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KULTHORN KIRBY PUBLIC COMPANY LIMITED

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LEADING MANUFACTURER IN HERMETIC COMPRESSOR FOR REFRIGERATION & AIR CONDITIONING SINCE 1980

14 April 2020

Subject: Clarification of the financial statement for the year 2019, ended 30 December 2019, as requested by the Stock Exchange of Thailand.

To: The President  
The Stock Exchange of Thailand

Reference: The Company's financial statement for the year of 2019, ended 31 December 2019

According to the Stock Exchange of Thailand's letter to Kulthorn Kirby Public Company Limited ("KKC") to clarify the additional information in the financial statement of the year 2019 ended 31 December 2019, which has been reviewed by a certified public accountant. The Auditor's opinion draw attention to the matter that the Group has sustained operating loss for many years, and the Group's total current liabilities exceed its total current assets by Baht 2,454 million. The Group has cumulative loss Baht 1,674 million and was unable to maintain certain financial covenant ratios as specified in the loan agreement. In addition, there was an increase in allowance for impairment loss on investment in subsidiaries of Baht 500 million. The trade receivables from related parties that are overdue more than 12 months but do not record the allowance for doubtful debts and the trade receivables from unrelated parties that are overdue more than 12 months, recorded some of the allowance for doubtful debts.

To enable investors to be informed the important information of the Company for investment decisions, therefore the Stock Exchange of Thailand requests the Company to clarify additional information and dissemination through the Stock Exchange of Thailand's system, as follows:

**1. The Auditor has drawn attention to the matter of the inability to maintain the financial ratios as specified in the long-term loan agreement.**

**According to the Company's Auditor draw attention to the matter of the inability to maintain the financial covenants for the consolidated financial statements, which are the interest-bearing debt to EBITDA plus extraordinary item and non-cash items ratio not exceeding 5:1 times and the debt to equity ratio not exceeding 2.75:1 times, resulting in the long-term loans at the amount of Baht 1,075 million becoming payable on demand. The Stock Exchange of Thailand therefore requests the Company to clarify additional information as follows:**

**1.1 Causes and effects of the inability to maintain the financial covenants as stipulated by financial institutions, including the utilization of credit facilities to be used as working capital for business operations, the assets that the Company used as**

**collateral for the long-term loans, and impact on the shareholders' rights and benefits, etc.**

**Answer:** The Company is unable to maintain the financial covenants because the Company has had operating loss from 2017 – 2019, as a result of structural changes of the industries and fierce competition due mainly to free trade, putting enormous pressure on refrigeration, air conditioners, refrigerators and freezers industries. This has adversely affected the Company in the compressor and related industries. Sales revenue has consequently been deteriorated until not being able to maintain the financial covenants in accordance with the conditions of the financial institution. The Company would like to clarify each topic in the following details:

Structural challenges of Thai refrigeration, air conditioner, refrigerator, freezer and compressor industries

According to the announcement of Ministry of Finance regarding the reduction and exemption of tariff section 12 of Emergency Decree on the Customs Tariff Decree B.E. 2530, with the effective date on 13 November 2017. The details of the announcement are to reduce the tariff of imported raw material to be zero (0) percent for producing, blending, assembly, packing or other industrial processing for trading or consumption domestically in tax-free zones, according to Custom Department, or free-trade zones, according the Industrial Estate Authority of Thailand.

Thai refrigeration, air conditioner, refrigerator, freezer and compressor industries has been adversely affected due to imported products, especially from China which has abundant resources and intensive export subsidy from government. Their product costs are surrealistically low and subsequently can be sold at much lower price. Thai producers have lost the competitiveness. Thailand have signed the bi-lateral free trade agreement with China. The import tariff of air conditioner and refrigerator was reduced from 60 to 5 percent. Those manufacturers of air conditioner and refrigerator, who used to use local compressors as one of the components, has changed to import their finished products from China instead of own manufacturing and shut down their factories. Thai compressor industry therefore loses the customers.

