therefore provides a stable source of profits for the company.

A combination of various factors including an uncertain macro-environment, international trade tensions, and the weakening momentum of global economic expansion is expected to result in slowing growth. All staff members of this Company are fully committed to ensuring business continuity and steady growth through expansion of production capacities, enhanced competitiveness, and proactive and prudent approaches in the face of market changes.

I'd like to avail myself of this opportunity to express my deep gratitude to all shareholders, directors, and staff members for their continued support. We wish you good health, happiness, and success in 2019.

R. Y. Chen
Chairman
SESODA CORPORATION



安侯建業聯合會計師事務所

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Independent Auditor's 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, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended. In our report dated February 22, 2019, 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.



February 22, 2019

SESODA CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017
(expressed in thousands of New Taiwan dollars)

	December 31, 2018		December 31, 2017			December 31, 2018		December 31, 2017	
	Amount	%	Amount	%		Amount	%	Amount	%
Assets					Liabilities and Equity				
Current assets:					Current liabilities:				
Cash and cash equivalents	\$ 1,117,846	9	749,602	7	Short-term borrowings	\$ 1,172,640	10	605,920	6
Financial assets at fair value through profit or loss -- current	4,842	-	-	-	Long-term borrowings -- current portion	449,906	4	287,870	3
Notes receivable	176,751	2	225,377	2	Accounts payable	207,530	2	338,389	3
Accounts receivable, net	279,927	2	343,524	3	Other payables	250,129	2	209,663	2
Other receivable -- related party	-	-	7	-	Current tax liabilities	23,833	-	69,001	1
Inventories	389,716	3	408,396	4	Other current liabilities	45,787	-	51,120	-
Other financial assets -- current	15,476	-	16,007	-	Total current liabilities	2,149,825	18	1,561,963	15
Other current assets	105,340	1	93,619	1	Non-current liabilities:				
Total current assets	2,089,898	17	1,836,532	17	Long-term borrowings	3,847,275	32	3,154,028	30
Non-current assets:					Deferred tax liabilities	408,377	3	394,960	4
Financial assets at fair value through other comprehensive income -- non-current	212,873	2	-	-	Net defined benefit liabilities	-	-	7,380	-
Available-for-sale financial assets -- non-current	-	-	5,381	-	Total non-current liabilities	4,255,652	35	3,556,368	34
Financial assets carried at cost -- non-current	412,313	4	193,185	2	Total liabilities	6,405,477	53	5,118,331	49
Investments accounted for using equity method	8,946,803	73	7,388,267	69	Equity attributable to owners of parent:				
Property, plant and equipment	1,837	-	3,190	-	Common stock	2,014,479	16	2,014,479	19
Deferred tax assets	518,489	4	804,374	8	Capital surplus	15,924	-	13,967	-
Refundable deposits	8,764	-	2,894	-	Retained earnings:				
Net defined benefit assets	4,660	-	-	-	Legal reserve	903,685	7	854,604	8
Other non-current assets	1,389	-	2,795	-	Special reserve	215,821	2	131,971	1
Total non-current assets	10,116,128	83	8,810,520	83	Unappropriated retained earnings	2,636,494	22	2,590,638	24
					Other equity:	3,756,000	31	3,577,213	33
					Exchanges differences on translation of foreign financial statements	16,717	-	(82,907)	(1)
					Unrealized gains or losses on financial assets measured at fair value through other comprehensive income	(2,571)	-	-	-
					Unrealized gains or losses on available-for-sale financial assets	-	-	(964)	-
					Total equity attributable to owners of parent	14,146	-	(83,871)	(1)
					Non-controlling interests	5,800,549	47	5,521,788	51
					Total equity	5,800,549	47	5,528,721	51
Total assets	\$ 12,206,026	100	\$ 10,647,052	100	Total liabilities and equity	\$ 12,206,026	100	\$ 10,647,052	100



SESODA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017
(expressed in thousands of New Taiwan dollars, except for earnings per share)

