

Quality Construction Products Public Company Limited and its Subsidiary
Notes to the interim financial statements
For the three-month and six-month periods ended 30 June 2020 (Unaudited)

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These notes form an integral part of the interim financial statements.

The interim financial statements issued for Thai statutory and regulatory reporting purposes are prepared in the Thai and English languages, and were approved and authorized for issue by the audit committee, as appointed by the Board of Directors of the Company, on 10 August 2020.

1 General information

Quality Construction Products Public Company Limited, (the “Company”), is incorporated in Thailand and has its registered office at 144 Moo 16, Udomsorayuth Road, Tambol Bangkrasan, Amphur Bang pa-in, Ayutthaya, 13160, Thailand.

The immediate and ultimate parent companies during the financial period were SCG Building Materials Company Limited and The Siam Cement Public Company Limited. Both are incorporated in Thailand.

The principal businesses of the Company are to produce and distribute of autoclaved aerated concrete blocks, reinforced wall panels, floor panels, and lintels for construction uses.

Details of the Company’s subsidiary as at 30 June 2020 and 31 December 2019 were as follows:

Name of the entity	Type of business	Country of incorporation / nationality	Ownership interest (%)	
			30 June 2020	31 December 2019
<i>Direct subsidiary</i>				
Q-Con Eastern Co., Ltd.	Manufacturer and distributor autoclaved aerated concrete, block, reinforced wall panels, floor panels and lintels for construction uses.	Thailand	100	100

2 Basis of preparation of the interim financial statements

(a) Statement of compliance

The 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 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 and its subsidiary for the year ended 31 December 2019.

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The accounting policies and methods of computation applied in these interim financial statements are consistent with those applied in the financial statements for the year ended 31 December 2019 except that the Group has adopted all the new and revised TFRSs that are effective for annual periods beginning on or after 1 January 2020. The Group has initially applied TFRS - Financial instruments standards and TFRS 16 *Leases* and disclosed the impact of changes in accounting policies in note 3.

In addition to the above new and revised TFRSs, the Federation of Accounting Professions has issued a number of new and revised TFRSs which are effective for annual accounting periods beginning on or after 1 January 2021 and have not been adopted in the preparation of these interim financial statements because they are not yet effective. The Group has assessed the potential initial impact on the financial statements of these new and revised TFRS and expects that there will be no material impact on the financial statements in the period of initial application.

(b) *Functional and presentation currency*

The interim financial statements are prepared and presented in Thai Baht, which is the Group's functional currency. All financial information presented in Thai Baht has been rounded in the notes to the interim financial statements to the nearest thousand Baht unless otherwise stated.

(c) *Use of estimates and judgements*

The preparation of interim financial statements in conformity with TFRSs requires management to make judgments, estimates and assumptions that affect the application of the Group's accounting policies. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

The significant assumptions in applying the Group's accounting policies and the key sources of estimation were the same as those that applied to the financial statements for the year ended 31 December 2019, except for the judgments and the new key sources of estimation related to the application of new TFRSs and accounting guidance: temporary relief measures for additional accounting options in response to impact from the situation of COVID-19 outbreak.

The significant assumptions and the key sources of estimation included in the following notes:

Note 8	Impairment testing: key assumptions underlying recoverable amounts;
Note 9	Recognition of deferred tax assets: availability of future taxable profit against which tax deductible temporary differences and tax losses carried forward can be utilized; and
Note 11	Measurement of non-current provisions for defined benefit plans - key actuarial assumptions.

According to the situation of COVID-19 outbreak, it is resulted in estimation uncertainty. The Group elected to apply accounting guidance on temporary accounting relief measures for additional accounting options in response to impact from the situation of COVID-19 outbreak for the transaction related to interim financial statements as at 30 June 2020 which is impairment of accounts receivables. The Group considered impairment of trade accounts receivables under simplified approach using historical loss rate for expected credit loss and did not take forward-looking information about the uncertain situation of COVID-19 into account.

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(d) Basis of consolidation

The interim financial statements for the three-month and six-month periods ended 30 June 2020 include the accounts of Quality Construction Products Public Company Limited and its subsidiary included in the interim financial statement is Q-CON Eastern Co., Ltd.

All significant intercompany transactions with subsidiary included in the interim financial statements have been eliminated.