China: intense competition and acquisition of international electrical appliance companies

Since Chinese economic reform in 1970s, China has developed into one of the most modern industrialized countries, exporting a number of industrial products as well as Europe, USA and Japan. Several products, especially electrical home appliances, air conditioners and refrigerators, are well developed. Chinese is currently the world biggest manufacturers and have acquired several international-renowned companies, for example:

- Haier has acquired the electrical appliance division of GE (USA) and Sanyo (Japan)
- Midea has acquired the electrical appliance division of Toshiba (Japan)
- Foxconn has acquired the electrical appliance division of Sharp (Japan)

The total unit sales of air conditioners, refrigerators and freezers, produced in China, have reached 224 million units per annum. This is the estimation of the real production volume at only

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50 percent capacity utilization. If running at full capacity, China will be able to produce air conditioners, refrigerators and freezers up to 450 million units per annum.

With the domestic demand from 1,400 million population and gigantic production capacity, Chinese manufacturers are able to invest in fully-automated production lines due to massive scale. Investment cost is easily justified. On the other hand, Thailand has the total capacity of compressor at 32 million units, approximately, among 9 manufacturers. Thailand's domestic demand is only 16 million units per year. Furthermore, Chinese manufacturers are entitled to VAT refund more than 10 percent of their export sales revenue.

#### Company's operating results for the year 2019

- Sales and service revenues in 2019 was Baht 5,940 million, a decrease of 20.32% from 2018. The decrease in sales due to the reduced sales volume in the compressor and parts product lines, which sales were equal to Baht 4,172 million in 2018, decreased to Baht 3,140 million in 2019, decreased by 24.74%. The Company was affected by the government's policy in 2017 to reduce import duties of compressors from 30% to 0%. Causing the compressor market to have more price competition due to lower cost competitors from China.
- As for other product lines, such as enamelled wire, steel sheet and processed steel, cast iron parts, metal parts and others, total sales and service revenues from subsidiaries in 2019 was Baht 2,800 million, decreased from Baht 3,284 million in 2018, which is a decrease of 14.74%. This is due to the lower market price of steel and copper raw materials in 2019 than the previous year with a decrease of 7.15% and 8.22% respectively.
- Cost of sales and services for the year 2019 was Baht 6,149 million, representing 103.51% of sales and service income, increased from the year 2018 which is equal to 99.12%. Due to the greatly reduced sales that could not cover fixed costs. In addition, the Company recorded a provision for employee benefits increased by Baht 68 million in 2019 due to the announcement of the new Labour Protection Act that increased the compensation from 300 days to 400 days. By changing to the standard cost system, the Company also recorded the additional expenses of Baht 56 million.
- In 2019, the company has a gross loss of Baht 209 million, mainly due to reduced sales and service incomes.
- Selling expenses for the year 2019 at the amount of Baht 93 million, increased from Baht 87 million in the year 2018. This is due to the Company had the claim and sample expenses increased by Baht 5.5 million and recorded the provision for Employee benefits increased by Baht 2.6 million as announced by the new Labour Protection Act.
- Administrative expenses for the year 2019 of Baht 597 million, increased from Baht 546 million in 2018, which is due to the Company has set up an additional Baht 20 million in employee benefits according to the new Labour Protection Act. There were the research and development expenses of Baht 22 million and the expenses for the Bristol project which was not recorded as an investment in fixed assets of Baht 50 million.
- Financial expenses for the year 2019 were Baht 213 million, increased from Baht 187 million in 2018 because the Company's interest-bearing debts increased to Baht 4,607 million in 2019.
- The Company had a net loss of Baht 1,124 million in 2019 due to the decrease in sales, the increase in operating expenses and financial expenses as mentioned above.



- The Company's operating loss leading the Company to not be able to maintain financial ratios, which are the interest-bearing debt to EBITDA plus extraordinary item and non-cash items ratio not exceeding 5:1 times and the debt to equity ratio not exceeding 2.75:1 times, resulting in the long-term loans in the amount of Baht 1,075 million becoming payable on demand.

#### Summary of the causes of dwindling operation performances

Kulthorn Kirby Company Limited's compressor and related businesses were originated by the Thai government in order to develop local industries. So far, the Company has responded very well to the above policy and been one of the major forces of the spectacular growth of refrigeration, air conditioner, refrigerator, freezer and compressor industries. In these sectors, Thailand has been the world number 2 exporter.

Later, the government policy to sign bi-lateral free trade agreement (FTA) with China. From the effective date on 13 November 2017, the import tariff of motor compressor from China has been reduced from 30 percent to nil (0) and the import tariff of air conditioner and refrigerator has been reduced from 60 percent to 5 percent. Consequently, it is not economically worthwhile to produce the products locally. Thai manufacturers have ceased their production or produced less volume. Several manufacturers have changed to be just mere importers by importing completely-built products from Chinese who act as outsourced manufacturers. This is because the total cost is much less than own manufacturing.