	2018		2017	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Operating revenue	\$ 4,068,623	100	3,876,952	100
Operating cost	<u>3,027,176</u>	<u>74</u>	<u>2,767,461</u>	<u>72</u>
Gross profit	<u>1,041,447</u>	<u>26</u>	<u>1,109,491</u>	<u>28</u>
Operating expenses:				
Selling expenses	286,156	7	323,043	8
Administrative expenses	245,590	6	229,809	6
Reversal of expected credit losses	<u>(8,653)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>523,093</u>	<u>13</u>	<u>552,852</u>	<u>14</u>
Operating income	<u>518,354</u>	<u>13</u>	<u>556,639</u>	<u>14</u>
Non-operating income and expenses:				
Other income	5,924	-	1,410	-
Other gains and losses	39,852	1	58,226	2
Finance costs	(149,933)	(3)	(97,434)	(3)
Share of gain of associates accounted for using equity method	<u>8,510</u>	<u>-</u>	<u>64,763</u>	<u>2</u>
Total non-operating income and expenses	<u>(95,647)</u>	<u>(2)</u>	<u>26,965</u>	<u>1</u>
Net income before tax	422,707	11	583,604	15
Income tax expense	<u>70,971</u>	<u>2</u>	<u>91,540</u>	<u>2</u>
Net income	<u>351,736</u>	<u>9</u>	<u>492,064</u>	<u>13</u>
Other comprehensive income:				
Items that may not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation	8,165	-	6,625	-
Unrealized losses from financial assets measured at fair value through other comprehensive income	<u>(44,519)</u>	<u>(1)</u>	<u>-</u>	<u>-</u>
Share of other comprehensive gain or loss of associates accounted for using equity method	352	-	<u>(329)</u>	<u>-</u>
Income tax related to items that may not be reclassified subsequently	<u>951</u>	<u>-</u>	<u>(3,862)</u>	<u>-</u>
	<u>(36,953)</u>	<u>(1)</u>	<u>10,158</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign financial statements	99,347	2	(229,589)	(6)
Unrealized gain or loss on available-for-sale financial assets	-	-	904	-
Share of other comprehensive gain or loss of associates accounted for using equity method	277	-	<u>(875)</u>	<u>-</u>
Income tax related to items that may be reclassified subsequently	<u>-</u>	<u>-</u>	<u>(4,213)</u>	<u>-</u>
	<u>99,624</u>	<u>2</u>	<u>(225,347)</u>	<u>(6)</u>
Total other comprehensive income	<u>62,671</u>	<u>1</u>	<u>(215,189)</u>	<u>(6)</u>
Total comprehensive income	\$ <u>414,407</u>	<u>10</u>	\$ <u>276,875</u>	<u>7</u>
Net income attributable to:				
Owners of parent	\$ 351,180	9	490,813	13
Non-controlling interests	<u>556</u>	<u>-</u>	<u>1,251</u>	<u>-</u>
	\$ <u>351,736</u>	<u>9</u>	\$ <u>492,064</u>	<u>13</u>
Comprehensive income attributable to:				
Owners of parent	\$ 413,851	10	275,624	7
Non-controlling interests	<u>556</u>	<u>-</u>	<u>1,251</u>	<u>-</u>
	\$ <u>414,407</u>	<u>10</u>	\$ <u>276,875</u>	<u>7</u>
Basic earnings per share of common stock (expressed in New Taiwan dollars)	\$ <u>1.74</u>		<u>2.44</u>	
Diluted earnings per share of common stock (expressed in New Taiwan dollars)	\$ <u>1.73</u>		<u>2.42</u>	

SESODA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017
(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 (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Total			
Balance as of January 1, 2017	\$ 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	-	-	-	-	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(964)	(964)
Net income in 2017	-	-	-	-	490,813	490,813	-	-	-	-	490,813	1,251	492,064
Other comprehensive income in 2017	-	-	-	-	10,158	10,158	(226,238)	-	891	(225,347)	(215,189)	-	(215,189)
Total comprehensive income in 2017	-	-	-	-	500,971	500,971	(226,238)	-	891	(225,347)	(215,189)	1,251	278,875
Changes in equity of associates accounted for using equity method	-	1,670	-	-	-	-	-	-	-	-	1,670	-	1,670
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
Effects of retrospective application	-	-	-	-	22,648	22,648	-	42,643	964	43,607	66,255	-	66,255
Balance on January 1, 2018 after adjustments	2,014,479	13,967	854,604	131,971	2,613,286	3,599,861	(82,907)	42,643	-	(40,264)	5,588,043	6,933	5,594,976
Appropriation of retained earnings:													
Legal reserve	-	-	49,081	-	(49,081)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	83,850	(83,850)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(201,448)	(201,448)	-	-	-	-	(201,448)	-	(201,448)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(1,209)	(1,209)
Net income in 2018	-	-	-	-	351,180	351,180	-	-	-	-	351,180	556	351,736
Other comprehensive income in 2018	-	-	-	-	7,566	7,566	99,624	(44,519)	-	55,105	62,671	-	62,671
Total comprehensive income in 2018	-	-	-	-	358,746	358,746	99,624	(44,519)	-	55,105	413,851	556	414,407
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	260	260	-	(260)	-	(260)	-	-	-
Changes in ownership interests in subsidiaries	-	-	-	-	(2,101)	(2,101)	-	-	-	-	(2,101)	2,101	-
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(8,381)	(8,381)
Changes in equity of associates accounted for using equity method	-	468	-	-	682	682	-	(435)	-	(435)	715	-	715
Changes in capital surplus	-	1,489	-	-	-	-	-	-	-	-	1,489	-	1,489
Balance as of December 31, 2018	\$ 2,014,479	15,924	903,685	215,821	2,636,494	3,756,000	16,717	(2,571)	-	14,146	5,800,549	-	5,800,549

