

Union Textile Industries Public Company Limited

Notes to interim financial statements

For the three-month period ended 31 March 2018

1. General information

1.1 Corporate information

Union Textile Industries Public Company Limited (“the Company”) is a public company incorporated and domiciled in Thailand. Its parent company is Saha-Union Public Company Limited, which was incorporated in Thailand. The Company is principally engaged in the manufacture and distribution of textiles. The Company’s registered addresses are as follows:

Head office : 1828 Sukhumvit Road, South Phra Kanong Sub District, Phra Kanong District, Bangkok

Branch : 205 Moo 4, Sukhumvit Road (Km. 39.5), Tambol Bangpoo Mai, Amphur Muang Samutprakarn, Samutprakarn

1.2 Basis for the preparation of interim financial statements

These interim financial statements are prepared in accordance with Thai Accounting Standard No. 34 Interim Financial Reporting, with the Company choosing to present condensed interim financial statements. However, the Company has presented the statements of financial position, income statement, comprehensive income, changes in shareholders' equity, and cash flows in the same format as that used for the annual financial statements.

The interim financial statements are intended to provide information additional to that included in the latest annual financial statements. Accordingly, they focus on new activities, events and circumstances so as not to duplicate information previously reported. These interim financial statements should therefore be read in conjunction with the latest annual financial statements.

The interim financial statements in Thai language are the official statutory financial statements of the Company. The interim financial statements in English language have been translated from the Thai language interim financial statements.

1.3 New financial reporting standards

(a) Financial reporting standards that became effective in the current year

During the period, the Company has adopted the revised financial reporting standards and interpretations (revised 2016) which are effective for fiscal years beginning on or after 1 January 2018. These financial reporting standards were aimed at alignment with the corresponding International Financial Reporting Standards with most of the changes and clarifications directed towards disclosures in the notes to financial statements. The adoption of these financial reporting standards does not have any significant impact on the Company's financial statements.

(b) Financial reporting standard that will become effective in the future

During the period, the Federation of Accounting Professions issued the financial reporting standard TFRS 15 Revenue from Contracts with Customers, which is effective for fiscal years beginning on or after 1 January 2019. Key principles of this standard are summarized below.

TFRS 15 Revenue from Contracts with Customers

TFRS 15 supersedes TAS 11 Construction Contracts, TAS 18 Revenue and related Interpretations. An entity shall apply this standard to all contracts with customers unless those contracts are in the scope of other standards. The standard establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model.

At present, the management of the Company is evaluating the impact of this standard to the financial statements in the year when it is adopted.

1.4 Significant accounting policies

The interim financial statements are prepared using the same accounting policies and methods of computation as were used for the financial statements for the year ended 31 December 2017.

2. Related party transactions

During the periods, the Company had significant business transactions with related parties. Such transactions, which are summarised below, arose in the ordinary course of business and were concluded on commercial terms and bases agreed upon between the Company and those related parties.

(Unit: Million Baht)

	For the three-month period ended 31 March		Pricing policy
	<u>2018</u>	<u>2017</u>	
<u>Transactions with parent company</u>			
Purchases of raw materials	94	101	Cost plus margin of parent company
<u>Transactions with related companies</u>			
Sales of goods	2	1	Cost plus margin
Rental income	5	5	Contract price
Other income	-	1	Contract price

As at 31 March 2018 and 31 December 2017, the balances of the accounts between the Company and those related parties are as follows:

(Unit: Thousand Baht)

	31 March 2018	31 December 2017
		(Audited)
<u>Trade and other receivables - related parties</u> (Note 3)		
Related companies (Has common shareholders)	2,877	807
Related company (Held by the Company)	142	141
Others	16	11
Total trade and other receivables - related parties - net	<u>3,035</u>	<u>959</u>
<u>Trade and other payables - related parties</u> (Note 9)		
Parent company	9,339	20,587
Associated company	629	629
Related companies (Has common shareholders)	30	132
Others	8	6
Total trade and other payables - related parties	<u>10,006</u>	<u>21,354</u>

(Unaudited but reviewed)

Directors and management's benefit

During the three-month periods ended 31 March 2018 and 2017, the Company had employee benefit expenses of its directors and management as below.

