

Furukawa Metal (Thailand) Public Company Limited

Condensed interim financial statements
for the three-month and nine-month periods ended
30 September 2019
and
Independent auditor's review report



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Independent Auditor's Report on Review of Interim Financial Information

To the Board of Directors of Furukawa Metal (Thailand) Public Company Limited

I have reviewed the accompanying statement of financial position of Furukawa Metal (Thailand) Public Company Limited as at 30 September 2019; the statement of comprehensive income for the three-month and nine-month periods ended 30 September 2019; the statements of changes in equity and cash flows for the nine-month period ended 30 September 2019; and condensed notes ("interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with Thai Accounting Standard 34, "Interim Financial Reporting". My responsibility is to express a conclusion on this interim financial information based on my review.

Scope of Review

I conducted my review in accordance with Thai Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Thai Standards on Auditing and consequently does not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Accordingly, I do not express an audit opinion.

Conclusion

Based on my review, nothing has come to my attention that causes me to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with Thai Accounting Standard 34, "Interim Financial Reporting".

(Sirinuch Vimolsathit)
Certified Public Accountant
Registration No. 8413

KPMG Phoomchai Audit Ltd.
Bangkok
6 November 2019

Furukawa Metal (Thailand) Public Company Limited

Statement of financial position

		30 September	31 December
Assets	Note	2019	2018
		(Unaudited)	
		(in thousand Baht)	
Current assets			
Cash and cash equivalents		25,727	7,823
Trade accounts receivable	3, 4	1,695,739	1,631,007
Other receivables		48,958	65,435
Inventories		642,692	792,202
Total current assets		2,413,116	2,496,467
Non-current assets			
Property, plant and equipment		399,166	429,144
Intangible assets		7,028	6,593
Deferred tax assets		27,282	21,519
Other non-current assets		2,441	2,373
Total non-current assets		435,917	459,629
Total assets		2,849,033	2,956,096

The accompanying notes form an integral part of the interim financial statements.

Furukawa Metal (Thailand) Public Company Limited

Statement of financial position

		30 September	31 December
Liabilities and equity	Note	2019	2018
		(Unaudited)	
		(in thousand Baht)	
Current liabilities			
Short-term borrowings from financial institution	5	250,000	-
Trade accounts payable	3, 6	365,681	649,337
Other payables	3	102,173	44,475
Short-term borrowings from related party	3, 5	409,157	564,405
Income tax payable		4,946	20,126
Other current liabilities		8,978	10,769
Total current liabilities		1,140,935	1,289,112
Non-current liability			
Provision for employee benefits	7	136,268	107,453
Total non-current liability		136,268	107,453
Total liabilities		1,277,203	1,396,565
Equity			
Share capital			
Authorised share capital		480,000	480,000
Issued and paid-up share capital		480,000	480,000
Share premium :			
Share premium on ordinary shares		507,500	507,500
Retained earnings			
Appropriated			
Legal reserve		48,000	48,000
Unappropriated		536,330	524,031
Total equity		1,571,830	1,559,531
Total liabilities and equity		2,849,033	2,956,096

The accompanying notes form an integral part of the interim financial statements.

Furukawa Metal (Thailand) Public Company Limited

Statement of comprehensive income (Unaudited)

	<i>Note</i>	Three-month period ended	
		30 September	
		2019	2018
		<i>(in thousand Baht)</i>	
Revenues			
Revenue from sale of goods	3, 8	1,371,875	1,480,431
Net gain on foreign exchange		-	22,258
Other income		333	3,619
Total revenues		1,372,208	1,506,308
Expenses			
Cost of sale of goods	3	1,260,217	1,374,986
Distribution costs		34,460	28,595
Administrative expenses	3	29,335	28,958
Net loss on foreign exchange		3,864	-
Loss on copper hedging and service fee	3	15,769	17,897
Finance costs	3	3,060	2,522
Total expenses		1,346,705	1,452,958
Profit before income tax		25,503	53,350
Income tax expense		(5,093)	(10,665)
Profit for the period		20,410	42,685
Other comprehensive income		-	-
Profit and other comprehensive income for the period		20,410	42,685
Basic earnings per share (in Baht)		0.43	0.89

The accompanying notes form an integral part of the interim financial statements.