With very competitive price of imported compressors and the domestic customers stop their manufacturing and turn to imported completely-built products, the Company's sales volume has drastically deteriorated over the past 2 years.

The Company's record operation performance was in 2010 when the sales revenue was at Baht 12,537 million and the net profit was at Baht 819 million. Yet, after the abandon of Chinese compressor's import tariff and the reduction of Chinese completely-built air conditioner's import tariff down to 5 percent, in 2018, the Company's sales revenue was declined to Baht 7,482.72 million and the net loss was at Baht -605.79 million. In 2019, the Company's sales revenue was slide to Baht 5,961.59 million and the net loss was at Baht -1,123.73 million.

#### The impact of the inability to maintain financial ratios

The Company has submitted a consent letter to the financial institutions to request a waiver of the inability to maintain financial covenants for the long-term loans of the 2019 consolidated financial statements ending 31 December 2019, which 2 of 3 financial institutions have approved the waiver as of 31 December 2019, equivalent to 55 percent of the total balance of the long-term loans. The remaining one is pending approval. However, due to the lack of 100 percent waiver, the Auditor considered and drew attention to the matter of the inability to maintain the financial covenants. The long-term loans were classified to become payable on demand. These long-term loans are guaranteed by the mortgage of the Group's land and buildings, which the net book values at the end of 2019 of approximately Baht 392 million.



Nevertheless, the remaining financial institution has already approved the waiver of the inability to maintain financial covenants for the long-term loans of the 2019 consolidated financial statements ending 31 December 2019. The total balance of the long-term loans at Baht 1,075 million will therefore be re-classified as current portion of long-term loan at Baht 400 million and long-term loans, net of current portion at Baht 675 million in the consolidated interim financial statements for the three-month period ended 31 March 2020, audited by certified public accountant.

Moreover, in 2020, the Company had requested for the reschedule of the loan re-payment of Baht 1,075 million by the extension of the tenure by 1 year and pay back those principles less or exempt the pay-back in some periods. This request has been approved by those three financial institutions. The agreement is being reviewed.

As for the working capital's credit facilities, the Group is supported by the two of three financial institutions that provide long-term loans. The Group has used financial services from both financial institutions for many years. The Group has a good relationship and both financial institutions have good knowledges and understanding of the compressor industry and the business of the group very well. Therefore, both continue to support the Group in draw-down working capital facilities for continuing operations as normal. The Group has signed negative pledge memorandums, which are part of the short-term credit facility agreements with the financial institutions. Under these memorandums, the Group is not allowed to dispose, transfer, mortgage or provide any lien on their land and buildings thereon and machinery, except to use as collateral for the long-term loans with those financial institutions.

In addition, the Executive and the Board of Directors carefully manage in order to not affect the rights of shareholders to the best of their ability. At present, there is nothing affecting the rights of shareholders.

**1.2 Solutions for preventing the debts default, and the operational time frame in order to be able to maintain the financial covenants as stipulated by financial institutions. Please clarify whether the Company has any liabilities with conditions regarding cross default or not. How?**

**Answer:** The situation of the compressor industry over the past few years has directly impacted on the Group's performances. Causing the Group decreased in sales revenues and had a loss for 3 consecutive years. However, the Group recognizes and understands the business situation very well. The Group is in the process of updating, changing, and resolving problems with the business plan and management actions holistically, as follows:

- Both Electricals, Electronics, Telecommunications and Allied Industry Club and Air-Conditioning and Refrigeration Industry Club, under the Federation of Thai Industries, has discussed with government bodies in order to come up with solutions to rejuvenate air conditioner, refrigeration, refrigerator, freezer and compressor industries. The aims are to lift up local industries to become stronger and more competitive. The Company has also



escalated the issues and solutions to several cabinet members and the Board of Investment. So far, a public and private working group to come up with the solutions to help compressor and related industries has been set up and headed by the Office of Industrial Economics, Ministry of Industry. The working group comprises of both related public and private sectors. This is to outline a proposal to the government for further action. One of the possible actions being considered is to increase the import tariff of air conditioners, refrigerators and compressors and impose higher local content for locally-manufactured air conditioners and refrigerators.

