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### **Part 3 Financial Position and Operation Result**

#### **13. Financial Highlights**

Auditor, Summary of Auditor's Report and Auditor Remuneration

##### **Auditor**

In 2017, Miss Sumalee Reewarabandith, Certified Public Accountant No. 3970, EY Office Co., Ltd.

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#### **Summary of the auditor's report for the year 2017 - 2019**

##### **In 2017, the Auditor expressed his opinion in Auditor's Report as follows:**

I consider that the financial statement referred above as at 31 December 2017 and operation result and cash flow for the same ending date of financial year of Salee Color and subsidiaries show accurate financial status in accordance with material requirement of financial report standard.

##### **In 2018, the Auditor expressed his opinion in Auditor's Report as follows:**

I consider that the financial statement referred above as at 31 December 2018 and operation result and cash flow for the same ending date of financial year of Salee Color and subsidiaries show accurate financial status in accordance with material requirement of financial report standard.

##### **In 2019, the Auditor expressed his opinion in Auditor's Report as follows:**

I consider that the financial statement referred above as at 31 December 2019 and operation result and cash flow for the same ending date of financial year of Salee Color and subsidiaries show accurate financial status in accordance with material requirement of financial report standard.

**Salee Color Public Company Limited**

**Statement of Financial Position**

(Unit: Million Baht)

As at 31 December 2019, 2018 and 2017

Statement of Financial Position	2019	2018	2017
<b>Asset</b>			
<b>Current assets</b>			
Cash and cash equivalents	9.76	7.22	6.84
Trade and other receivables	231.09	235.03	225.63
Inventory	248.56	290.21	240.80
Vat to reclaim	25.20	24.64	21.29
Other current assets	0.93	2.24	1.66
<b>Total current assets</b>	<b>515.54</b>	<b>559.33</b>	<b>496.23</b>
<b>Non-current assets</b>			
Property, plant and equipment	713.81	731.31	760.19
Intangible assets	14.53	2.77	2.97
Deferred tax assets	6.26	3.67	1.54
Other non-current assets	10.16	7.70	4.54
<b>Total Non-Current Assets</b>	<b>744.76</b>	<b>745.45</b>	<b>769.24</b>
<b>Total assets</b>	<b>1,260.30</b>	<b>1,304.78</b>	<b>1,265.47</b>

Statement of Financial Position	2019	2018	2017
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Bank overdrafts and short-term loans from banks	300.09	290.98	218.61
Accounts payable and other payables	149.36	193.55	205.26
Long-term loans from banks with maturity within one year	19.25	19.25	28.81
Finance lease liabilities due within 1 year	1.53	0.85	1.69
Other current liabilities	2.99	4.79	3.58
<b>Total current liabilities</b>	<b>473.22</b>	<b>509.42</b>	<b>457.95</b>
<b>Non-current liabilities</b>			
Long-term loans - from banks	25.57	44.81	64.06
Liabilities under finance leases	3.92	0.65	1.50
Provision for long-term benefits of employee	15.77	11.44	7.19
<b>Total Non-current liabilities</b>	<b>45.26</b>	<b>56.90</b>	<b>72.75</b>
<b>Total liabilities</b>	<b>518.48</b>	<b>566.32</b>	<b>530.70</b>
<b>Shareholders' equity</b>			
Issued and paid-up share capital			
588,964,618 ordinary shares with a par value of 1 THB	588.96	588.96	587.90
Capital surplus	110.33	110.33	109.54
Reserved capital from share-based payment	4.87	4.87	5.23
Retained earnings			
Appropriated, legal reserve	8.90	7.70	6.30
Unappropriated	28.76	26.60	25.80
<b>Total Shareholders' Equity</b>	<b>741.82</b>	<b>738.46</b>	<b>734.77</b>
<b>Total liabilities and shareholders' equity</b>	<b>1,260.30</b>	<b>1,304.78</b>	<b>1,265.47</b>