Furukawa Metal (Thailand) Public Company Limited

Statement of comprehensive income (Unaudited)

		Nine-month period ended	
		30 September	
	<i>Note</i>	2019	2018
		<i>(in thousand Baht)</i>	
Revenues			
Revenue from sale of goods	3, 8	4,727,987	4,973,448
Net gain on foreign exchange		-	8,490
Other income		3,546	5,633
Total revenues		4,731,533	4,987,571
Expenses			
Cost of sale of goods	3	4,372,471	4,649,017
Distribution costs		108,028	93,439
Administrative expenses	3	91,681	89,759
Net loss on foreign exchange		7,469	-
Loss on copper hedging and service fee	3	30,053	12,709
Finance costs	3	8,969	10,341
Total expenses		4,618,671	4,855,265
Profit before income tax		112,862	132,306
Income tax expense		(22,563)	(27,153)
Profit for the period		90,299	105,153
Other comprehensive income		-	-
Profit and other comprehensive income for the period		90,299	105,153
Basic earnings per share (in Baht)		1.88	2.19

The accompanying notes form an integral part of the interim financial statements.

Furukawa Metal (Thailand) Public Company Limited

Statement of changes in equity (Unaudited)

	Note	Issued and paid-up share capital	Share premium	Retained earnings		Total equity
				Legal reserve <i>(in thousands Baht)</i>	Unappropriated	
Nine-month period ended 30 September 2018						
Balance at 1 January 2018		480,000	507,500	48,000	441,602	1,477,102
Transactions with owners, recorded directly in equity						
Dividends to owners of the Company	9	-	-	-	(72,000)	(72,000)
Total transactions with owners, recorded directly in equity		-	-	-	(72,000)	(72,000)
Comprehensive income for the period						
Profit		-	-	-	105,153	105,153
Total comprehensive income for the period		-	-	-	105,153	105,153
Balance at 30 September 2018		480,000	507,500	48,000	474,755	1,510,255
Nine-month period ended 30 September 2019						
Balance at 1 January 2019		480,000	507,500	48,000	524,031	1,559,531
Transactions with owners, recorded directly in equity						
Dividends to owners of the Company	9	-	-	-	(78,000)	(78,000)
Total transactions with owners, recorded directly in equity		-	-	-	(78,000)	(78,000)
Comprehensive income for the period						
Profit		-	-	-	90,299	90,299
Total comprehensive income for the period		-	-	-	90,299	90,299
Balance at 30 September 2019		480,000	507,500	48,000	536,330	1,571,830

The accompanying notes form an integral part of the interim financial statements.

Furukawa Metal (Thailand) Public Company Limited
Statement of cash flows (Unaudited)

	Nine-month period ended	
	30 September	
	2019	2018
	<i>(in thousand Baht)</i>	
<i>Cash flows from operating activities</i>		
Profit for the period	90,299	105,153
<i>Adjustments to reconcile profit to cash receipts (payments)</i>		
Income tax expense	22,563	27,153
Finance costs	8,969	10,341
Depreciation and amortisation	50,912	53,492
Reversal of impairment losses on equipment	-	(3,580)
Provision for employee benefits	42,406	11,636
Unrealised gain on foreign exchange	(321)	(2,863)
(Gain) loss on disposal of equipment	(229)	3,293
	<u>214,599</u>	<u>204,625</u>
<i>Changes in operating assets and liabilities</i>		
Trade accounts receivable	(65,341)	(148,265)
Other current receivables	16,477	11,894
Inventories	149,510	271,727
Other non-current assets	(68)	201
Trade accounts payable	(282,726)	(266,408)
Other current payables	59,631	65,048
Other current liabilities	(4,250)	(4,886)
Cash flows generated from operating activities	<u>87,832</u>	<u>133,936</u>
Employee benefit paid	(13,591)	(11,291)
Income tax paid	(43,506)	(26,274)
Net cash flows from operating activities	<u>30,735</u>	<u>96,371</u>
<i>Cash flows from investing activities</i>		
Cash payments to purchase of plant and equipment	(21,824)	(34,804)
Cash payments to purchase of intangible assets	(1,248)	(2,058)
Cash receipts from sale of equipment	229	287
Net cash flows used in investing activities	<u>(22,843)</u>	<u>(36,575)</u>