3 Changes in accounting policies

From 1 January 2020, the Group has initially applied TFRS - Financial instruments standards and TFRS 16. Impact of changes in accounting policies are as follows:

(a) TFRS - Financial instruments standards

The Group has adopted TFRS - Financial instruments standards by adjusting the cumulative effects to retained earnings and other components of equity on 1 January 2020 with no restatement of comparative information.

These TFRS - Financial instruments standards establish requirements related to definition, recognition, measurement, impairment and derecognition of financial assets and financial liabilities. The impact from adoption of TFRS - Financial instruments standards are as follows:

(1) Classification - Financial assets

TFRS 9 classifies financial assets into three categories: measured at amortized cost, fair value to other comprehensive income (FVOCI) and fair value to profit or loss (FVTPL). The standard eliminates the existing classification of held-to-maturity debt securities, available-for-sale securities, trading securities and general investment as specified by TAS 105. The classification under TFRS 9 is based on the cash flow characteristics of the financial asset and the business model in which they are managed. Under TFRS 9, derivatives are measured at FVTPL. It replaces accounting policies of the Group on recognition of revaluation exchange rate at the end of period or when the derivatives were exercised.

The classification - Financial assets under TFRS 9 has no material effect on trade receivables, current investments, and long-term investments.

(2) Measurement at amortized cost

Under TFRS 9, interest income and interest expenses recognized from all financial assets and financial liabilities measured at amortized cost shall be calculated using effective interest rate method. The adoption of TFRS 9 has no material effect on the financial statements of the Group.

(3) Classification - Financial liabilities

TFRS 9 introduces a new classification and measurement approach for financial liabilities consisting of two principal classification categories: amortized cost and FVTPL. A financial liability is classified as financial liabilities measured at FVTPL if it is held for trading, a derivative or designated as such on the initial recognition.

The adoption of TFRS 9 has no material effect on the financial statements of the Group.

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(4) Hedge accounting

TFRS 9 introduces guidance on hedge accounting while current TFRSs are silent. There are three hedge accounting models and the type of model applied depends on the hedged exposures consisting of a fair value exposure, a cash flow exposure or a foreign currency exposure on a net investment in a foreign operation. Under TFRS 9, the Group is required to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assess hedge effectiveness.

Accordingly, TFRS 9 provides an option to apply hedge accounting when the transactions are qualified. At the initial date of the first time adoption, the Group has no effect on this matter.

(5) Impairment - Financial assets

TFRS 9 introduces forward-looking 'expected credit loss' (ECL) model of Financial assets whereas previously the Group estimates allowance for doubtful account by analyzing payment histories and future expectation of customer payment. TFRS 9 requires considerable judgment about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model applies to financial assets measured at amortized cost or fair value to other comprehensive income, except for investments in equity instruments.

The Group made an assessment of the impairment of financial assets under TFRS 9. This adoption has no material effect on the financial statements of the Group.

(b) TFRS 16 Leases

Previously, the Group, as a lessee, recognized payments made under operating leases in profit or loss on a straight-line basis over the term of the lease. When TFRS 16 is effective from 1 January 2020, it introduces a single lessee accounting model for lessees. A lessee recognizes a right-of-use asset and a lease liability. There are recognition exemptions for short-term leases and leases of low-value items.

The Group applied TFRS 16 for the first time on 1 January 2020 using the modified retrospective approach, by recognizing cumulative impact of right-of-use assets and lease liabilities with no restatement of comparative information. The Group elected to use some practical expedients as stated by TFRS16.

The Group made an assessment of TFRS 16 adoption. On 1 January 2020, the Group recognized the increase in right-of-use assets and lease liabilities on the consolidated and separate financial statements amounted to Baht 47 million and Baht 38 million, respectively. The nature of expenses related to those leases will change as the Group will recognize depreciation of right-of-use assets and interest expenses on lease liabilities. The operating lease commitment as at 31 December 2019 was discounted using the incremental borrowing rate and used of exemption for short-term lease and low-value items lease assets. The Group has recognized lease liabilities as at 1 January 2020 on the consolidated and separate financial statements amounted to Baht 47 million and Baht 38 million, respectively. Incremental borrowing rates on the consolidated and separate financial statements were 2.27% - 2.75% per year.

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4 Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control, common control or joint control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

In the second quarter of 2020, there is no significant change in related parties and pricing policies regarding the consolidated and separate financial statements for the year 2019.