Statement of Comprehensive Income	2019	2018	2017
<b>Revenue</b>			
Sales and service revenue	1,049.55	1,127.68	1,052.99
Other revenue	9.02	8.08	7.54
<b>Total revenue</b>	<b>1,058.57</b>	<b>1,135.76</b>	<b>1,060.53</b>
<b>Expenses</b>			
Cost of sales and services	861.01	951.00	882.15
Sales and services expenses	80.65	78.62	78.16
Administrative expenses	77.78	67.85	68.24
<b>Total expenses</b>	<b>1,019.44</b>	<b>1,097.47</b>	<b>1,028.54</b>
Profit (loss) before finance cost and income tax	39.13	38.28	31.98
Financial expenses	(13.40)	(13.27)	(10.77)
Profit (loss) before income tax	25.73	25.01	21.21
Corporate Income Tax	2.21	(1.08)	(3.24)
<b>Profit (loss) for the year</b>	<b>27.94</b>	<b>23.93</b>	<b>17.97</b>
<b>Other comprehensive income for the year</b>	<b>(1.02)</b>	<b>(1.15)</b>	<b>(1.94)</b>
<b>Total comprehensive income</b>	<b>26.92</b>	<b>22.78</b>	<b>16.03</b>
<b>Profit (loss) per share</b>	<b>0.047</b>	<b>0.041</b>	<b>0.031</b>

Cash flow statement	2019	2018	2017
<b>Net profit (loss) before tax</b>	<b>25.73</b>	<b>25.01</b>	<b>21.21</b>
Net cash received (used in) from operating activities	94.27	16.34	25.89
Net cash received (used in) from investing activities	(43.35)	(25.49)	(88.95)
Net cash received (used in) from funding	(48.38)	9.53	58.65
Net increase (decrease) in cash and cash equivalents	2.54	0.38	(4.41)
Cash and cash equivalents at the beginning of the year	7.22	6.84	11.25
<b>Cash and cash equivalents at the end of the year</b>	<b>9.76</b>	<b>7.22</b>	<b>6.84</b>

**Significant Financial Ratios (Consolidated Financial Statements) for the years 2019 - 2017**

Financial ratio	2019	2018	2017
<b><u>Liquidity ratio</u></b>			
Liquidity ratio (times)	1.09	1.10	1.08
Quick ratio (times)	0.51	0.48	0.51
Cash from operation ratio (time)	0.19	0.03	0.06
Account receivable turnover (time)	4.51	4.91	5.06
Collection days (day(s))	79.86	73.37	71.21
Inventory turnover (time)	6.78	7.37	9.41
Average number of days sales (da(s))	53.07	48.87	38.26
Account payable turnover (time)	6.26	5.48	5.72
Payment days (day(s))	57.46	65.73	62.93
Cash cycle (day)	75.46	56.51	46.55
<b><u>Profitability Ratios</u></b>			
Gross Profit Margin (%)	17.96	15.67	16.22
Operating profit margin (%)	2.87	2.68	2.32
Other profit margins (%)	0.85	0.71	0.71
Cash ratio to profitability (%)	313.08	54.09	105.90
Net profit margin (%)	2.64	2.01	1.51
Return on Equity (%) ROE	3.78	3.25	2.45
<b><u>Efficiency Ratios</u></b>			
Return on Assets ROA (%)	2.18	1.86	1.50
Return on Fixed Assets (ROFA) (%)	11.69	10.47	9.63
Asset rotation rate (time)	0.83	0.88	0.89
<b><u>Financial Policy Analysis Ratio</u></b>			
Debt to equity ratio (time)	0.70	0.77	0.72
Interest payment ratio (time)	7.87	2.31	3.70
Commitment ability payment ratio (time)	1.08	0.21	0.14
Dividend payout ratio (%)	84.32	98.44	114.51

## 14. Management Discussion and Analysis

### 1. Overview of business history and significant developments

The Group has classified business types, based on 5 products as followings:

**Black and white:** The product is widely used consistently among various customer bases. The Company has chosen advanced technology from Europe, resulting in unique production with capacity for 2,000 tons of white and 15,000 of black color per year. According to the production and distribution of black and white, the Group generated 48% of its revenue in 2019, which increased from 41% 2018, the previous year.

**Fillers:** are our main products which are recognized for standard and quality, being widely used in large fabrication in different thicknesses, manufacturing of packaging, manufacturing of rolled pipe and various profile preparations. In addition to quality, fillers are also used to enhance production efficiency while also reducing the cost. The group has selected raw materials with a unique and premium quality, plus the most advanced machine from the USA which can generate 16,000 tons of fillers per year. Production turnover and sale volume of fillers represented 20% of total income in 2019 and decrease from 26% of total income in 2018.