The accompanying notes form an integral part of the interim financial statements.

Furukawa Metal (Thailand) Public Company Limited
Statement of cash flows (Unaudited)

	Nine-month period ended	
	30 September	
	2019	2018
	<i>(in thousand Baht)</i>	
<i>Cash flows from financing activities</i>		
Interest paid	(9,199)	(10,167)
Dividends paid	(75,541)	(71,993)
Proceeds from borrowings from financial institution	1,750,000	250,000
Repayment of borrowings from financial institution	(1,500,000)	(250,000)
Proceeds from borrowings from related party	3,483,306	3,328,905
Repayment of borrowings from related party	(3,638,554)	(3,228,744)
Net cash flows from financing activities	10,012	18,001
 Net increase in cash and cash equivalents	 17,904	 77,797
Cash and cash equivalents at beginning of the period	7,823	9,081
Cash and cash equivalents at ending of the period	25,727	86,878
 <i>Non-cash transaction</i>		
Payable for fixed assets purchased	5,057	7,995

The accompanying notes form an integral part of the interim financial statements.

Furukawa Metal (Thailand) Public Company Limited
Notes to the condensed interim financial statements
For the three-month and nine-month periods ended 30 September 2019 (Unaudited)

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Furukawa Metal (Thailand) Public Company Limited
Notes to the condensed interim financial statements
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These notes form an integral part of the interim financial statements.

The interim financial statements issued for Thai regulatory reporting purposes are prepared in the Thai language. These English language financial statements have been prepared from the Thai language statutory financial statements, and were approved and authorised for issue by the Board of Directors on 6 November 2019.

1 General information

The principal activity of the Company is the manufacturing and distributing of seamless copper tube, which is an important component for air-conditioner and refrigerator equipment.

On 27 September 2019, the Company has been informed that Furukawa Electric Co., Ltd., the major shareholders of the Company has entered into a Shares Sale and Purchase Agreement with CTJ Holdings2 LLC, a Japanese Company, in respect of the sale 20,280,280 shares of the Company, representing 42.25% of total issued and paid-up shares at a price of Baht 10.20 per share or totalling approximately Baht 206.86 million. This transaction is expected to be completed by March 2020.

2 Basis of preparation of the interim financial statements

(a) Statement of compliance

The condensed interim financial statements are presented in the same format as the annual financial statements and prepared its notes to the interim financial statements on a condensed basis ("interim financial statements") in accordance with Thai Accounting Standard (TAS) No. 34 *Interim Financial Reporting*, guidelines promulgated by the Federation of Accounting Professions and applicable rules and regulations of the Thai Securities and Exchange Commission.

The interim financial statements are prepared to provide an update on the financial statements for the year ended 31 December 2018. They do not include all of the financial information required for full annual financial statements but focus on new activities, events and circumstances to avoid repetition of information previously reported. Accordingly, these interim financial statements should be read in conjunction with the financial statements of the Company for the year ended 31 December 2018.

(b) Use of judgements, estimates and accounting policies

In preparing these interim financial statements, judgements and estimates are made by management in applying the Company's accounting policies. Actual results may differ from these estimates. The accounting policies, methods of computation and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2018, except for revenue recognition which requires additional judgement in determining the timing of the transfer of control - at a point in time or over time - according to the requirements of TFRS 15 *Revenue from Contracts with Customers* ("TFRS 15") which the Company has initially adopted to replace TAS 18 *Revenue* ("TAS 18"), TAS 11 *Construction Contracts* ("TAS11") and related interpretations.

