

PART 3

FINANCIAL STATUS AND OPERATIONAL RESULTS

13 FINANCIAL STATEMENT HIGHLIGHTS

Financial Statement

| In Million Baht | Consolidated Financial Statement | | | Separate Financial Statement | | |
|-------------------------------------|----------------------------------|---------|---------|------------------------------|---------|---------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Financial Status | | | | | | |
| Current Assets (Million Baht) | 1,643.2 | 1,653.7 | 1,679.2 | 982.1 | 959.8 | 1,084.2 |
| Total Assets (Million Baht) | 5,655.0 | 4,772.8 | 3,915.5 | 3,763.2 | 3,042.3 | 2,625.9 |
| Current Liabilities (Million Baht) | 2,346.5 | 2,278.0 | 2,167.7 | 1,102.1 | 1,033.7 | 1,094.1 |
| Total Liabilities (Million Baht) | 2,815.1 | 2,646.5 | 2,299.5 | 1,379.6 | 1,166.7 | 1,170.7 |
| Shareholder's Equity (Million Baht) | 2,839.9 | 2,126.4 | 1,616.0 | 2,383.6 | 1,875.6 | 1,455.2 |
| Operation Report | | | | | | |
| Sales and Services (Million Baht) | 3,874.2 | 3,502.2 | 3,773.4 | 2,644.0 | 2,355.2 | 2,579.6 |
| Total Revenues (Million Baht) | 3,938.0 | 4,308.8 | 3,824.8 | 2,728.6 | 3,063.6 | 2,598.0 |
| Gross Profit (Loss) (Million Baht) | 104.3 | 183.5 | 253.5 | 25.1 | 73.7 | 151.4 |
| Net Profit (Loss) (Million Baht) | (109.6) | 524.8 | (24.1) | (80.6) | 445.4 | (58.2) |
| Financial Ratio | | | | | | |
| Net Profit (Loss) Per Share (Baht) | (2.19) | 10.50 | (0.48) | (1.61) | 8.91 | (1.16) |
| Current Ratio | 0.70 | 0.73 | 0.77 | 0.89 | 0.93 | 0.99 |
| Net Profit (Loss) / Equity (%) | (4.65) | 30.08 | (1.57) | (3.78) | 27.72 | (3.89) |
| Return on Assets (%) | (2.10) | 11.72 | (0.59) | (2.37) | 16.21 | (2.16) |
| Debt to Equity Ratio | 0.99 | 1.24 | 1.42 | 0.58 | 0.62 | 0.80 |
| Dividend per Share (Baht) | – | 0.50 | 0.50 | – | 0.50 | 0.50 |
| Book Value per Share (Baht) | 54.01 | 40.26 | 30.26 | 47.67 | 37.51 | 29.10 |

14 MANAGING DIRECTORS ANALYSIS

Managing Directors Analysis and Explanation

14.1 Overview

In 2018, the global financial and manufacturing sectors are still in a volatile state, which is a continuation from 2017, due to conflicts between superpower nations. Some example of the conflicts are, the United states President Donald Trump talking a strong stance to reduce trade deficit of his country on products imported from China, which triggered a trade war that saw China immediately retaliating with their own tax increase on products imported from The United States.

The United States' sudden decision to withdraw from the U.N. Human Rights Council, as well as announcing economic sanctions to Iran caused a halt in the world economy, including trading in the Middle East.

The Political uncertainty of the United Kingdom on the Brexit agreement with the European Union also plays a major role in the economic slowdown.

These are examples of political conflicts within and between countries which reflects the growing breakage between the social and economic ideas. For the textile industry sector, many textile manufacturers in Thailand have slowly withdrawn from the industry due the higher overhead cost compared to our neighboring countries. The Company used the pricing policy to compete with other companies, which see an increase in sales, however, the operation results in a loss, which is the same for other manufacturers of the same products both locally, and internationally. This is the worst for the textile industry since the economic crisis in 1997.

14.2 Segment Information

Major revenue for The Company are from fabrics yarn and garment, which were sold locally and exported while the revenue for The Subsidiary are from raw cotton fibers and yarns, The details are as below chart.