	(Unit: Thousand Baht)	
	For the three-month	
	periods ended 31 March	
	<u>2018</u>	<u>2017</u>
Short-term employee benefits	3,022	2,633
Post-employment benefits	22	19
Total	<u>3,044</u>	<u>2,652</u>

3. Trade and other receivables

As at 31 March 2018 and 31 December 2017, the Company's trade and other receivables, classified according to age of receivables, were as follows:

	(Unit: Thousand Baht)	
	31 March	31 December
	2018	2017
		(Audited)
<u>Trade receivables - related parties</u>		
Age of receivables		
Not yet due	1,001	482
Total trade receivables - related parties - net	<u>1,001</u>	<u>482</u>
<u>Trade receivables - unrelated parties</u>		
Age of receivables		
Not yet due	146,462	166,219
Past due up to 3 months	552	2,080
Total trade receivables - unrelated parties	<u>147,014</u>	<u>168,299</u>
Total trade receivables - net	<u>148,015</u>	<u>168,781</u>
<u>Other receivables</u>		
Other receivables - related parties	2,034	477
Other receivables - unrelated parties	8,076	5,272
Total other receivables - net	<u>10,110</u>	<u>5,749</u>
Total trade and other receivables - net	<u>158,125</u>	<u>174,530</u>

(Unaudited but reviewed)

4. Inventories

(Unit: Thousand Baht)

	Cost		Reduce cost to net realisable value		Inventories-net	
	31 March	31 December	31 March	31 December	31 March	31 December
	2018	2017	2018	2017	2018	2017
	(Audited)		(Audited)		(Audited)	
Finished goods	39,084	34,923	(1,595)	(595)	37,489	34,328
Work in process	24,328	26,245	-	-	24,328	26,245
Raw materials						
and chemicals	106,373	105,384	-	-	106,373	105,384
Spare parts and						
factory supplies	1,633	948	(263)	(263)	1,370	685
Goods in transit	893	-	-	-	893	-
Total	172,311	167,500	(1,858)	(858)	170,453	166,642

Movements in the allowance to reduce cost of inventories to net realisable value during the three-month periods ended 31 March 2018 and 2017 are summarised below.

(Unit: Thousand Baht)

	2018	2017
Balance as at 1 January	858	1,351
Add: Reduce cost to net realisable value increase during the period	1,000	22
Balance as at 31 March	1,858	1,373

5. Investments in associated companies**5.1 Details of associated companies**

(Unit: Thousand Baht)

Company's name	Shareholding percentage		Financial statements in which the equity method is applied		Separate financial statements	
	31 March	31 December	31 March	31 December	31 March	31 December
	2018	2017	2018	2017	2018	2017
	%	%	(Audited)		(Audited)	
Unifibre Co., Ltd.	20.83	20.83	235,829	232,433	25,000	25,000
Ten Cate-Union Protective Fabrics Asia Ltd. ("TCUA")	49.35	49.35	16,950	16,950	190,000	190,000
Total investments in associated companies			252,779	249,383	215,000	215,000
Less: Allowance for impairment loss on investment in TCUA			(16,950)	(16,950)	(190,000)	(190,000)
Total investments in associated companies - net			235,829	232,433	25,000	25,000

The joint venture agreement between the Company and Ten Cate Advanced Textiles BV, a company incorporated in the Netherlands, for the establishment of TCUA contains certain conditions and restrictions, including a restriction on the transfer of shares of TCUA unless prior consent has been obtained in writing from the other party.

The agreement also describes material events in case of which either shareholder may request TCUA's board of directors to call a shareholders' meeting to decide whether to dissolve and liquidate TCUA. Such material events are as follows:

- 1) The return on equity (ROE) of TCUA is less than 5 percent for any 3 consecutive years, commencing from 2009, or
- 2) TCUA has accumulated losses in excess of 50 percent of its registered capital.

As at 31 December 2012, the return on equity of TCUA had been less than 5 percent for 4 consecutive years, commencing from 1 January 2009, and TCUA has accumulated losses in excess of 50 percent of its registered capital. In view of above-mentioned contractual requirement, there is uncertainty as to whether TCUA will be able to continue as a going concern especially when it had lost one major customer in the fourth quarter of 2012. For prudent reasons, the Company has set aside full allowance for impairment of its investment in TCUA.

Subsequently on 11 March 2013, TCUA held an Extraordinary General Shareholders Meeting and this meeting resolved to dissolve TCUA's business operations. TCUA filed for deregistration with the Ministry of Commerce on 22 March 2013. At the present, TCUA is in the process of liquidation.