Under TFRS 15, the Company recognises revenue when a customer obtains control of the goods or services in an amount that reflects the consideration to which the Company expects to be entitled to. In addition, judgement is required in determining the timing of the transfer of control for revenue recognition - at a point in time or over time. Whereas, under TAS 18, the Company recognises revenue from sale of goods when the significant risks and rewards of ownership of the goods have been transferred to the buyer, and recognises revenue from rendering of services by reference to the stage of completion of the transaction at the end of the reporting period. No revenue is recognised if there is continuing management involvement with the goods or there are significant uncertainties regarding recovery of the consideration due. Such change in accounting policy has no material impacts on the financial statements.

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In addition, the Company has not early adopted a number of new TFRS which are not yet effective for current period in preparing these interim financial statements. Those new TFRS that are relevant to the Company's operations are disclosed in note 12.

3 Related parties

Significant transactions for the three-month and nine-month periods ended 30 September with related parties were as follows:

<i>Three-month period ended 30 September</i>	2019 (in thousand Baht)	2018
Parent		
Technical assistance fee	3,978	4,215
Loss on copper hedging and service fee	15,769	17,897
Other related parties		
Revenue from sale of goods	435,551	399,929
Purchases of raw material	185,035	364,098
Service fee and others	1,897	1,263
Interest expense	1,598	2,522
Directors' remuneration	856	823
Key management personnel		
Key management personnel compensation		
Short-term employee benefits	6,740	7,719
Post-employment benefits	401	79
Total key management personnel compensation	7,141	7,798
<i>Nine-month period ended 30 September</i>	2019 (in thousand Baht)	2018
Parent		
Technical assistance fee	13,912	14,424
Loss on copper hedging and service fee	30,053	12,709
Other related parties		
Revenue from sale of goods	1,406,568	1,333,986
Purchases of raw material	660,776	1,052,529
Service fee and others	5,433	4,132
Interest expense	6,990	7,952
Directors' remuneration	2,527	2,356
Key management personnel		
Key management personnel compensation		
Short-term employee benefits	22,293	20,144
Post-employment benefits	1,202	238
Total key management personnel compensation	23,495	20,382

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Balances as at 30 September 2019 and 31 December 2018 with related parties were as follows:

	30 September 2019 (in thousand Baht)	31 December 2018
Trade accounts receivable from related parties		
Other related parties	<u>527,302</u>	<u>437,827</u>
Trade accounts payable to related party		
Other related party	<u>54,530</u>	<u>255,352</u>
Other payables to related parties		
Parent	20,958	17,603
Other related parties	<u>472</u>	<u>853</u>
Total	<u>21,430</u>	<u>18,456</u>

Movements during the nine-month period ended 30 September 2019 of short-term borrowings from related party were as follows:

	31 December 2018	Increase (in thousand Baht)	Decrease	30 September 2019
Other related party	564,405	3,483,306	(3,638,554)	409,157
Total	<u>564,405</u>			<u>409,157</u>

As at 30 September 2019, short-term borrowings from related party bears interest at the rate of 1.5% per annum (31 December 2018: 1.75% per annum).

Commitments with related party

As at 30 September 2019, the Company had outstanding future contracts with Furukawa Electric Co., Ltd., a parent company, to hedge the copper cathode price of 5,229 tons, in amount of U.S. Dollars 30.9 million, equivalent to Baht 950.2 million (31 December 2018: 4,341 tons, in amount of U.S. Dollars 27.2 million, equivalent to Baht 888.0 million).

Significant agreements with related parties

Technical Collaboration Agreement

On 1 January 2019, the Company entered into technical collaboration agreement with Furukawa Electric Co., Ltd., the parent company, for a period of 1 year effective on 1 January 2019. The agreement shall be automatically extended for successive periods of one year each. Under the terms of the agreement, Furukawa Electric Co., Ltd. shall provide the Company with technical collaboration and information on the manufacturing operations including an exclusive right to manufacture and sell the product in the countries as specified in the agreement. In consideration thereof, the Company is committed to pay a technical assistance fee computed from the net sales volume of seamless copper tube (Inner grooved tube) at the rate of Baht 2.25 per kilogram.