(Units: Million Baht)

| Product / service | 2018 | | 2017 | | 2016 | |
|-----------------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|
| | Income | % | Income | Income | % | Income |
| Company | | | | | | |
| Garment | | | | | | |
| Local Sale | 32.75 | 0.83 | 71.99 | 1.67 | 61.39 | 1.61 |
| Export Sale | 159.36 | 4.05 | 134.69 | 3.13 | 160.62 | 4.20 |
| Fabric | | | | | | |
| Local Sale | 724.16 | 18.39 | 612.08 | 14.21 | 702.63 | 18.37 |
| Export Sale | 729.75 | 18.53 | 618.66 | 14.36 | 755.93 | 19.76 |
| Raw Cotton and Yarns | | | | | | |
| Local Sale | 646.52 | 16.42 | 571.56 | 13.27 | 596.21 | 15.59 |
| Export Sale | 273.56 | 6.95 | 218.04 | 5.06 | 205.31 | 5.37 |
| Local Services Income | 63.02 | 1.60 | 120.52 | 2.80 | 96.96 | 2.54 |
| Local Other Income | 31.66 | 0.80 | 679.89 | 15.78 | 17.86 | 0.47 |
| Total | 2,660.78 | 67.57 | 3,027.43 | 70.26 | 2,596.91 | 67.90 |
| Subsidiary | | | | | | |
| Raw Cotton and Yarns | 1,213.78 | 30.82 | 1,110.17 | 25.77 | 1,149.79 | 30.06 |
| Local Services Income | 31.33 | 0.80 | 44.45 | 1.03 | 44.56 | 1.17 |
| Other Income | 32.07 | 0.81 | 126.78 | 2.94 | 33.53 | 0.88 |
| Total | 1,277.18 | 32.43 | 1,281.40 | 29.74 | 1,227.88 | 32.10 |
| Grand Total | 3,937.96 | 100.00 | 4,308.83 | 100.00 | 3,824.79 | 100.00 |

Compared to Estimate or Previously Disclosed.

The Company policy is to run every machine at it's full capacity, causing the quantity produced each month to be similar; for example, for weaving The Company can weave approximately 1.91 million yards per month, for yarn spinning The Company can spin approximately 570,000 pounds per month, and for garments The Company can cut and sew approximately 91,000 pieces per month. The Subsidiary can spin approximately 2.2 million pounds per month.

Cause and Action in case the Auditor expressed opinion with conditions, no opinion, and or important notice.

No conditions.

Changes in Important Accounting Policies

On 14 August 2018, the Board of Director meeting passed a resolution to change in valuation of land with effective on 30 September 2018. The valuation method was changed from cost method to the revaluation method (fair value). The investment properties – land is appraised every 1 year and appraised value of land every 5 years.

The change in the above accounting policies is to make the financial statements provide more reliable and more relevant information of the financial position and financial performance of the Group and its subsidiaries.

1. Investment properties – land

Change in valuation of investment properties from the cost method to the fair value method as allowed by the Thai Accounting Standard 40 (Revised 2017) Investment properties. The Group restated the prior period's financial statements, presented as comparative information, to reflect the effect of this change. The cumulative effect of changes in accounting policies was presented in Note 5 to the financial statements. The Group did not adjust the opening balance as at 1 January 2017 and present the statement of financial position as at 1 January 2017 because an independent appraiser was not able to measure fair value reliably of such land for the year 2016.

2. Change in valuation of land under property, plant and equipment from the cost method to revalued amount

(fair value) as allowed by the Thai Accounting Standard 16 (Revised 2017) Property, plant and equipment. The effects of the adoption of this standard were to be recognized prospectively.

Cumulative Effect of Voluntary Change in Accounting Policies

The cumulative effect of the voluntary change in accounting policies on the beginning balance of retained earnings as at 31 December 2017 regarding valuation of investment properties – land and restatement of the financial statements following the valuation of land on 29 December 2017 by an independent appraisers comprises.

| | In Baht |
|---|--|
| | Consolidated and Separate financial statements |
| Cumulative effect of change in accounting policies net of income tax relating to change in valuation of investment properties – land: | 537,136,979 |

The amounts of adjustments affecting the statements of financial position as at 31 December 2018 and 2017 are as follows:

| | In Baht | | |
|--|-----------------------------------|-------------------------------|--|
| | Consolidated financial statements | Separate financial statements | Consolidated and Separate financial statements |
| | 2018 | 2018 | 2017 |
| Statements of financial position: | | | |
| Increase in investment properties – land | 671,421,224 | 671,421,224 | 671,421,224 |
| Increase in property, plant and equipment | 1,036,629,773 | 751,936,250 | – |
| Increase in deferred income tax liabilities | 341,610,200 | 284,671,495 | 134,284,245 |
| Increase in unappropriated retained earnings | 537,136,979 | 537,136,979 | 537,136,979 |
| Revaluation surplus on assets – net income tax | 800,408,412 | 601,549,000 | – |
| Non-controlling interests | | | |
| Revaluation surplus on assets – net income tax | 28,895,406 | – | – |

