

Union Textile Industries Public Company Limited

Notes to interim financial statements

For the three-month period ended 31 March 2019

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 Phraканong Sub District, Phraканong 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 period

During the period, the Company have adopted the revised (revised 2018) and new financial reporting standards and interpretations which are effective for fiscal periods beginning on or after 1 January 2019. These financial reporting standards were aimed at alignment with the corresponding International Financial Reporting Standards with most of the changes directed towards clarifying accounting treatment and providing accounting guidance for users of the standards. The adoption of these financial reporting standards does not have any significant impact on the Company's financial statements. However, the new standard involves changes to key principles, which are summarised below:

TFRS 15 Revenue from Contracts with Customers

TFRS 15 supersedes the following accounting standards together with related interpretations.

TAS 11 (revised 2017)	Construction Contracts
TAS 18 (revised 2017)	Revenue
TSIC 31 (revised 2017)	Revenue - Barter Transactions Involving Advertising Services
TFRIC 13 (revised 2017)	Customer Loyalty Programmes
TFRIC 15 (revised 2017)	Agreements for the Construction of Real Estate
TFRIC 18 (revised 2017)	Transfers of Assets from Customers

Entities are to apply this standard to all contracts with customers unless those contracts fall within the scope of other standards. The standard establishes a five-step model to account for revenue arising from contracts with customers, with revenue being 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.

This standard does not have any significant impact on the Company's financial statements.

(b) Financial reporting standards that became effective for fiscal years beginning on or after 1 January 2020

The Federation of Accounting Professions issued a number of new financial reporting standards and interpretations, which are effective for fiscal years beginning on or after 1 January 2020. These new standards involve changes to key principles, which are summarised below.

Financial reporting standards related to financial instruments

A set of TFRSs related to financial instruments consists of five accounting standards and interpretations, as follows.

Financial reporting standards

TFRS 7	Financial Instruments: Disclosures
TFRS 9	Financial Instruments

Accounting standard

TAS 32	Financial Instruments: Presentation
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Financial Reporting Standard Interpretations

TFRIC 16	Hedges of a Net Investment in a Foreign Operation
TFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

These TFRSs related to financial instruments make stipulations relating to the classification of financial instruments and their measurement at fair value or amortised cost (taking into account the type of instrument, the characteristics of the contractual cash flows and the entities' business model), calculation of impairment using the expected credit loss method, and hedge accounting. These include stipulations regarding the presentation and disclosure of financial instruments. When the TFRSs related to financial instruments are effective, some accounting standards, interpretations and guidance which are currently effective will be cancelled.

The management of the Company is currently evaluating the impact of these standards to the financial statements in the year when they are adopted.

TFRS 16 Leases

TFRS 16 supersedes TAS 17 Leases together with related Interpretations. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is low value.

Accounting by lessors under TFRS 16 is substantially unchanged from TAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles to those used under TAS 17.

The management of the Company is currently evaluating the impact of this standard on 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 2018.

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>2019</u>	<u>2018</u>	
<u>Transactions with parent company</u>			
Purchases of raw materials	114	94	Cost plus margin of parent company
<u>Transactions with related companies</u>			
Sales of goods	-	2	Cost plus margin
Purchase of goods and raw materials	1	-	Cost plus margin of related companies
Rental income	5	5	Contract price

As at 31 March 2019 and 31 December 2018, the balances of the accounts between the Company and those related parties are as follows:

(Unit: Thousand Baht)

	<u>31 March 2019</u>	<u>31 December 2018</u>
		(Audited)
<u>Trade and other receivables - related parties</u> (Note 3)		
Related companies (Has common shareholders)	278	614
Related company (Held by the Company)	125	100
Others	8	7
Total trade and other receivables - related parties	<u>411</u>	<u>721</u>
<u>Trade and other payables - related parties</u> (Note 9)		
Parent company	26,717	53,339
Associated company	629	629
Related companies (Has common shareholders)	40	83
Total trade and other payables - related parties	<u>27,386</u>	<u>54,051</u>

Directors and management's benefit

During the three-month periods ended 31 March 2019 and 2018, 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>2019</u>	<u>2018</u>
Short-term employee benefits	2,931	3,022
Post-employment benefits	23	22
Total	<u>2,954</u>	<u>3,044</u>