Significant transactions with related parties for the three-month and six-month periods ended 30 June are summarized as follows:

	Consolidated financial statements		Separate financial statements	
	three-month periods		three-month periods	
	2020	2019	2020	2019
	<i>(in thousand Baht)</i>			
Parent				
Distribution costs	-	13	-	13
Administrative expenses	2,835	3,530	2,599	3,283
Subsidiary				
Purchases	-	-	162	1,826
Service income	-	-	3,720	3,720
Trademark income	-	-	1,193	1,447
Interest expenses	-	-	-	890
Other income	-	-	1	193
Others				
Sale of goods	280,383	285,773	233,289	228,625
Purchases	96,468	88,718	69,055	71,396
Distribution costs	132	-	129	-
Administrative expenses	2,939	768	2,415	762
Other income	4,562	1,177	3,395	870
Interest income	1,586	14	273	14

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	Consolidated financial statements		Separate financial statements	
	six-month periods		six-month periods	
	2020	2019	2020	2019
	<i>(in thousand Baht)</i>			
Parent				
Distribution costs	6	19	6	19
Administrative expenses	6,048	6,963	5,621	6,491
Subsidiary				
Purchases	-	-	4,759	25,591
Service income	-	-	7,440	7,440
Trademark income	-	-	2,561	3,130
Interest expenses	-	-	-	2,528
Other income	-	-	4	243
Others				
Sale of goods	608,495	597,345	507,596	474,600
Purchases	194,635	181,211	149,510	142,845
Distribution costs	307	9	302	9
Administrative expenses	4,138	1,285	3,395	1,259
Purchase of property, plant and equipment	883	-	-	-
Other income	8,954	3,497	6,692	2,694
Interest income	1,770	14	441	14

Balances as at 30 June 2020 and 31 December 2019 with related parties were as follows:

<i>Trade receivables</i>	Consolidated financial statements		Separate financial statements	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019
	<i>(in thousand Baht)</i>			
Other related parties	84,261	87,634	71,998	73,337

<i>Other current receivables</i>	Consolidated financial statements		Separate financial statements	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019
	<i>(in thousand Baht)</i>			
Parent	569	569	477	477
Subsidiary	-	-	445	447
Other related parties	783	1	112	1
Total	1,352	570	1,034	925

<i>Other non-current assets</i>	Consolidated financial statements		Separate financial statements	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019
	<i>(in thousand Baht)</i>			
Parent	4,267	4,551	3,579	3,817

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<i>Trade payables</i>	Consolidated		Separate	
	financial statements		financial statements	
	30 June	31 December	30 June	31 December
	2020	2019	2020	2019
	<i>(in thousand Baht)</i>			
Subsidiary	-	-	136	85
Other related parties	21,116	12,949	17,378	10,097
Total	21,116	12,949	17,514	10,182

<i>Other current payables</i>	Consolidated		Separate	
	financial statements		financial statements	
	30 June	31 December	30 June	31 December
	2020	2019	2020	2019
	<i>(in thousand Baht)</i>			
Parent	1,345	2,398	1,292	1,635
Subsidiary	-	-	-	4
Other related parties	7,528	3,430	6,975	3,341
Total	8,873	5,828	8,267	4,980

<i>Short-term borrowing from related party</i>	Consolidated		Separate	
	financial statements		financial statements	
	30 June	31 December	30 June	31 December
	2020	2019	2020	2019
	<i>(in thousand Baht)</i>			
Subsidiary	-	-	-	-

Movement during the six-month period ended 30 June on short-term borrowing from related party was as follows:

	Consolidated		Separate	
	financial statements		financial statements	
	2020	2019	2020	2019
	<i>(in thousand Baht)</i>			
At 1 January	-	-	-	200,000
Decrease	-	-	-	(100,000)
At 30 June	-	-	-	100,000

<i>Key management personal compensation</i>	Consolidated		Separate	
	financial statements		financial statements	
	2020	2019	2020	2019
	<i>(in thousand Baht)</i>			
<i>For the three-month period ended 30 June</i>				
Short-term employee benefits	5,502	5,727	5,502	5,727
Post-employment benefits	541	3,320	541	3,320
Total	6,043	9,047	6,043	9,047
<i>For the six-month period ended 30 June</i>				
Short-term employee benefits	11,240	11,407	11,240	11,407
Post-employment benefits	1,082	3,940	1,082	3,940
Total	12,322	15,347	12,322	15,347

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5 Investments in short-term debt securities

As at 30 June 2020, the Group and the Company had short-term deposit at several local banks totalling Baht 500 million and Baht 80 million, respectively (*31 December 2019: Baht 400 million and nil*).