**Color Masterbatches:** are used among specific industries where the majority of customers are those who manufacture packaging that demand a variety of color properties. The design and production process, and quality control of color masterbatches are complex; the cost of production is considerably higher compared to other product types. The Company can produce 1,200 tons of color masterbatches per year. The production and sale of these products generated 12% of total income in 2019 and increased from 11% from total income in 2018.

**Additive Masterbatches:** The design, production process and quality control of additive masterbatches, compared to color masterbatches, are less complex. Our main customers are manufacturers of specific products which need different properties. The Company can produce 3,000 tons of color masterbatches per year. The production and sale of these products generated 12% of total income in 2019, a slightly increase from 11% of total income in 2018.

**Other product type, including raw materials and services:** The other product type offers advise and adds value to the work of our customers in response to the imbalance between the production supply and sale volume. The production expansion increases the free available capacity, which can be converted into several work processes such as grinding - degrading to minimize the size of raw materials, sales of surplus quantities of raw materials during fluctuations in the market. Revenue from this business type accounted for 9% of total income in 2019, a slightly decrease from 11% in 2018.

### **Major changes in the past year**

Upon resolution of the board, in accordance with the criteria set forth, major changes in 2019 were published in the public domain through the Stock Exchange of Thailand as well as in notes to financial statement. Major changes of Salee Color are summarized.

On 5 April, 2019 The Labor Protection Act (No. 7) B.E. 2562, announced in the Government Gazette, which specifies additional compensation rates for employers who terminate employment for employees who have worked continuously for more than 20 years, have the right to receive compensation no less than Final wage rate 400 days, the law will come into effect from May 5, 2019 onwards. the above change is considered a modification of the plan for post-employment benefit plans. And affecting the group of companies the liability for long-term employee benefits increased by 2.0 million baht (only the company: 1.6 million baht). The Group recorded the impact of the change. Past service costs are recognized as expenses immediately in the current year's profit and loss.

### **New Financial Reporting Standards**

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

During the year, the group have adopted the revised financial reporting standards and interpretations (revised 2017) which are effective for fiscal years 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 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 group's financial statements.

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 Group's financial statements.

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

The Federation of Accounting Professions issued a number of new and revised financial reporting standards and interpretations, which are effective for fiscal years beginning on or after 1 January 2020. 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 except the following new standards which 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

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 Company's 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 Group 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 Group is currently evaluating the impact of this standard on the financial statements in the year when it is adopted.

### **Operating result and profitability**

#### **Revenue**

In 2019 the group had total revenue of 1,059 million Baht consisting of sales of good and services 1,050 million Baht and other 9 million Baht, decrease of 77 million Baht or 7% from 2018. The variation in revenue from sales of goods are as follows:

**Black and white masterbatch** represented revenue of 501 million Baht, or 48% of total income in 2019, an increase of 9% from previous year as a result of market share expansion thanks to the growth of demand in domestic and foreign market.

**Filler** generated revenue of 209 million Baht, representing 20% of total income in 2019, a decrease of 30% from 2018. due to the consumption of consumers decreased while also starting to compete with foreign competitors. Bring low-grade products to compete for market share.

**Color masterbatch** had revenue of 125 million Baht or 12% of total income in 2019, decrease of 5% from 2018 as a result of purchasing power in the market is shrinking and there are more competitors in the market.

**Additive masterbatch** had revenue of 123 million Baht, representing 12% of total income in 2019, an increase of 3% from 2018 the result of feedback on quality development and the use of masterbatch in the growing number of plastic resin manufacturers and the company is focusing on the development of more use of this type in the film and packaging market.

**Other products plus raw materials and services** yielded 91 million Baht or 9% of total income in 2019, decrease of 23% from 2018 as a result of our business development in export sector coupled with continued order.

**Other revenue** was 9 million Baht in 2019, is increase of 12% from 2018 as most of income is from the sale of scrap materials.

### **Expenses**

The group's operating result of 2019 generated gross profit of 189 million Baht, representing 18% in sales of good and services increase 12% from 2018 or 2% is equal to sales of goods and administrative expense to 158 million Baht increase 12 million Baht in 2018 or increase 8%

The cost of products from total production in 2019 amounted to 861 million Baht, an decrease of 90 million Baht from 951 million Baht in 2018, decrease 9% from sales volume and revenue generated from the business are classified by product type as follows.

**White and black masterbatch** average cost of production accounted 82% of sale value, a decrease of 4% from 86% in 2018 by cause of price escalation while the product price as well as sale volume were increased by 31%.

