



ELECTRONICS INDUSTRY PUBLIC COMPANY LIMITED

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1st September 2016

Subject: Clarification Information of Financial Statement Q2/2016 as SET request

To: President
The Stock Exchange of Thailand

Electronics Industry Public Company Limited (EIC) would like to disclose details of the financial statement of Q2/2016 as follows:

- 1. Please explain the change of financial status and operating result as follows:
 - 1.1 The reasons of increasing of profits in Q2/2016 including background and effect to the financial statement of this transaction

The reasons of increasing of profits of baht 23.03 million in Q2/2016 are Shares of profits from the investment in associate company 14.995 million baht and reversal of losses from impairment of investments in associate company 16.863 million baht as follows:

- 1.1.1 Shares of profits from the investment in associate company 14.995 million Baht

| | Total Profit/Loss for the period | EIC's Share for the period |
|--------------------------------|---|---------------------------------------|
| Smart Traffic Co Ltd | 60.27 | 18.20 |
| Sport Events International Ltd | (10.24) | (3.07) |
| Global Legends Series Ltd | (0.48) | (0.14) |
| Total in Baht Million | | 14.94 |

As previously stated, Smart Traffic generated a profit of Baht 60.2 million for the 3 month period ended June 30, 2016 and EIC's share of that profit was Baht 18.2 million. The profit was generated by the recognition of income on new projects with Office of Transport and Traffic Policy and Planning. Sport Events International generated a loss of Baht 10.2 million for the period and EIC's share of the loss was Baht 3 million. Global Legends Series generated a loss of Baht 0.48 million for the period and EIC's share of this loss was Baht 0.14 million. Neither Sports Events International nor Global Legends Series held any events or matches during the quarter, and the loss was fully

expected. The company needed to maintain awareness of its brands in the media and amongst its fan base in and to promote the event with potential sponsors and business partners. The brands have great potential and must be actively promoted. The total share of the profit and loss from the operations of subsidiaries and associated companies was a net profit of Baht 14.9 million.

1.1.2 Reversal of losses from impairment of investments in associate company
16.863 million Baht

During the period, the investment in associate company “Smart Traffic Co., Ltd.” stood at 30.20% of paid up capital of Smart Traffic. On 29 June 2016, the Company realized the sale of a number of ordinary shares of Smart traffic Co., Ltd. totaling 391,800 shares or 3.26% of the existing shareholding for a price of Baht 20 million. The Company received payment of Baht 5 million in June 2016 plus advance payment received of Baht 15 million from purchaser on 18 December 2015. As at 30 June 2016, the percentage of shareholding of investment in associate company was reduced to 26.94% of paid up capital of Smart Traffic.

The sale of a number of ordinary shares of Smart Traffic Co., Ltd. to the existing shareholders resulted the company has to reverses losses from impairment of investment in associate company of baht 16.863 million as follows:

| | | |
|--|--------|--------------|
| Provision for loss on impairment of investments in Smart Traffic as of 31 March 2016 | 155.97 | Million baht |
| The proportion of sales of shares (%) | 10.81 | |
| The calculation of 10.81% as follow: | | |
| <u>= Sale of shares to existing shareholder x 100</u> | | |
| Total of shares in Smart Traffic | | |
| <u>= 391,800 x 100</u> | | |
| 3,624,000 | | |
| Reversal of losses from impairment of investment | 16.863 | Million baht |

Without the reversal of impairment losses the Company’s net profit/Loss after tax would be reduced from a profit of Baht 23.8 million Baht to a profit of Baht 6.88 million for the quarter and from a loss of Baht -56.74 million to a loss of Baht -73.6 million Baht for the six month period year-to-date.

1.2 The reason of increasing of loss for 6 months 2016 and please also explain the background that affect to the financial statement as follows:

The reason of increasing of loss for 6 months 2016 are shares of loss from the investment in associate company 30.428 million baht and remuneration of directors and Management Baht 36.01 million baht as follows:

1.2.1 Shares of loss from the investment in associate company 30.428 million Baht
Share of loss from investment in Associates increased by Baht-30.4 million as follows:

| | EIC's Share 6M/2015 | EIC's Share 6M/2016 |
|--------------------------------|--------------------------------|--------------------------------|
| Smart Traffic Co Ltd | (5.5) | (3.24) |
| Sport Events International Ltd | 0 | (9.41) |
| Global Legends Series Ltd | 0 | (17.77) |
| Total in Baht Million | (5.5) | (30.43) |

Impairment of investments in associate company of Baht 21.443 million (from the statement of cash flows at the company level)

The Company recognized a loss on impairment of investment in Smart Traffic of Baht 21.43 million in the Company's Financial Statement which is based on the share of loss on investment in Smart Traffic in the first quarter of 2016. Smart Traffic had a net loss in the first quarter of 2016 of Baht 71,002,252.59 so EIC's share was 30.20% which is equivalent to Baht 21,442,680.28. This was already booked in the financial statements of the first quarter 2016.