- The investment in the Bristol project at the end of 2018 will provide the Company with a larger compressor product line that extend from the maximum power of 10 horsepower to the maximum of 25 horsepower. Bristol compressor is also a high-performance product, with adequate gross profit, allowing the Company to enter into new markets that have never been sold, such as the United States market especially with the very large air conditioner market (Packaged Air Conditioner). This will increase the total sales and profit of the Company. Although the Company was in the condition of a loss-making performances, the Company is still investing more than Baht 600 million to open the market in the United States. The Market has a very high standard but is not the target market of Chinese manufacturers because the market demand is not very high resulting in not be able to take the advantage from economies of scale. The Company also acquired the intellectual property that helps greatly shorten periods for research and development. This project should begin to ripen in 2021 onwards.
- In terms of current product lines, the Group currently focuses on compressor research and development. In order to get a compressor model that could meet the market requirements and respond to the changes in legal requirements, environmental regulations related to refrigerants, and increasing efficiency in energy saving, which will enable the company's products to compete well in the market. Kulthorn Research and Development Co., Ltd. was established with sizable investments for product development and production.
- The Group has short-term actions to reduce production costs by reducing wastes, material costs, and consumables used in the factory, and other production expenses to improve performances.
- However, the Company was also affected by the outbreak of the COVID-19 virus in the first quarter of 2020, both in terms of the partial cancellation of customer orders, the supply chain of raw materials and components' procurement and logistics. Currently, the Company is facing very tight liquidity and is working in every way to limit the impact on the businesses.

As for the long-term loans, the Company currently has already received the waiver of the inability to maintain the financial covenants from all 3 financial institutions. In addition, the Company, in 2020, had requested for the reschedule of the loan re-payment by the extension of the tenure by 1 year and pay back those principles less or exempt the pay-back in some periods. This request has been approved by those three financial institutions. This amendment will support the Company's short-term liquidity.

If the Company can carry out the Bristol Project, it will help to revive the Company's financial performances in the long run. Besides, the Company is considering the financial restructuring, including negotiation with financial institutions regarding the adjustment of conditions to maintain financial covenants in order to reflect the real performances of the Company by then. This will depend vastly on the success of the Bristol Project, for instance, according to the current business



plan to achieve Bristol compressor's sales volume at 1 million units within 2023, which need to require adequate funds to be completed. As a consequence, the Company's performances and the financial structure should finally be in a better shape.

Under the Company's long-term loans agreement, there is a condition regarding the cross default under any financial liabilities. By specifying the cases of default of any financial liabilities of any borrower combined equivalent to Baht 100 million that shall be considered occurring an event of default in the long-term loans. The financial institution lenders shall send the default notice to the Company, by the majority lenders' resolution at more than 66.67 percent of the outstanding amount of long-term loans will result the long-term loans become the default debts. At present, there is no such event happened completely, nor any loans meeting the condition regarding the cross default.

## **2. Transaction of allowance for impairment loss on investment in subsidiaries**

**According to Note 11 to the consolidated financial statements as disclosed, the allowance for impairment of loss on investment in subsidiaries in the year 2019 was Baht 1,543 million, a significant amount representing 42% of the value of investments in subsidiaries, which was recorded an additional Baht 500 million in 2019. The increased amount affects the Group's operating results and financial status. The Stock Exchange of Thailand therefore requests the Company to clarify additional information as follows.**

**2.1 The cause of impairment of investment in each subsidiary in the past, and the reason why recorded the impairment amount up to Baht 500 million in 2019. What is the investment and impairment values of each company? Performances of each subsidiary and the guidelines to improve the Group's operating results and financial status.**

**Answer:** The Subsidiaries that has set up the allowance for impairment of loss on investment in subsidiary in 2018 – 2019 are shown, as belows:

1. Kulthorn Materials and Controls Company Limited (KMC) has set up the allowance for impairment of loss on investment in the year 2019 at the amount of Baht 328,000,000. KMC is a manufacturer of enamelled copper wire and thermostat used in air conditioners and refrigerators.
2. Kulthorn Premier Company Limited (KPC) has set up the allowance for impairment of investment in 2018 at Baht 260,000,000 and in the year 2019 at Baht 142,000,000. KPC is a manufacturer of reciprocating compressors, which are parts in the refrigerators and commercial freezer.
3. Kulthorn Steel Company Limited (KSC) has set up an allowance for impairment of loss on investment in the year 2019 at the amount of Baht 30,000,000. KSC is a manufacturer of cutting and processing steel sheet for use as compressor parts.