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System Development Service Support Agreement

On 1 June 2019, the Company entered into the System Development Service Support Agreement with Furukawa (Thailand) Co., Ltd., a related company. Under the terms of agreement, Furukawa (Thailand) Co., Ltd. shall provide the Company with support for maintenance project of Total Production Management System. In consideration thereof, the Company is committed to pay a service fee computed from consulting service hour at the rates as stipulated in the agreement. The agreement will be expired on 31 May 2020.

4 Trade accounts receivable

	Note	30 September 2019 (in thousand Baht)	31 December 2018
Related parties			
Within credit terms		519,822	437,827
Overdue:			
Less than 3 months		7,456	-
3-6 months		24	-
	3	<u>527,302</u>	<u>437,827</u>
Other parties			
Within credit terms		1,159,400	1,192,477
Overdue:			
Less than 3 months		9,037	703
		<u>1,168,437</u>	<u>1,193,180</u>
Total		<u>1,695,739</u>	<u>1,631,007</u>

The normal credit term granted by the Company ranges from 30 days to 90 days and extra credit term of 270 days is granted for a customer.

5 Interest-bearing liabilities

	Note	30 September 2019 (in thousand Baht)	31 December 2018
Current			
Unsecured			
Short-term borrowings from financial institution		250,000	-
Short-term borrowings from related party	3	<u>409,157</u>	<u>564,405</u>
Total		<u>659,157</u>	<u>564,405</u>

Short-term borrowings from financial institution

As at 30 September 2019, short-term borrowings from financial institution amounted to Baht 250 million shall be repayable at call. These loans bears interest at the rate of 1.64% per annum (31 December 2018 : nil).

Unutilised credit facilities

As at 30 September 2019, the Company had unutilised credit facilities totalling U.S. Dollars 1 million and Baht 3,197 million (31 December 2018: U.S. Dollars 1 million and Baht 3,447 million).

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6 Trade accounts payable

	Note	30 September 2019	31 December 2018
		<i>(in thousand Baht)</i>	
Related party	3	54,530	255,352
Other parties		311,151	393,985
Total		365,681	649,337

7 Provisions for employee benefits

On 5 April 2019, the Labor Protection Act was amended to include a requirement that an employee who is terminated after having been employed by the same employer for an uninterrupted period of twenty years or more, receives severance payment of 400 days of wages at the most recent rate. The Company has therefore amended its retirement plan in accordance with the changes in the Labor Protection Act in the second quarter of 2019. As a result of this change, the provision for retirement benefits as at 30 September 2019 as well as past service cost recognised during the nine-month periods then ended in the financial statements increased by an amount of Baht 29.2 million.

8 Segment information and disaggregation of revenue

	Revenue from sale of goods			
	Three-month period ended		Nine-month period ended	
	30 September		30 September	
	2019	2018	2019	2018
	<i>(in thousand Baht)</i>			
Disaggregation of revenue				
Primary geographical markets				
Thailand	882,062	1,007,468	3,110,199	3,319,148
Malaysia	114,274	119,194	425,553	393,993
Japan	37,420	37,350	102,366	87,401
Singapore	27,532	31,668	88,999	89,492
Other countries	310,587	284,751	1,000,870	1,083,414
Total	1,371,875	1,480,431	4,727,987	4,973,448
Timing of revenue recognition				
At a point in time	1,371,875	1,480,431	4,727,987	4,973,448
Total revenue	1,371,875	1,480,431	4,727,987	4,973,448

9 Dividends

At the annual general meeting of the shareholders of the Company held on 29 April 2019, the shareholders approved the appropriation of dividend of Baht 1.625 per share, amounting to Baht 78 million. The dividend was paid to the shareholders in May 2019.