3. Trade and other receivables

	(Unit: Thousand Baht)	
	<u>31 March 2019</u>	<u>31 December 2018</u>
		(Audited)
<u>Trade receivables - related parties</u>		
Aged on the basis of due dates		
Not yet due	-	305
Total trade receivables - related parties	<u>-</u>	<u>305</u>
<u>Trade receivables - unrelated parties</u>		
Aged on the basis of due dates		
Not yet due	143,847	165,605
Past due up to 3 months	41,768	11,552
Past due 3 to 6 months	-	200
Total trade receivables - unrelated parties	<u>185,615</u>	<u>177,357</u>
Total trade receivables	<u>185,615</u>	<u>177,662</u>
<u>Other receivables</u>		
Other receivables - related parties	411	416
Other receivables - unrelated parties	4,713	7,702
Total other receivables	<u>5,124</u>	<u>8,118</u>
Total trade and other receivables	<u>190,739</u>	<u>185,780</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
	2019	2018	2019	2018	2019	2018
	(Audited)		(Audited)		(Audited)	
Finished goods	43,984	31,536	(641)	(1,127)	43,343	30,409
Work in process	23,034	29,590	-	-	23,034	29,590
Raw materials and chemicals	143,201	117,209	-	-	143,201	117,209
Spare parts and factory supplies	2,434	373	(263)	(263)	2,171	110
Goods in transit	2,174	-	-	-	2,174	-
Total	214,827	178,708	(904)	(1,390)	213,923	177,318

Movements in the reduction of cost of inventories to net realisable value during the three-month periods ended 31 March 2019 and 2018 are summarised below.

(Unit: Thousand Baht)

	2019	2018
Balance as at 1 January	1,390	858
Add: Reduce cost to net realisable value increase (decrease) during the period	(486)	1,000
Balance as at 31 March	904	1,858

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
	2019	2018	2019	2018	2019	2018
	%	%	(Audited)		(Audited)	
Unifibre Co., Ltd.	20.83	20.83	253,775	253,482	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			270,725	270,432	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			253,775	253,482	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 2019 and 2018, 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:

Company's name	(Unit: Thousand Baht)	
	Share of profit (loss) from investments in associated company for the three-month periods ended 31 March	
	<u>2019</u>	<u>2018</u>
Unifibre Co., Ltd.	262	(61)
Total	<u>262</u>	<u>(61)</u>

The share of profit (loss) from the investment in Unifibre Co., Ltd. (the associated company) for the three-month periods ended 31 March 2019 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 2019 and 2018.

6. Other long-term investments

	Shareholding percentage		Investment value	
	31 March 2019	31 December 2018	31 March 2019	31 December 2018
	%	% (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			32,309	29,309
Investment in available-for-sale securities - net			48,500	45,500
<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			144,149	141,149

7. Property, plant and equipment

Movements of the property, plant and equipment account during the three-month period ended 31 March 2019 are summarised below.

	(Unit: Thousand Baht)
Net book value as at 1 January 2019	133,404
Acquisitions during the period - at cost	169
Sales during the period - net	(2)
Depreciation for the period	(6,415)
Net book value as at 31 March 2019	<u>127,156</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 2019	31 December 2018
		(Audited)
Trade accounts payable - related parties	27,039	53,685
Trade accounts payable - unrelated parties	15,272	16,428
Other payable - related parties	347	366
Accrued expenses	9,157	17,199
Total trade and other payables	<u>51,815</u>	<u>87,678</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 2019	31 December 2018
		(Audited)
Present value of defined benefit obligation	65,787	65,615
Fair value of plan assets	(29,496)	(29,200)
Net defined benefit liability	36,291	36,415

Changes in present value of defined benefit obligation and fair value of plan assets for the three-month period ended 31 March 2019 were as follows:

	(Unit: Thousand Baht)
Defined benefit obligation at beginning of period	65,615
Current service cost	748
Interest cost	313
Benefits paid during the period	(889)
Defined benefit obligation at end of period	65,787
Fair value of plan assets at beginning of period	29,200
Change in fair value	410
Contribution by the Company	550
Benefits paid during the period	(664)
Fair value of plan assets at end of period	29,496

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 2019 amounted to Baht 147 million (31 December 2018: Baht 147 million).

12. Sales and service income

Revenue from sales and service income mainly comprises revenue from textile distribution, revenue from shipping service as the Company has an obligation to ship goods sold to customers in accordance with conditions of contracts and other service income. The revenue from shipping service and other service income is immaterial to the Company's financial statements.

Revenue from textile distribution recognised at a point in time.