5.2 Share of profit (loss) and dividend received

During the three-month periods ended 31 March 2018 and 2017, the Company has recognised its share of profit (loss) from investments in associated company in the financial statements in which the equity method is applied as follows:

(Unit: Thousand Baht)		
Share of profit (loss) from investments in associated company for the three-month periods ended 31 March		
Company's name	<u>2018</u>	<u>2017</u>
Unifibre Co., Ltd.	(61)	172
Total	<u>(61)</u>	<u>172</u>

The share of profit (loss) from the investment in Unifibre Co., Ltd. (the associated company) for the three-month period ended 31 March 2018 has been calculated based on financial statements prepared by the management of that company, and not reviewed by its auditor. However, the Company's management believes that there would be no material discrepancies if those financial statements had been audited by the associated company's auditor.

The Company ceased recognising its share of profit/loss from Ten Cate-Union Protective Fabrics Asia Ltd. (TCUA) since the first quarter of 2013 because the Company has set aside full allowance for impairment of its investment in TCUA, as discussed in Note 5.1 to financial statements.

The Company did not receive any dividend from the associated companies during the three-month periods ended 31 March 2018 and 2017.

6. Other long-term investments

	Shareholding percentage		Investment value	
	31 March 2018	31 December 2017	31 March 2018	31 December 2017
	%	% (Audited)	Thousand Baht	Thousand Baht (Audited)
<u>Investment in available-for-sale securities</u>				
Saha-Union Plc.	0.33	0.33	16,191	16,191
Add: Unrealised gain from change in value of investment			28,809	27,309
Investment in available-for-sale securities, net			45,000	43,500
<u>Investments in other companies</u>				
Union Business Management Co., Ltd.	19.00	19.00	94,999	94,999
Union Micronclean Co., Ltd.	13.00	13.00	650	650
Total investments in other companies			95,649	95,649
Total other long-term investments - net			140,649	139,149

7. Property, plant and equipment

Movements of the property, plant and equipment account during the three-month period ended 31 March 2018 are summarised below.

(Unit: Thousand Baht)

Net book value as at 1 January 2018	141,470
Acquisitions during the period - at cost	4,364
Depreciation for the period	(6,595)
Net book value as at 31 March 2018	<u>139,239</u>

The Company has undertaken not to dispose of or transfer or create any obligations to its immovable properties as specified in the credit facilities agreement, unless prior consent has been obtained in writing from the banks.

8. Other non-current assets

The balances of other non-current assets above include account receivables of Ten Cate-Union Protective Fabrics Asia Ltd. ("TCUA") amounting to Baht 39 million. There is uncertainty about the recoverable amount of this receivable because TCUA has filed for deregistration with the Ministry of Commerce and is in the process of liquidation. At the present, it still not finalised the net asset value. For prudent reasons, the Company has therefore set aside full allowance for doubtful debts for this receivable.

9. Trade and other payables

(Unit: Thousand Baht)

	31 March 2018	31 December 2017
		(Audited)
Trade accounts payable - related parties	9,641	20,989
Trade accounts payable - unrelated parties	16,456	14,979
Other payable - related parties	365	365
Accrued expenses - unrelated parties	11,267	18,529
Total trade and other payables	<u>37,729</u>	<u>54,862</u>

10. Provision for long-term employee benefits

Provision for long-term employee benefits, which is compensations on employees' retirement, was as follows:

	(Unit: Thousand Baht)	
	31 March 2018	31 December 2017
		(Audited)
Present value of defined benefit obligation	64,796	71,524
Fair value of plan assets	(30,257)	(30,001)
Net defined benefit liability	<u>34,539</u>	<u>41,523</u>

Changes in present value of defined benefit obligation and fair value of plan assets for the three-month period ended 31 March 2018 were as follows:

	(Unit: Thousand Baht)
Defined benefit obligation at beginning of period	71,524
Included in profit or loss:	
Current service cost	800
Interest cost	322
Included in other comprehensive income:	
Actuarial gain arising from	
Demographic assumptions changes	(3,545)
Financial assumptions changes	2,323
Experience adjustments	(4,540)
Benefits paid during the period	(2,088)
Defined benefit obligation at end of period	<u>64,796</u>
 Fair value of plan assets at beginning of period	 30,001
Change in fair value	1,019
Contribution by the Company	583
Benefits paid during the period	(1,346)
Fair value of plan assets at end of period	<u>30,257</u>

Plan assets comprise bank deposits, government bonds, and equity and debt instruments in active market.

11. Preference shares

The cumulative unpaid dividend to the preference shares as at 31 March 2018 amounted to Baht 145 million (31 December 2017: Baht 144 million).

12. Income tax

Interim corporate income tax was calculated on profit before income tax for the period, using the estimated effective tax rate for the year.