At the annual general meeting of the shareholders of the Company held on 27 April 2018, the shareholders approved the appropriation of dividend of Baht 1.50 per share, amounting to Baht 72 million. The dividend was paid to the shareholders in May 2018.

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10 Financial instruments

Carrying amount and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount	Fair value			Total
		Level 1	Level 2 (in thousand Baht)	Level 3	
30 September 2019					
<i>Financial assets and financial liabilities not measured at fair value</i>					
Currency forward contracts					
Liabilities	-	-	(9,103)	-	(9,103)
Copper future contracts	-	-	(32,654)	-	(32,654)
31 December 2018					
<i>Financial assets and financial liabilities not measured at fair value</i>					
Currency forward contracts					
Liabilities	-	-	(7,667)	-	(7,667)
Copper future contracts	-	-	(52,532)	-	(52,532)

Measurement of fair values

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Financial instruments not measured at fair value

Type	Valuation technique
Forward exchange contracts	<i>Forward pricing</i> : The fair value is determined using quoted forward exchange rates at the reporting date and present value calculations based on high credit quality yield curves in the respective currencies.
Copper future contract	<i>Market comparison technique</i> : The fair value is determined using broker quoted. Similar contracts are traded in an active market and the quotes reflect the actual transactions on similar instruments.

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11 Commitments with non-related parties

	30 September 2019	31 December 2018
	<i>(in thousand Baht)</i>	
<i>Future minimum lease payments under non-cancellable operating lease commitments</i>		
Within one year	3,800	3,952
After one year but within five years	5,821	755
Total	9,621	4,707
<i>Other commitments</i>		
Purchase orders for raw materials	74,049	124,004
Bank guarantees for electricity use	13,369	13,369
Total	87,418	137,373

Lease and service agreements

As at 30 September 2019, the Company had lease agreements covering office premise and related services, vehicle and equipment for periods of 3 years expiring on various dates up to 2022.

Forward contracts

As at 30 September 2019, the Company had outstanding sale forward contracts amounting to U.S. Dollars 5.5 million and Yen 61.7 million, equivalent to Baht 183.9 million (*31 December 2018: U.S. Dollars 2.6 million and Yen 31.3 million, equivalent to Baht 93.2 million*). The contracts will be due during October 2019 to January 2020.

As at 30 September 2019, the Company had outstanding purchase forward contracts amounting to U.S. Dollars 14.6 million and Yen 85.7 million, equivalent to Baht 477.3 million (*31 December 2018: U.S. Dollars 20.5 and Yen 56.6 million, equivalent to Baht 686.7 million*). The contracts will be due during October 2019 to August 2020.

12 Thai Financial Reporting Standards (TFRS) not yet adopted

A number of new TFRS which are relevant to the Company's operations are expected to have significant impact on the Company's financial statements on the date of initial application. Those TFRS which become effective for annual financial reporting periods beginning on or after 1 January 2020 are as follows:

TFRS	Topic
TFRS 7*	Financial Instruments: Disclosures
TFRS 9*	Financial Instruments
TFRS16	Leases
TAS 32*	Financial Instruments: Presentation

* TFRS - Financial instruments standards

Furukawa Metal (Thailand) Public Company Limited
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(a) *TFRS - Financial instruments standards*

These TFRSs establish requirements related to definition, recognition, measurement, impairment and derecognition of financial assets and financial liabilities, including accounting for derivatives and hedge accounting. When these TFRSs are effective, some accounting standards, interpretations and guidance which are currently effective will be cancelled.

(b) *TFRS 16 Leases*

TFRS 16 introduces a single lessee accounting model for lessees. A lessee recognises a right-of-use asset and a lease liability. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard, i.e. lessors continue to classify leases as finance or operating leases. When this TFRS is effective, some accounting standards and interpretations which are currently effective will be cancelled.

Management is presently considering the potential impact of adopting and initially applying those TFRSs on the financial statements.