**Filler** average cost of production accounted 83% of sale value equal to the average cost per salescost per sales in 2018 by sales volume decreased by 31%.

**Color masterbatch** average cost of production represented 82% of sales value, decrease by 5% from 87% in 2018. Sales volume decreased by 7%

**Additives masterbatch** average cost of production accounted for 77% of sales value, an increased by 6% in 2018 while sale quantity increased to 6% from the development of applications in the packaging market.

**Other products plus raw materials and services** average cost of production accounted 85% of sale value decrease 5% of sales value which is equal to the average cost per sales 90% in 2018.

### **Financial expenses**

The total borrowing amount of the company increased from 355 million Baht in 2018 to 345 million Baht at the end of 2019, which decreased by 10 million Baht due to the Company having to pay the long-term loan according to normal part to another and during the year, the Company obtained additional short-term loans for use as working capital causing the Company to pay interest increased to 13.4 million Baht, an increase of 1 million Baht from the original 13.3 million Baht in 2018, representing an increase of 1% from last year.

### **Net profit**

In 2019, the group generated a net profit of 27 million Baht, representing 2.5% of total income. Comparing to year 2018, the profit showed a drop to 4 million Baht or 18% result of the group's revenue and even though the prices of certain types of raw materials, and the Company group also trying to control the expense not to increase, thus making the profit higher.

### **Property management capabilities**

Total assets of the group increase by 45 million Baht, from 1,305 million Baht as at 31 December 2018, to 1,260 million Baht as at 31 December 2019 due to the increase of trade receivables and inventory which followed property, plant and equipment decreased from depreciation.

Total asset turnover of the group in year 2018 was 0.83 times, decrease comparing to 2018 at 0.88 thanks to the more efficient asset management.

### **Trade receivables**

As at 31 December 2019, the group's trade and other receivables were 231 million Baht, and decrease of 2% from 235 million as at 31 December 2018. from increased sales.

The group's average debt collection period in 2019 was approximately 80 days, which was equivalent to that 73 days increased from some receivables totaling approximately 6 million baht, which is very overdue, which the company has tried to closely monitor,

The group has neither debt which overdue over 12 months nor allowance for doubtful debt. The allowance for doubtful debt is set in full amount when receivable is over 12 months overdue. In addition to legal procedures set forth for the outstanding debt, the Company also adjusts credit control system to be more efficient as to prevent the doubtful accounts that could occur in the future.

### **Inventory**

As of 31 December 2019, the Company group has been using an inventory excluding raw materials and goods in transit of the amount, 110 million Baht and 114 million Baht in 2018.

The Company group has 53 days to extend the period for the sale of goods, which has been extended from a selling period for average goods in 2018 that accounted for 4 days. This is as a result of a production cost reduction policy which relies on continuous production that prevents loss and gains a large amount of goods. This policy aims to improve the ability to negotiate the cost of raw materials and provide capacity to take purchase orders from existing customers more efficiently and prevent a shortage of raw materials as well.

### **Property, building and equipment, and intangible fixed asset**

In 2019, the Company group possessed property, building and equipment, and intangible assets (including deposit of machines) that accounted for an average cost of 728 million Baht, an decrease of 6 million Baht from the previous 734 million Baht in 2018. This was as a result of the construction company building additional goods' buildings and additional in-process machine installation. Therefore, the Company group's returns from fixed asset in 2019 reached 13%, which decreased by 1% compared to returns from tangible fixed asset in 2018 that reached 12%.

### **Accounts payable**

In 2019, the Company group had an amount of accounts payable at 106 million Baht, which decreased to 62 million Baht from 168 million Baht in 2018, this was as a result of an increase in the Company's revenue, which to reduce purchases to control inventory.

### **Total liabilities**

As of 31 December 2019, the Company group reached a total amount of liabilities of 518 million Baht, which was divided into current liabilities at 473 million Baht and non-current liabilities at 45 million Baht. This decreased 48 million Baht from total liabilities of 566 million Baht as a result of the Company group's decrease in loans for warehouse construction and machine investments. Considering D/E Ratio as of 31 December 2018, it was found that an increase in the above-mentioned capital caused an increase in the Company group D/E ratio at 0.70 time, which decreased up to 0.77 time as of 31 December 2018 and was in accordance with loan regulations with financial institutions.