6 Trade receivables

	<i>Note</i>	Consolidated financial statements		Separate financial statements	
		30 June 2020	31 December 2019	30 June 2020	31 December 2019
		<i>(in thousand Baht)</i>			
Related parties	4	84,261	87,634	71,998	73,337
Other parties		75,804	107,886	73,053	105,690
Total		160,065	195,520	145,051	179,027
<i>Less</i> allowance for impairment		-	-	-	-
Net		160,065	195,520	145,051	179,027

Aging analyzes for trade receivables were as follows:

	Consolidated financial statements		Separate financial statements	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019
	<i>(in thousand Baht)</i>			
Within credit terms	155,450	192,690	140,436	176,197
Overdue:				
1 - 30 days	2,413	2,165	2,413	2,165
31 - 60 days	-	300	-	300
61 - 90 days	71	365	71	365
Over 90 days	2,131	-	2,131	-
	160,065	195,520	145,051	179,027
<i>Less</i> allowance for impairment	-	-	-	-
Net	160,065	195,520	145,051	179,027

The normal credit terms granted by the Group range from 15 to 60 days.

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7 Investments in subsidiary

Investments in subsidiary as at 30 June 2020 and 31 December 2019, and dividend from those investment for the six-month period ended 30 June was as follows:

	Separate financial statements							
	Total direct/indirect holding		Paid-up capital		Cost method		Dividend income	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019	30 June 2020	31 December 2019	30 June 2020	30 June 2019
	(%)				<i>(in thousand Baht)</i>			
Q-Con Eastern Co., Ltd.	100	100	590,000	590,000	590,000	590,000	-	-
Total					590,000	590,000	-	-

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8 Property, plant and equipment

Property, plant and equipment under construction

The construction of new plant in Lamphun province has been commenced partially during 2015 - 2016; costs incurred up to the reporting date totalled Baht 240 million (31 December 2019: Baht 240 million).

In the board of directors' meeting held on 27 October 2015, following the current local market condition, the directors acknowledged to suspend temporarily the project construction accordingly. In the third quarter of 2018, the Company appointed an independent professional valuer to review and determine the impairment of property, plant and equipment under construction in Lamphun province. The fair value of property were determined at Market Data Approach and plant and equipment under construction were determined at Cost Approach. Based on the result of the assessment, the Company recognized an impairment loss of Baht 21 million. In 2019, the Company determined and tested the impairment of property, plant and equipment under construction in Lamphun province by using independent professional valuer's information to recalculate, resulting in recognized an impairment loss of Baht 6 million. The fair value measurement has been categorized as a Level 3 fair value.

In the board of directors' meeting held on 10 August 2020, the directors approved to terminate constructing of the new plant in Lamphun province as the directors has continuously reviewed the investment. The board of directors has considered the return on the project and found that it is not worth to invest due to the market situation, therefore the board of directors passed a resolution to approve the termination of the investment. However, the Company is considering the impact of the project's termination.

In the board of directors' meeting held on 10 August 2020, the board of directors have approved the cancellation of the new plant in Lamphun province as the directors have continuously reviewed this investment. According to the current market situation, the board of directors have considered that the return of the investment was not worthwhile. Therefore, the board of directors have approved the cancellation of the investment. The Company is considering the impact of the project's termination.

9 Deferred tax assets

Deferred tax assets were as follows:

	Consolidated		Separate	
	financial statements		financial statements	
	30 June	31 December	30 June	31 December
	2020	2019	2020	2019
	<i>(in thousand Baht)</i>			
Deferred tax assets	23,966	20,027	22,740	18,829

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The deductible temporary differences and unused tax losses that have not been recognized as deferred tax assets are as the following items:

	Consolidated		Separate	
	financial statements		financial statements	
	30 June	31 December	30 June	31 December
	2020	2019	2020	2019
	<i>(in thousand Baht)</i>			
Deductible temporary differences				
- Inventories	4	1	-	-
- Provisions	2,200	1,087	-	-
- Unused tax losses	48,529	52,052	-	-
Total	50,733	53,140	-	-

As at 30 June 2020, the Group had unused tax losses loss of Baht 49 million (*31 December 2019: Baht 52 million*). Management has determined that the recoverability of cumulative tax losses, which expire in 2021 - 2022, based on business plan for the next five years. It is uncertain to utilise the tax. However, if the management considered probable that future taxable profits would be available against which such losses can be used, then deferred tax assets and related income tax benefit could be recognized.