(In addition, Kulthorn Kirby Foundry Company Limited (KKF) has set up the allowance for impairment of loss on investment Bath 16,298,218.57, which was set when the Group was facing



the Asian economic crisis in 1997. KKF is a manufacturer of cast iron parts for use as compressor parts.)

The four subsidiaries remain in business as usual. KMC and KSC are vertically integrated by producing compressor parts and deliver to KKC and KPC, which are compressor manufacturers. Due to the intense competition in the compressor industry, KKC and KPC sales have decreased and resulted in loss performance. As a result, both subsidiaries have decreased in sales and loss operating results too. Summary of the 2019 performances of the subsidiaries that were set up the allowance for impairment of loss on investment are shown in the following table.

Year 2019 (Million Baht)	KKF	KPC	KSC	KMC
Profit/Loss for the period	(31.47)	(200.09)	(101.38)	(424.81)
Total Assets	966.46	996.39	1,046.62	716.44
Total Liabilities	244.40	197.29	734.07	711.67
Retained Earnings	136.73	(481.19)	(92.44)	(664.79)
Total Shareholders' Equity	722.06	799.10	312.56	4.77

From the loss performances of subsidiaries together with the preparation of financial projections to assess the enterprise values by using the Discounted Cash Flow method (DCF), therefore, the Company set up the allowance for impairment of loss on investment in subsidiaries. Summary of investments and impairment values for each company are, as follows:

Company (Unit: '000 Baht)	Paid-up Capital		Cost		Cumulative Allowance for Impairment	
	2019	2018	2019	2018	2019	2018
Kulthorn Kirby Foundry	575,000	575,000	739,999	739,999	(16,298)	(16,298)
Kulthorn Premier	1,260,000	1,260,000	1,936,751	1,936,751	(1,168,708)	(1,026,708)
Kulthorn Steel	400,000	400,000	399,999	399,999	(30,000)	-
Kulthorn Materials and Controls	650,000	650,000	540,630	540,630	(328,000)	-
Total	2,885,000	2,885,000	3,617,379	3,617,379	(1,543,007)	(1,043,007)

From the table, the allowance for impairment of loss on investment in subsidiaries in 2018 at the amount of Baht (1,043) million, the amount accumulated from previous years are Baht (783) million combined with the additional allowance of KPC at the amount of Baht 260 million. In the year 2019, the allowance for impairment of loss on investment increased by Baht 500 million, divided into KMC Baht 326 million, KPC Baht 142 million and KSC Baht 30 million, as mentioned above.

The Company has solutions to improve operations, as described in the answer of question 1. The Company believes that when the performances of the parent company are improved from both Bristol Project and the launches of new compressor models under own research and development. The volume purchase of compressor parts from subsidiaries will increase.

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Consequently, the Subsidiaries will improve their financial performances and financial status. At that time, the Company will consider if those allowances are to be reversed or not.

## **2.2 The Company's criteria to consider the investment impairment and the opinion of the Board of Directors on the suitability of the said impairment loss on investment.**

**Answer:** The policy, that the Company uses to determine the impairment of assets for the 2019 consolidated financial statements ending 31 December 2019, is complied with the accounting standard no. 36 impairment of assets (TAS 36). At the end of each reporting period, the Group performs impairment reviews in respect of the properties, plants and equipment, intangible assets and other assets whenever events or changes in circumstances indicate that an asset may be impaired. The Group also carries out annual impairment reviews in term of goodwill. An impairment loss is recognized when the recoverable amount of an asset, which is the higher of the asset's fair value less costs to sell and its value in use, is less than the carrying amount. An impairment loss is recognized in profit or loss.

In the assessment of allowance for impairment of investment, the Company prepared a financial model to assess the value of investments by using the Discounted Cash Flow (DCF) method. The impairment assessment is a significant accounting estimation, requiring the management to exercise a high degree of judgement in forecasting of business and operating results and setting an appropriate discount rate as well as other significant assumptions. There are thus risks with respect to the value of investments in subsidiaries.