### **Shareholder's equity**

As of 31 December 2019, the Company's shareholders' equity reached 742 million Baht, which increased to 4 million Baht from 31 December 2018 when the shareholder ratios reached 738 million Baht. and from dividend payments to shareholders in the amount of 24 million Baht including the additional legal reserve of 1.2 million Baht.

## **2. Liquidity and sufficiency of the Company's capital**

### **1. Source and usage of the capital**

As of 31 December 2019, the Company group reached the current liquidity current liabilities ratios at 1.1 times, which are less than the previous ratios showing at 1.1 times. At the end of the previous year, as a result of the increase in accounts receivable and inventories from increased sales.

As of 31 December 2019, the Company group reached cash flow liquidity of 10 million Baht, Increase 3 million Baht from the previous year. Net cash from operating activities reached 94 million Baht with improved production capacity and the group also received net cash flow from 43 million Baht. And

the group also used net cash in financing activities of approximately 48 million baht from long-term loan payments by installments and dividend payments and interest.

## **2. Capital expenditure**

In 2019, the Company invested more new machinery improvements to increase production capacity to meet the current sales volume.

## **3. Liquidity sufficiency**

In the year 2019, the Company has invested in improving machinery to increase production efficiency by spending a little money but the Company has increased short-term loans for working capital for increasing sales and continuous production causing the inventories to rise causing the debt to equity ratio of the Group increased to 0.70 times, decreased from the previous year at 0.77 times the group can still maintain the opportunity to use the channel. Borrowing money for business expansion from loans from many financial institutions the Company has the remaining amount that does not include the amount of OD and LG is another number.

## **4. Capacity to gain additional capital**

The Company group had reached an amount of loan limits with financial institutions that are not sufficient to support an expansion on business and/or additional investments of the Company group. Details were shown as follows:

<b>Loan type</b>	<b>Due term</b>	<b>Unused credit (Million Baht)</b>
P/N (Promissory Note)	None	158
L/C, T/R (Letter of Credit or Trust Receipt)	None	213
OD (Overdraft)	None	79
LG (Letter of Guarantee)	None	9
<b>Total</b>		<b>459</b>

## **5. Factors affecting Credit Rating**

The Company group did not issue any instruments that required a credit rating offering.

## **6. Capacity to pay liabilities and acts in accordance with loan covenant and obligation**

In 2019, the Company group issued the conditions to maintain D/E ratio with financial institutions at not over 3.00 times and debt service coverage ratio of not lower than 1.1 times. According to the operating results in 2019, the Company group was able to reduce D/E Ratio to remain at 0.70 time with debt service coverage ratio at 2.8 times. The Company qualifications were thus in accordance with the conditions as agreed in terms of loan transactions with those financial institutions.

### **Liabilities obligations and off-balance sheet arrangements**

As of 31 December 2019, the Company group had faced liabilities obligations according to details disclosed in the financial statement 2019 in the financial statement remarks no. 15: long-term loans, no. 16: liabilities from financial lease, no. 17: long-term benefits reserved for employees, and no.26: commitments and contingent liabilities.

### **7. Factors affecting the future operation**

Currently, most the factors that affect the company's operations Direct future significantly Are all external factors that are beyond the control of Due to the global economic slowdown continues Including new epidemic factors, uncontrollable Covid-19 May affect the rate of growth of gross domestic product (GDP) and cause potential customers and investors considering starting the new projects or segment expansions a delay in decision making according such above-mentioned conditions. Apart from these economic factors, cost volatility due to volatile crude and petro-chemical prices affects an imbalance between demand and supply levels.

Increase in the overall production capacity from this new factory construction allowed the Company group to manufacture goods at 45,000 tons/ year. The calculation revealed that this capacity increase will affect an average reduction in production cost and expenses to 10-15% and up to 25% in some product segments. In this regard, the Company has to plan for targeted full-stream productivity, while cost reduction will be considered in parallel with effectiveness enhancement of every working process in the whole organization. In 2019, the Company was able to increase production ratio up to 60% of the whole productivity.

However, the Company group tried to reduce risks from those factors by markets' distribution, increase in regional and overseas export ratio in order to enhance productivity and create full-stream machine functionality. This also helps reducing cost in production and empowering negotiation for various raw materials' provision together with opportunities to gain more profits to develop production technologies and select machines for more productivity in the future that will enhance competitiveness in both medium- and long-term period.