The amounts of adjustments affecting the Group's statement of comprehensive income for the years ended 31 December 2018 and 2017 are as follows:

| | In Baht | | |
|---|---|-------------------------------------|---|
| | 2018 | | 2017 |
| | Consolidated financial statements | Separate financial statements | Consolidated and Separate financial statements |
| Statements of comprehensive income: | | | |
| Gain on change in fair value of investment properties | - | - | 671,421,224 |
| Increase in income tax expense | - | - | 134,284,245 |
| Increase in profit for the year | - | - | 537,136,979 |
| Other comprehensive income | | | |
| Difference from revaluation surplus on assets – net | 829,303,818 | 601,549,000 | - |
| Total comprehensive income attributable to: | | | |
| Increase in Equity holders of the parent | 800,408,412 | 601,549,000 | 537,136,979 |
| Increase in Non-controlling interests | 28,895,406 | - | - |
| Increase in basic earnings per share | - | - | 10.74 |

14.3 Performance and Profitability

In the past 5 years, the Company's Performance and Profitability is as per chart below

| | | Consolidated Financial Statement | | | | | Separate Financial Statement | | | | |
|-----------------------------|----------------|----------------------------------|---------|---------|---------|---------|------------------------------|---------|---------|---------|---------|
| | | 2018 | 2017 | 2016 | 2015 | 2014 | 2018 | 2017 | 2016 | 2015 | 2014 |
| Financial Status | | | | | | | | | | | |
| Current Assets | (Million Baht) | 1,643.2 | 1,653.7 | 1,679.2 | 1,919.1 | 1,847.6 | 982.1 | 959.8 | 1,084.2 | 1,187.4 | 1,198.2 |
| Total Assets | (Million Baht) | 5,655.0 | 4,772.8 | 3,915.5 | 4,218.5 | 4,305.3 | 3,763.2 | 3,042.3 | 2,625.9 | 2,755.6 | 2,796.4 |
| Current Liabilities | (Million Baht) | 2,346.5 | 2,278.0 | 2,167.7 | 2,352.9 | 2,234.1 | 1,102.1 | 1,033.7 | 1,094.1 | 1,140.6 | 1,102.4 |
| Total Liabilities | (Million Baht) | 2,815.1 | 2,646.5 | 2,299.5 | 2,558.6 | 2,600.4 | 1,379.6 | 1,166.7 | 1,170.7 | 1,217.2 | 1,211.7 |
| Shareholder's Equity | (Million Baht) | 2,839.9 | 2,126.4 | 1,616.0 | 1,659.9 | 1,704.9 | 2,383.6 | 1,875.6 | 1,455.2 | 1,538.4 | 1,584.6 |
| | | | | | | | | | | | |
| Operation Report | | | | | | | | | | | |
| Sales and Services | (Million Baht) | 3,874.2 | 3,502.2 | 3,773.4 | 3,946.0 | 3,931.7 | 2,644.0 | 2,355.2 | 2,579.6 | 2,800.5 | 2,817.0 |
| Total Revenues | (Million Baht) | 3,938.0 | 4,308.8 | 3,824.8 | 3,992.0 | 4,089.9 | 2,728.6 | 3,063.6 | 2,598.0 | 2,830.3 | 3,026.5 |
| Gross Profit (Loss) | (Million Baht) | 104.3 | 183.5 | 253.5 | 334.8 | 158.4 | 25.1 | 73.7 | 151.4 | 258.8 | 164.8 |
| Net Profit (Loss) | (Million Baht) | (109.6) | 524.8 | (24.1) | 6.7 | (59.6) | (80.6) | 445.4 | (58.2) | 6.9 | 82.1 |
| | | | | | | | | | | | |
| Financial Ratio | | | | | | | | | | | |
| Net Profit (Loss) Per Share | (Baht) | (2.19) | 10.50 | (0.48) | 0.13 | (1.19) | (1.61) | 8.91 | (1.16) | 0.14 | 1.64 |
| Current Ratio | | 0.70 | 0.73 | 0.77 | 0.82 | 0.83 | 0.89 | 0.93 | 0.99 | 1.04 | 1.09 |
| Net Profit (Loss) / Equity | (%) | (4.65) | 30.08 | (1.57) | 0.42 | (3.61) | (3.78) | 27.72 | (3.89) | 0.44 | 5.28 |
| Return on Assets | (%) | (2.10) | 11.72 | (0.59) | 0.16 | (1.40) | (2.37) | 16.21 | (2.16) | 0.25 | 2.79 |
| Debt to Equity Ratio | | 0.99 | 1.24 | 1.42 | 1.54 | 1.53 | 0.58 | 0.62 | 0.80 | 0.79 | 0.76 |
| Dividend per Share | (Baht) | – | 0.50 | 0.50 | 1.00 | 0.50 | – | 0.50 | 0.50 | 1.00 | 0.50 |
| Book Value per Share | (Baht) | 54.01 | 40.26 | 30.26 | 31.25 | 32.15 | 47.67 | 37.51 | 29.10 | 30.77 | 31.69 |