1.2.2 Remuneration of directors and Management Baht 36.01 million baht
Remuneration of Directors and Management increased 258% from Baht 10.06 in the first six months of 2015 to Baht 36.01 over the first 6 months 2016 due to hiring of executive committee and management team in June 2015. After it was decided to actively invest in the sports business in July 2015, new management and a new Executive Committee was appointed consisting of 14 people of which the senior executives were seasoned professionals in their respective fields tasked with the objective of increasing shareholder value by accelerating the diversification of EIC to compensate for falling sales and profitability of the semiconductor diode business. These key employees were to become more active in the oversight of investments including Smart Traffic, SEI and GLS. As a result, remunerations increased. However, remuneration was reduced by 65% quarter on quarter from Baht 26.7 million in the first quarter of 2016 to Baht 9.3 million in the second quarter of 2016. This will reduce further in the third quarter of 2016 as the Company implements further cost cuts. While the Company remains fully committed to the sport business, management recognize the need to reduce expenses to be more in line with expected revenue in the short-term.

1.3 As of 30th June 2016 the Company has Short-Term Loan increased by Baht 16.09 million. This is a short-term loan made by EIC Semi, the subsidiary, to LED Lighting Co Ltd. and Mr. Wittaya Chakphet is a major shareholder of both company. The Short-term loan to related company represented promissory notes denominated in Baht which will be due at call bearing interest at the rate of 3% per annum. This loan was made to facilitate working capital, and LED Lighting Co is profitable and therefore management is confident in its ability to repay the loan. As of 30th June 2016, the amount of short-term loan made to LED Lighting is 14 million baht.

The Long-Term Loan increased by Baht 49.5 million from Baht 86.45 million to Baht 135 million during the six month period. Long-term loan represented unsecured loan to Sport Events International DMCC of USD 1.4 million bearing interest at the rate of 3% per annum. The loan will be due within 3 years. Additional long-term lending was to support operations in the second quarter, in addition to supporting the expansion and development of new business lines, including Academies in China. The Board of Directors is confident that SEI's business model will support repayment of the loan. As of 30th June 2016, the amount of loan to SEI DMCC is 135 million baht and there is no interest payment received year-to-date.

2. Please explain the sale of some investment in Smart Traffic by 391,800 shares

During the period, investment in associate company "Smart Traffic Co., Ltd." was at 30.20%. On 20 June 2016, the Company realized certain ordinary shares of Smart Traffic Co., Ltd. totaling 391,800 shares of 3.26% to existing shareholder at the price of baht 20 million. The Company received of baht 5 million in June 2016 plus advance received for share disposal of baht 15 million from purchaser on 18 December 2015. As at 30 June 2016, the percentage of shareholding of investment in associate company was reduced to 26.94% onward. This resulted in recognition of gain on disposal as detailed below:

| | (Unit: Thousand baht) | |
|--|-----------------------|---------------|
| | 30 June 2559 | |
| | Consolidated | The Company |
| Proceeds from disposal of shares | 20,000 | 20,000 |
| <u>Less</u> Net book value comprises of | | |
| Cost | 18,098 | 18,098 |
| <u>Add</u> Accumulated share of profit | 1,777 | - |
| <u>Less</u> Provision for loss on impairment | (16,863) | (17,054) |
| <u>Add</u> Reversal of impairment loss | 16,863 | 17,054 |
| Net book value | <u>19,875</u> | <u>18,098</u> |
| Gain on disposal of investment in associate | <u>125</u> | <u>1,902</u> |

The advance received for share disposal was reduced by 15 million Baht after the Company received an additional payment of Baht 5 million for the Smart Traffic share sale and agreed to transfer 391,800 shares to the buyer and as per the Sales and Purchase Agreement, shares are transferred as cash is received from the Buyer. This is a separate matter to the repayment of the deposit of 70 million baht, and neither can offset the other.

3. According to Note no. 9 of the financial statements there was cash advance for stock purchase and accrued interest receivable of 71.03 million Baht which was due and EIC was supposed to receive repayment on 16 August 2016. It also stated that the Board of Directors meeting held on 24 June 2016 resolved that the repayment should be divided into 6 installments starting 8 June 2016 to 16 August 2016. To date the Company has not received cash receipts from stock in the amount of 71.03 million Baht. According to the company's explanation on 15 January which stated that if Ms. Phornphan cannot make a repayment at the amount of 71.03 million Baht, the Company will take legal action. Please explain if the Company has made any progress with Ms. Phornphan or not including the Board's opinion about the suitability proceeding to Ms. Phornphan.