The Auditor assessed the management's consideration regarding the impairment on investments in subsidiaries by gaining an understanding of management's decision-making process of the selected financial models and testing the significant assumptions applied by management in preparing estimates of the cash flows expected to be realized from such investments, by comparing those assumptions with information from both internal and external sources and comparing past cash flow projections to actual operating results in order to evaluate the exercise of management judgement in estimating the cash flow projections. The Auditor also evaluated the discount rate applied by management through analysis of the average cost of capital and other information of the Company and of the industry, tested the calculation of the realizable values from those investments using the selected financial model. The Auditor also considered the impact of changes in key assumptions on those realizable values of cash flow projection. The Company conduct the conservative financial projections based on the past performances of the Subsidiaries. And thorough audited by the Auditor. Therefore, the business valuation by using the Discounted Cash Flow method (DCF) will ensure that the impairment of investment of a subsidiary is appropriate. The estimations are based on past performances, resulting in not very high value of investment. The auditor agreed to set up an impairment of investment in all 3 subsidiaries as mentioned above. The Board of Directors considered the Company's policy and procedures, including the allowance for impairment of investment as well as the Auditor's opinion that they are appropriate. Therefore, the resolution approved to propose the 2019 consolidated financial statements for further approval by the Annual Shareholder Meeting.



In addition, once the operating results of the subsidiaries improve, which will subsequently result in improved financial projections that reflect the value of the subsidiary's investment after adjusting the operating results. The Company will consider to review the impairment of loss on investment in a subsidiary again.

### 3. Transaction of allowance for doubtful debts of trade receivables

As disclosed in Note 8 to the consolidated financial statements, trade receivables are overdue for more than 12 months are shown, as follows:

Transaction (Million Baht)	Consolidated Financial Statement	
	As of 31/12/2019	As of 31/12/2018
<b>Trade receivables - related parties</b>		
Overdue over 12 months	4.45	4.80
<b>Trade receivables - unrelated parties</b>		
Overdue over 12 months	10.61	19.42
Less Allowance for doubtful debts	(6.21)	(12.78)

The Stock Exchange of Thailand requested the Company to clarify additional information, as follows:

**3.1 Describe the natures of the trade receivables that are overdue more than 12 months, the overdue reason, and debt collection of the Company in the past. Please explain the relationships with the Company of trade receivables from related companies in terms of shareholding, common major shareholders, directors and managements.**

**Answer:** Trade receivables overdue more than 12 months, amounting to Baht 15.06 million in 2019, are normal trade transactions. The transactions are divided into the trade receivables - related parties at the amount of Baht 4.45 million and the trade receivables - unrelated parties at the amount of Baht 10.61 million. The reason of overdue is because the customers have been facing financial difficulties and liquidity problem, therefore cannot pay the debts on time.

The trade receivable - related parties that overdue more than 12 months is the transactions between a subsidiary, Kulthorn Steel Company Limited (KSC) and a related party, Super Alloy Technology Company Limited (SAT). KSC sold processed steel for SAT to use as a raw material of their production. This is a trade agreement with the same commercial terms as those an ordinary person would agree with any unrelated counterparty under similar circumstances, on the basis of commercial negotiation and without any dependent interest resulted from the status of the director, executive or related person, at the amount of Baht 4,449,343.94 as of 31 December 2019.

- SAT is a related party with the Company, which one of the Company's director, Mr. Suraporn Simakulthorn, and the Company's director and management, Mr. Thitisak Simakulthorn, are



connected persons. Mr. Suraporn is the major shareholder with 86.5 percent shareholding (source: Copy of List of Shareholders' Names (Bor. Or. Jor. 5) as of 28 May 2015), an authorized director and controlling person over SAT, while Mr. Thitisak is the authorized director of SAT (source: Department of Business Development, Ministry of Commerce)

- SAT has continuously paid, in partial, up until November 2019 so that the amount of debts has decreased over time.
- Throughout the period that SAT was KSC's overdue receivables, SAT has still traded with KKC and other subsidiaries as one of the suppliers of raw materials and components for manufacturing compressor. SAT therefore is a trade payable to KKC and KPC and had not lost contact with the Group.
- In February 2020, SAT has paid the whole lump sum of the trade receivables. KKC, KPC and KSC have approved the transferring of claims and setting off the whole debts. The transferred SAT's trade payables of KKC was Baht 3,019,931.36 and KPC was Baht 1,434,020.00.