10 Trade payables

	<i>Note</i>	Consolidated		Separate	
		financial statements		financial statements	
		30 June	31 December	30 June	31 December
		2020	2019	2020	2019
		<i>(in thousand Baht)</i>			
Related parties	4	21,116	12,949	17,514	10,182
Other parties		76,628	69,142	62,924	60,588
Total		97,744	82,091	80,438	70,770

11 Non-current provisions for employee benefits

The Group operates defined benefit plans based on the requirement of the Thai Labor Protection Act B.E. 2541 to provide retirement benefits and other long-term benefits to employees based on pensionable remuneration and length of service.

The defined benefit plans expose the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk.

Non-current provisions for employee benefits in statement of financial position

	Consolidated		Separate	
	financial statements		financial statements	
	30 June	31 December	30 June	31 December
	2020	2019	2020	2019
	<i>(in thousand Baht)</i>			
Post-employment benefits -				
Legal severance payment plan	58,563	57,144	53,944	52,764
Other long-term employee benefits	5,043	4,826	4,421	4,234
Non-current provisions for defined benefit plan	63,606	61,970	58,365	56,998

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Movement in the present value of non-current provisions for defined benefit plans

	Consolidated financial statements		Separate financial statements	
	2020	2019	2020	2019
<i>(in thousand Baht)</i>				
For the six-month periods ended 30 June				
Non-current provisions for defined benefit plans at 1 January	61,970	39,284	56,998	36,181
Included in profit or loss				
Current service costs	2,177	1,851	1,953	1,658
Interest on obligation	521	767	476	703
Past service cost from the amended severance pay of the Labor Law	-	11,280	-	10,456
Other				
Benefits paid	(1,062)	-	(1,062)	-
Non-current provisions for defined benefit plans at 30 June	63,606	53,182	58,365	48,998

Actuarial assumptions

In the second quarter of 2020, there is no significant change in actuarial assumptions regarding the consolidated and separate financial statements for the year 2019.

12 Business segment information

The Group operates in a single line of business, produce and distribute of autoclaved aerated concrete blocks, reinforced wall panels, floor panels, and lintels for construction uses, and has therefore only one business segment.

13 Dividends

On 19 March 2020, the meeting of the Board of Directors passed a resolution to postpone the 2020 Annual General Meeting of Shareholders of the Company which scheduled on 27 March 2020 to 29 June 2020 due to the situation of COVID-19 outbreak, and approved the interim dividend payment from the Company's profit as of 31 December 2019 instead of the annual dividend payment which was planned to propose to this Annual General Meeting of Shareholders of the Company for their consideration. Therefore, the Board of Directors will not propose any other dividend payment for 2019.

The dividends paid by the Company to the shareholders were as follows:

	Approval date	Payment schedule	Separate financial statements	
			Dividend rate per share (Baht)	Amount (in million Baht)
2020				
Interim dividend 2019	19 March 2020	17 April 2020	0.18	72
2019				
Annual dividend 2018	22 March 2019	19 April 2019	0.06	24

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14 Commitments and contingent liabilities

	Consolidated financial statements		Separate financial statements	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019
	<i>(in thousand Baht)</i>			
(a) Bank guarantees issued by banks to state enterprises	14,145	14,145	6,500	6,500
(b) Unused letters of credit	8,536	2,522	8,536	2,522
(c) Commitments				
- Construction, installation of machinery equipment, and others	18,522	18,156	11,374	14,362
- Expenses of dam's construction for the propose of flood protection	10,209	10,870	10,209	10,870
(d) In 2013, the Company entered into long-term agreements with local companies to purchase steam for 10 years from the date of transaction occurs and in the third quarter of 2019, the company entered into another agreement has a period of 15 years from the date of transaction occurs which have not started trading. The prices in both agreements are agreed based on market price.				
(e) In March 2014, the Company entered into a steam purchase agreement for Lamphun Factory with a local company. The Company has committed to purchase steam at a quantity as indicated in the agreement for 10 years, commencing from the effective date to be specified later but not later than 1 October 2021.				