13. 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 (income) for the three-month periods ended 31 March 2019 and 2018 are made up as follows:

	(Unit: Thousand Baht)	
	For the three-month periods end 31 March	
	<u>2019</u>	<u>2018</u>
Current income tax:		
Interim corporate income tax	-	-
Deferred tax:		
Relating to origination and reversal of temporary differences	(113)	304
Income tax (income) expenses reported in the income statements	<u>(113)</u>	<u>304</u>

The amount of income tax relating to each component of other comprehensive income for the three-month periods ended 31 March 2019 and 2018 are made up as follows:

	(Unit: Thousand Baht)	
	For the three-month periods ended 31 March	
	<u>2019</u>	<u>2018</u>
Deferred tax on gain from the change in value of available-for-sale investments	<u>600</u>	<u>300</u>

14. 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.

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

Financial statements in which the equity method is applied						
Profit (loss)		Weighted average number of ordinary shares		Basic earnings per share		
<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	
Thousand Baht	Thousand Baht	Thousand shares	Thousand shares	Baht	Baht	
<u>For the three-month periods ended 31 March</u>						
Profit (loss) for the period	(261)	4,103				
Less: Dividend of preference shares	(5,250)	(5,250)				
Loss of ordinary shares	(5,511)	(1,147)	45,000	45,000	(0.12)	(0.03)
Separate financial statements						
Profit (loss)		Weighted average number of ordinary shares		Basic earnings per share		
<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	
Thousand Baht	Thousand Baht	Thousand shares	Thousand shares	Baht	Baht	
<u>For the three-month periods ended 31 March</u>						
Profit (loss) for the period	(523)	4,164				
Less: Dividend of preference shares	(5,250)	(5,250)				
Loss of ordinary shares	(5,773)	(1,086)	45,000	45,000	(0.13)	(0.02)

15. 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.

16. Commitments and contingent liabilities**16.1 Capital commitment**

As at 31 March 2019, the Company had no capital commitment.

As at 31 December 2018, the Company had capital commitments of Baht 0.3 million, relating to purchase the electrical equipment.

16.2 Operating lease commitments

The Company has entered into operating leases relating to car rental and service agreements, with terms generally averaging 1 to 3 year.

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

	(Unit: Million Baht)	
	31 March 2019	31 December 2018
Payable:		
In up to 1 year	4	1
In over 1 and up to 3 years	1	-

16.3 Guarantees

As at 31 March 2019, the Company pledges BOT bond of Baht 11 million with Metropolitan Electricity Authority to guarantee the usage of electricity (31 December 2018: 11 million).

As at 31 March 2019, 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 2018: Baht 1.6 million).

17. Financial instruments

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

Foreign currency	Financial assets		Average exchange rate	
	31 March 2019	31 December 2018	31 March 2019	31 December 2018
	(Million)	(Million)	(Baht per 1 foreign currency unit)	
US dollar	2.89	2.59	31.5577	32.1924
Euro	2.18	2.03	35.2573	36.6577

Foreign exchange contracts outstanding are summarised below.

As at 31 March 2019

Foreign currency	Sold amount	Weighted average contractual exchange rate to sell	Contractual maturity date
	(Million)	(Baht per 1 foreign currency unit)	
US dollar	4.91	30.64-32.98	03/07/19 - 27/03/20
Euro	2.60	35.65-39.50	24/07/19 - 31/03/20

As at 31 December 2018

Foreign currency	Sold amount	Weighted average contractual exchange rate to sell	Contractual maturity date
	(Million)	(Baht per 1 foreign currency unit)	
US dollar	3.70	31.81 - 32.98	02/07/19 - 24/12/19
Euro	2.25	37.45 - 39.55	17/01/19 - 27/12/19

18. Events after the reporting period

Amendments to the law relating to the legal severance pay rates

On 5 April 2019, The Labor Protection Act (No. 7) B.E. 2562 was announced in the Royal Gazette. This stipulates additional legal severance pay rates for employees who have worked for an uninterrupted period of twenty years or more, with such employees entitled to receive not less than 400 days' compensation at the latest wage rate. The law is effective from 5 May 2019. This change is considered a post-employment benefits plan amendment and the Company have additional long-term employee benefit liabilities of Baht 12.07 million as a result. The Company will reflect the effect of the change by recognising past service costs as expenses in the income statement of the period in which the law is effective, which is the second quarter of 2019.

19. Approval of interim financial statements

These interim financial statements were authorised for issue by the Company's authorised director on 9 May 2019.