SESODA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017
(expressed in thousands of New Taiwan dollars)

	<u>2018</u>	<u>2017</u>
Cash flows from (used in) operating activities:		
Net income before tax	\$ <u>422,707</u>	<u>583,604</u>
Adjustments		
Adjustments to reconcile profit and loss		
Depreciation	372,748	315,520
Provision for allowance for sales discount	-	8,148
Reversal of expected credit losses	(8,653)	-
Loss (gain) on financial assets at fair value through profit or loss	158	(30)
Interest expense	149,933	97,434
Interest income	(4,304)	(1,277)
Dividend income	(1,620)	-
Share of gain of associates accounted for using equity method	(8,510)	(64,763)
Loss on disposal of property, plant and equipment	1,135	5,874
Property, plant and equipment transferred to expenses	41,742	37,515
Gain on disposal of investments	-	(460)
Gain on disposal of associates accounted for using equity method	-	(59,324)
Total adjustments to reconcile profit and loss	<u>542,629</u>	<u>338,637</u>
Changes in operating assets:		
Decrease (increase) in notes receivable	48,626	(50,879)
Decrease in accounts receivable	72,250	140,662
Decrease in other receivable from related parties	7	668
Decrease (increase) in inventories	16,755	(72,420)
Increase in other current assets	(11,717)	(18,989)
Decrease in other financial assets – current	<u>2,506</u>	<u>180</u>
Total changes in operating assets, net	<u>128,427</u>	<u>(778)</u>
Changes in operating liabilities:		
Decrease in notes payable	-	(13,269)
Increase (decrease) in accounts payable	(130,859)	56,383
Increase in other payables	20,412	1,191
Decrease in other current liabilities	(5,333)	(968)
Decrease in net defined benefit liabilities	<u>(3,875)</u>	<u>(3,146)</u>
Total changes in operating liabilities, net	<u>(119,655)</u>	<u>40,191</u>
Total changes in operating assets and liabilities, net	<u>8,772</u>	<u>39,413</u>
Total adjustments	<u>551,401</u>	<u>378,050</u>

(Continued)



SESODA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flow

For the years ended December 31, 2018 and 2017
(expressed in thousands of New Taiwan dollars)

	<u>2018</u>	<u>2017</u>
Cash inflow generated from operations	\$ 974,108	961,654
Interest received	2,329	1,277
Dividends received	34,521	25,125
Interest paid	(148,146)	(97,780)
Income tax paid	<u>(102,324)</u>	<u>(62,010)</u>
Net cash flows from operating activities	<u>760,488</u>	<u>828,266</u>
Cash flows from (used in) investing activities:		
Proceeds from disposal of financial assets at fair value through other comprehensive income	6,601	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	1,827	-
Acquisition of financial assets at fair value through profit or loss	(5,000)	(3,000)
Proceeds from disposal of financial assets at fair value through profit or loss	-	3,030
Proceeds from disposal of financial assets carried at cost	-	460
Proceeds from capital reduction of financial assets carried at cost	-	12,503
Acquisition of associates accounted for using equity method	(31,134)	-
Proceeds from disposal of associates accounted for using equity method	-	70,251
Acquisition of property, plant and equipment	(1,458,844)	(1,702,817)
Proceeds from disposal of property, plant and equipment	1,905	5,224
Decrease (increase) in refundable deposits	(5,870)	5,550
Decrease (increase) in other non-current assets	<u>1,406</u>	<u>(594)</u>
Net cash used in investing activities	<u>(1,489,109)</u>	<u>(1,609,393)</u>
Cash flows from (used in) financing activities:		
Increase in short-term loans	4,983,794	2,021,320
Repayments of short-term loans	(4,431,325)	(2,068,040)
Increase in long-term loans	1,050,624	1,458,533
Repayments of long-term loans	(302,068)	(271,219)
Cash dividends paid	(201,448)	(95,928)
Dividends paid to non-controlling interests	(1,209)	(964)
Changes in non-controlling interests	(8,381)	-
Previous years' cash dividends received	<u>1,489</u>	<u>1,508</u>
Net cash flows from financing activities	<u>1,091,476</u>	<u>1,045,210</u>
Effects of changes in foreign exchange rates	<u>5,389</u>	<u>(142,066)</u>
Net increase in cash and cash equivalents	368,244	122,017
Cash and cash equivalents at beginning of year	<u>749,602</u>	<u>627,585</u>
Cash and cash equivalents at end of year	<u>\$ 1,117,846</u>	<u>749,602</u>