Income tax expenses for the three-month periods ended 31 March 2018 and 2017 are made up as follows:

	(Unit: Thousand Baht)	
	For the three-month periods end 31 March	
	<u>2017</u>	<u>2016</u>
Current income tax:		
Interim corporate income tax	-	-
Deferred tax:		
Relating to origination and reversal of temporary differences	304	293
Income tax expenses reported in the income statements	<u>304</u>	<u>293</u>

The amount of income tax relating to each component of other comprehensive income for the three-month periods ended 31 March 2018 and 2017 are made up as follows:

	(Unit: Thousand Baht)	
	For the three-month periods ended 31 March	
	<u>2018</u>	<u>2017</u>
Deferred tax on gain from the change in value of available-for-sale investments	<u>300</u>	<u>50</u>

13. Basic earnings per share

Basic earnings per share are calculated by dividing profit (loss) for the period (excluding other comprehensive income) by the weighted average number of ordinary shares in issue during the period.

(Unaudited but reviewed)

The following table sets forth the computation of basic earnings per share:

Financial statements in which the equity method is applied						
Profit		Weighted average number of ordinary shares		Basic earnings per share		
<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	
Thousand Baht	Thousand Baht	Thousand shares	Thousand shares	Baht	Baht	
For the three-month periods ended 31 March						
Profit for the period	4,103	5,839				
Less: Dividend of preference shares	(5,250)	(5,250)				
Profit (loss) of ordinary shares	(1,147)	589	45,000	45,000	(0.03)	0.01

Separate financial statements						
Profit		Weighted average number of ordinary shares		Basic earnings per share		
<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	
Thousand Baht	Thousand Baht	Thousand shares	Thousand shares	Baht	Baht	
For the three-month periods ended 31 March						
Profit for the period	4,164	5,667				
Less: Dividend of preference shares	(5,250)	(5,250)				
Profit (loss) of ordinary shares	(1,086)	417	45,000	45,000	(0.02)	0.01

14. Financial information by segment

The Company is principally engaged in the manufacture and distribution of textiles. Its operations are carried on only in Thailand. Segment performance is measured based on operating profit or loss, on a basis consistent with that used to measure operating profit or loss in the financial statements. As a result, all of the revenues, operating profits and assets as reflected in these financial statements pertain to the aforementioned reportable operating segment and geographical area.

15. Commitments and contingent liabilities

15.1 Capital commitment

As at 31 March 2018, the Company had capital commitments of Baht 8.0 million, in relation to buy the electrical equipment, factory equipment and monitoring system of ground level and groundwater quality (31 December 2017: Baht 0.2 million in relation to monitoring system of ground level and ground water quality).

15.2 Operating lease commitments

The Company has entered into operating leases relating to car rental, a security service agreement and other agreements, with terms generally averaging 1 to 3 years.

Future minimum lease payments required under these non-cancellable operating lease contracts were as follows.

	(Unit: Million Baht)	
	31 March 2018	31 December 2017
Payable:		
In up to 1 year	4.3	0.8
In over 1 and up to 3 years	0.3	-

15.3 Guarantees

As at 31 March 2018, the Company pledges BOT bond of Baht 11 million with Metropolitan Electricity Authority to guarantee the usage of electricity (31 December 2017: 11 million).

As at 31 March 2018, the Company had bank guarantees issued by a bank on behalf of the Company as a security for the purchases and sales of natural gas of Baht 1.6 million (31 December 2017: Baht 1.6 million).

16. Financial instruments

The Company earns part of its revenues from its export sales in US dollars and Euro. The balances of financial assets denominated in foreign currencies are summarised below.

Foreign currency	Financial assets		Average exchange rate	
	31 March 2018	31 December 2017	31 March 2018	31 December 2017
	(Million)	(Million)	(Baht per 1 foreign currency unit)	
US dollar	1.88	2.02	30.9758	32.4342
Euro	1.73	2.32	37.9452	38.5567

Foreign exchange contracts outstanding are summarised below.

As at 31 March 2018			
Foreign currency	Sold amount	Weighted average contractual exchange rate to sell	Contractual maturity date
	(Million)	(Baht per 1 foreign currency unit)	
US dollar	2.18	30.60 - 32.78	05/11/18 - 29/3/19
Euro	2.52	38.85 - 39.70	15/11/18 - 29/3/19

As at 31 December 2017			
Foreign currency	Sold amount	Weighted average contractual exchange rate to sell	Contractual maturity date
	(Million)	(Baht per 1 foreign currency unit)	
US dollar	2.30	32.27 - 34.17	05/03/18 - 25/12/18
Euro	2.50	38.80 - 39.95	16/2/18 - 28/12/18

17. Approval of interim financial statements

These interim financial statements were authorised for issue by the Company's authorised director on 9 May 2018.