Total Revenues

In the year 2018 and 2017, the Group had total revenues amounted to Baht 3,938 million and Baht 4,309 million, respectively, decreased by Baht 371 million or 9%. The decrease mainly resulted from 671 million gain on change in accounting policy for valuation of investment properties–land from the cost method to revalued amount (fair value). Sales and Services Income amounted to Baht 3,874 million, increasing from the same period of the last year by Baht 372 million. The main reason for that increase was the increase in purchasing order.

Cost of Sales and Services

In the year 2018 and 2017, the Group had cost of sales and services amounted to Baht 3,770 million and Baht 3,319 million, respectively, increased by Baht 451 million or 14%. The main reason for that increase was the increasing in sales and services income as clarified above.

Selling and Administrative Expenses

Selling and administrative expenses decreased by Baht 3 million or 1%.

Finance costs

Finance costs increased by Baht 7 million or 8%. The main reason for the increase was from the increase in loans.

Net Profit (Loss)

In the year 2018, the group had Baht 106 million loss for the year, compared to Baht 539 million gain in the year 2017. Loss attributable to the parent is Baht 110 million in 2018, compared to Baht 525 million in gain in 2017. The main reasons were clarified above.

Total Assets

As of 31 December 2018, the Group had total assets amounting to Baht 5,655 million, increased by Baht 882 million, having Baht 10 million decreased in current assets and Baht 892 million increased in non-current assets. Main increases were from the change in accounting policy for valuation of land from the cost method to revalued amount (fair value).

Total Liabilities

As of 31 December 2018, total liabilities increased by Baht 169 million, having Baht 69 million increased in current liabilities and Baht 100 million increased in non-current liabilities. The main reason for the increases were from short-term and loans and deferred income tax liabilities which resulted from the change in accounting policy as clarified above.

Total shareholders' equity

As of 31 December 2018, the Group's shareholders' equity decreased by Baht 714 million.

14.4 Asset Management

(1) Account Receivable and allowance for doubtful accounts as 31 December 2018 and 2017 are as follows.

| | In Baht | | | |
|---|----------------------|-------------|----------------------|-------------|
| | Consolidated | | Separate | |
| | financial statements | | financial statements | |
| | 2018 | 2017 | 2018 | 2017 |
| Trade accounts receivable – related companies | | | | |
| Within credit terms | 37,631,669 | 62,285,275 | 4,960,919 | 26,672,938 |
| Overdue:Less than 3 months | 2,396,513 | 1,815,449 | 2,396,513 | 1,620,681 |
| Total trade accounts receivable – related companies | 40,028,182 | 64,100,724 | 7,357,432 | 28,293,619 |
| Trade accounts receivable – other companies | | | | |
| Within credit terms | 220,993,310 | 242,200,485 | 122,637,867 | 160,809,598 |
| Overdue: | | | | |
| Less than 3 months | 62,018,623 | 46,876,726 | 33,918,239 | 24,114,663 |
| 3 – 6 months | 3,540,304 | 7,244,007 | 1,188,890 | 5,884,494 |
| 6 – 12 months | 1,935,091 | 1,708,576 | 1,935,091 | 1,708,576 |

| | In Baht | | | |
|---|----------------------|--------------|----------------------|--------------|
| | Consolidated | | Separate | |
| | financial statements | | financial statements | |
| | 2018 | 2017 | 2018 | 2017 |
| Over 12 months | 26,614,275 | 25,604,327 | 26,436,363 | 25,426,415 |
| Total trade accounts receivable | 315,101,603 | 323,625,121 | 186,116,450 | 217,943,746 |
| <u>Less</u> allowance for doubtful accounts | (27,533,203) | (25,246,143) | (27,355,291) | (25,068,231) |
| Trade accounts receivable – others – net | 287,568,400 | 298,378,978 | 158,761,159 | 192,875,515 |

For account receivable over 12 months, the full amount was reserves as allowance for doubtful accounts. For account receivable over 6 months, but not yet 12 months, parts of the amount were reserves. For account receivable that have not been reserved, The Company believe it is possible to reach settlement for all those receivable.