**3.2 Are there any differences in the accounting policy on allowance for doubtful debts of related and unrelated parties? Why? Also, explaining whether the Company has recorded the allowance for doubtful debts in full amount according to the accounting policy or not? How?**

**Answer:** The Company records the allowance for doubtful debts in accordance with the Company's accounting policy for doubtful accounts and bad debts. It can be summarized, as follows:

- In case of trade receivables - related parties (subsidiary and group company), the Executive set guidelines and follow up on trade related transactions by using trade terms and prices comparable to the market. Supervision of trading volumes is based on actual use according to the natures of business. As for the policy of setting up the allowance for doubtful debts, on the related business who is a subsidiary or a group company with 100% shareholding by the Company, therefore there is very low risk of non-repayment from the trade receivables – related party. The Company's policy therefore has not set up allowance for doubtful debts for the trade receivables - related parties.
- In case of trade receivables - unrelated parties, the Executive has established a guideline to set up the specific provision for each customer by considering the elements related to the payment of that customer, such as overdue period, repayment ability, business continuity, negotiation for payment by instalments, as well as, trials and court proceedings etc. In considering the rate of allowance for doubtful debts (percentage) of the overdue debt of such customer is based on the above elements, including related internal and external factors, for example, economic conditions and industry-specifics. Under the discretion of the Executive and in accordance with the principles of careful consideration of the rate setting.
- In case of trade receivables – unrelated parties (not subsidiaries, nor group company) but major shareholder, controlling person, or management is a connected person, the Executive follow the guideline to set up the specific provision the same as the trade receivables of unrelated parties. Besides, a director or executive who is a connected person and, at the same time, the shareholder, controlling person, director and/or executive of the unrelated

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party, shall realize, be responsible and follow up the debt collection finally. This would help to reduce the credit risk at a certain level.

- At the end of the year 2019, the Company considered to record the allowance for doubtful debts for the trade receivables – unrelated parties that were overdue for more than 12 months, not full amount due. Due to the accounting policy require to set up full amount of the allowance for doubtful accounts for all trade receivables that are non-repayment. But if there are any customers that have gradually paid or repay monthly instalments, it will not record full allowance for doubtful debts. As a result, even though the trade receivables - unrelated parties amounted to Baht 10.61 million, but the allowance for doubtful debts were only Baht 6.21 million because some receivables had not yet loss contacted and still gradually repay debts.
- Nevertheless, according to the new TFRS 9 accounting standard, the Company is reviewing the accounting policy of doubtful accounts and bad debts. The Executive set their sights to the guideline to manage all trade receivables in the same way.

**3.3 Describe the debt collection procedures and assess the risk that the Company may not receive the debt repayment that has not yet been set up the allowance for those doubtful debts.**

**Answers:** For trade receivables operations management, the Company has the same process for both trade receivables - related parties and unrelated parties. The trade receivables operations procedures can be outlined, as follows:

- Firstly, the Company reviews the qualifications of trade receivables in order to set trade limits, trade terms and payment methods, resulting to partial reduction of credit risks. In addition, if some trade receivables do not meet all qualification required, but for the purposes of business relationship, the Company therefore has a policy to obtain trade credit insurance with financial institutions to reduce the damages in case of customer's non-payment.
- The Company prepares a reconciliation report of accounts receivables with general ledger and an aging report. In order to be able to control and monitor the repayment as scheduled, which shall be in line with the Company's cash flow management. This will help to reduce the risk of more debt overdue. Also, in the case of trade receivables that overdue for long time, the Executive will follow up the debt collection step by step and proceed until the end.
- It is true that the Company has a risk of not receiving payment from those outstanding trade receivables. Yet, the Company does not provide full allowance due to the conservative consideration of the allowance for doubtful debts on each specific trade receivables. Some of the trade receivables are still in contact with the Company and the payment has been gradually made. In addition, the Company has closely monitored and supervised. Sales team has frequently visited, called and/or sent email or mail correspondences in order to remind, confirm the outstanding amount in each due, bank account number and due date etc., prior to each due date. Furthermore, in some cases, the Company has outsourced to professionals to collect the outstanding debts. The above measures provide confidence on follow-up and repayment in full amount. The risk of not receiving payment is therefore low and it is appropriate to set aside only a partial allowance for doubtful debts.



Please be informed accordingly.

Yours faithfully,



Kulthorn Kirby Public Company Limited

(Sutee Simakulthorn)  
President