The Board and the senior executives of the Company are in regular contact with Khun Pornphan on this matter and have been given comfort by various financial institutions with regard to the progress in fund raising. Therefore the Company believes that repayment of the deposit has a good prospect of success and therefore the Board is willing to co-operate with Khun Pornphan in this matter and provide further extension of the closing date to 16th August 2016 and the terms of payments to 6 installments as below:

| Terms of payments | Amount (Baht) |
|--------------------------|----------------------|
| 8 June 2016 | 10,000,000 |
| 23 June 2016 | 30,000,000 |
| 15 July 2016 | 30,000,000 |
| 30 July 2016 | 30,000,000 |
| 8 August 2016 | 30,000,000 |
| 16 August 2016 | 40,000,000 |
| | 170,000,000 |

However, as of today the Company has not received such payments. If the matter is still unresolved it will be reviewed at the end of third quarter 2016, and recommendations and opinions from the Board will be sought with respect to legal action.

4. According to notes No. 11 of the financial statements, page 28 to 29, it is stated that EIC has not been paid for Smart Traffic's shares (170 million Baht remaining) which was due since 16 August 2016 and now the Company has received only 5 million Baht, the remaining is 165 million Baht. Referring to the Board resolution held on 11 August 2016 resolved to extend the repayment to 30 September 2016 and divides the payment into 3 times and will be on 26 August 2016 – 30 September 2016.

Please explain the Board's opinion about the suitability proceeding of extension of payment, the remaining Baht 165 million Baht and evaluation of capability of Ms. Phornphan for cash receipts from stock Baht 71.03 million.

The Board and the senior executives of the Company are in regular contact with the buyer of Smart Traffic shares on this matter and having seen the progress they have made to finance the acquisition the Board believe that the transaction to buy back the shares has a good prospect of success and therefore are willing to co-operate in this matter and provide further extension of the terms of payments to 30th September 2016 as below:

| Terms of payments | Amount (baht) |
|--------------------------|----------------------|
| 26 August 2016 | 15,000,000 |
| 15 September 2016 | 50,000,000 |
| 30 September 2016 | 100,000,000 |
| | 165,000,000 |

5. Since the financial statement has corrected many accounting errors, please conclude the corrections and effects to financial statement, for example, left in stock, cost of sales of investment in associate company.

The Company restated the financial statements for the year ended 31 December 2015 and the financial statements for the three-month period ended 31 March 2016 for comparative purposes to the three-month period ended 30 June 2016 in accordance with generally accepted accounting principles since there were a number of material errors as detailed below:

Material errors overstatements/understatements of the following accounts:

| Unit: Thousand | Consolidated | | |
|--|---------------------|------------------|-------------------|
| | | Restated | |
| | 31-Mar-16 | 31-Mar-16 | Difference |
| Statement of financial position represented | | | |
| Overstatement in inventories | 96,370 | 81,106 | (15,264) |
| Overstatement of investment in associate companies, net | 53,432 | 36,177 | (17,255) |
| Overstatement in Trade Payable | 53,087 | 34,599 | 18,488 |
| (Over)Understatement in opening deficits | (352,353) | (383,391) | 31,038 |
| Understatement in ending deficits | (449,833) | (432,826) | (17,007) |
| | | | |
| Statement of income represented | | | |
| Overstatement in cost of goods sold | (39,430) | (37,262) | 2,168 |
| Understatement(under) in loss on impairment of investment in associate | (13,784) | - | 13,784 |
| Overstatement in loss on exchange rate | (3,981) | (2,925) | 1,056 |
| Overstatement(under) in net loss | (97,480) | (80,472) | 17,008 |
| | | Restated | |
| | 31-Dec-15 | 31-Dec-15 | Difference |

| | | | |
|--|-----------|-----------|----------|
| Statement of financial position represented | | | |
| Overstatement in inventories | 93,116 | 88,269 | (4,847) |
| Overstatement of investment in associate companies, net | 112,981 | 81,943 | (31,038) |
| Overstatement in Trade Payable | 39,802 | 34,955 | (4,847) |
| Over)Understatement in opening deficits | | | |
| Understatement in ending deficits | (352,353) | (383,391) | 31,038 |
| | | | |
| Statement of income represented | | | |
| Overstatement in cost of goods sold | - | - | - |
| Understatement(under) in loss on impairment of investment in associate | - | (31,038) | (31,038) |
| Overstatement in loss on exchange rate | - | - | - |
| Overstatement(under) in net loss | (214,514) | (245,572) | (31,038) |

Please be informed accordingly.

Sincerely yours,

(Luca Roveda)

Director and General Manager