(2) Inventories and Allowance for obsolescence of inventories

| | In Baht | | | | | |
|-----------------------|-----------------------------------|---------------|--------------|--------------|-------------------|---------------|
| | Consolidated financial statements | | | | | |
| | Allowance for obsolescence of | | | | | |
| | Cost | | inventories | | Inventories – net | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Finished goods | 334,191,701 | 362,967,914 | (35,025,246) | (37,701,912) | 299,166,455 | 325,266,002 |
| Work in process | 192,400,446 | 145,741,632 | – | – | 192,400,446 | 145,741,632 |
| Raw materials | 574,323,384 | 599,356,018 | (7,277,202) | (8,520,632) | 567,046,182 | 590,835,386 |
| Material and supplies | 51,968,468 | 51,448,051 | – | – | 51,968,468 | 51,448,051 |
| Total | 1,152,883,999 | 1,159,513,615 | (42,302,448) | (46,222,544) | 1,110,581,551 | 1,113,291,071 |

During the current year, the Group reversed the write-down of cost of inventories by Baht 3.9 million (2017 : Baht 3.2 million) reduced the amount of inventories recognised as expenses during the year.

| | In Baht | | | | | |
|-----------------------|-------------------------------|-------------|----------------|--------------|-------------------|-------------|
| | Separate financial statements | | | | | |
| | Allowance for obsolescence | | | | | |
| | Cost | | of inventories | | Inventories – net | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Finished goods | 252,350,505 | 289,515,267 | (33,754,419) | (34,976,454) | 218,596,086 | 254,538,813 |
| Work in process | 175,101,095 | 128,599,702 | – | – | 175,101,095 | 128,599,702 |
| Raw materials | 306,625,310 | 281,675,880 | (7,277,202) | (8,520,632) | 299,348,108 | 273,155,248 |
| Material and supplies | 32,788,443 | 35,321,354 | – | – | 32,788,443 | 35,321,354 |
| Total | 766,865,353 | 735,112,203 | 410,312,621 | (43,497,086) | 725,833,732 | 691,615,117 |

During the current year, the Company reversed the write-down of cost of inventories by Baht 2.5 million (2017 : Baht 5.9 million) reduced the amount of inventories recognised as expenses during the year.

14.5 Contingent Liabilities and Off Budget Management

(1) There are 3 contingent liabilities

A. The Company entered into the operating lease agreement in respect of the lease of land and building. The term of agreements were 1 and 15 years.

As at 31 December 2018, the Company had future minimum lease payments under the operating lease agreements, as follows:

| | In Million Baht |
|-------------------|---|
| | Consolidated and Separate financial Statements |
| Repayments | |
| Within 1 year | 2.0 |
| Over 1 to 5 years | 5.8 |
| Over 5 years | 12.4 |

B. The Group has unused letter of credit amounting to approximately U.S. Dollars 3.6 million equivalent to approximately Baht 116.7 million.

C. The Company has commitments for software license and system consulting agreement amounting of Baht 1.5 million.

(2) Letter of Guarantee for Electricity Payment

Metropolitan Electricity Authority (MEA) required a guarantee in form of cash or a letter of guarantee from the bank for the appropriate amount of electricity used by each company, The Company and The Subsidiary chose to have the bank issue a letter of guarantee instead of using a cash guarantee.

| | Company | Subsidiary | Total |
|--|---------|------------|-------|
| Letter of Guarantee Total Debt Amount (Million Baht) | 19.47 | 28.00 | 47.47 |

Overall, the Commitments and Contingent Liabilities, which consisted of rent agreements, sale agreements, all are within the normal scope of business operation, which does not need any special financial instruments to manage. Only the liabilities to the letter of credit (L/C) that requires risk management from foreign currency risk. The Company and The Subsidiary manages off statement of financial statement items the same way as the normal items.

14.6 Future Business Impacts

As The Company business is complete upstream to downstream, from yarn spinning, yarn dyeing, fabric weaving, and garment making, which the major raw material is raw cotton fiber, and have to be imported from abroad, to exporting finished fabrics and garments; therefore, business impact could be direct and indirect, local and foreign as follow:

- (1) Volatility of cotton and synthetic fibers from abroad.
- (2) Price of fabric, yarn, and garment which are dependent on foreign markets.
- (3) Obsolescence of inventories.
- (4) Impairment in investment in the Subsidiary and related companies.
- (5) Employee benefits after retirement.