



PO No. 049/2016

7<sup>th</sup> July 2016**Title: Clarification on the information of the quarterly financial statements ended 31<sup>st</sup> March 2016 (Amendment)****Dear Directors and Managing Director of Stock Exchange of Thailand,**

As Stock Exchange of Thailand (SET) requested The International Engineering Public Company Limited to clarify the additional information regarding **advance payment for fuel - raw material in the amount of 76 million baht and the doubtful debt allowance accountable for advance payment of raw materials in the amount of 18 million** through SET's system within 30<sup>th</sup> June 2016, the clarification is as follows:

The International Engineering Public Company Limited (IEC) had submitted financial statements and consolidated financial statements for the first quarter ended 31 March 2016 to Stock Exchange of Thailand (SET) with the objective to fully disclose the relevant information to shareholders and investors as a factor on determining their investment decision. Stock Exchange of Thailand (SET) requested The International Engineering Public Company Limited to clarify the additional information regarding **advance payment for fuel - raw material in the amount of 76 million baht and doubtful debt allowance accountable for advance payment of raw materials in the amount of 18 million** through SET's system within 30<sup>th</sup> June 2016 as following:

According to Notes to Financial Statements no. 6 and no. 8, IEC Sakaeo 1 Company Limited (SK1-75% Subsidiary) engaged in trading fuel – raw materials (wood, bark, wood chip, and palm fiber) with persons and juristic persons as following:

1. Mr. Suthus Suklerd, in the amount of 66 million baht

On 30<sup>th</sup> June 2014, an advance payment of Baht 66 million was paid for raw materials as fuels to generate electricity for a period not less than 18 months.

On 25<sup>th</sup> February 2016, Mr. Suthus made a debt acknowledgment letter in relation to arising from receiving an advance on fuel in the amount of Baht 54 million since the debtor failed to deliver the fuel completely to the subsidiary within the deadline whereby such debt shall be paid into 3 installments within 30<sup>th</sup> April 2016. As at 16<sup>th</sup> May 2016, SK1 had not received the payment in the amount of Baht 17.87 million, such whole amount was fully recorded as allowance for doubtful debt expenses.

2. Mr. Utid Singkarn, in the amount of Baht 10 million.

On 19<sup>th</sup> January 2015, an advance payment of Baht 10 million was paid with the condition that the seller shall sufficiently procure and deliver fuels to SK1 by the quantity securing for a production period not less than 12 months.

On 15<sup>th</sup> February 2016, SK1 entered into a debt settlement memorandum with Mr. Utid where by Mr. Utid agreed to settle the advance payment of fuel-raw material receiving from SK1 of Baht 10 million with the cost of fuel-raw material to be purchased from Kaewlumduan Group Co., Ltd. in the amount of Baht 10 million.

3. Kaewlumduan Group Co., Ltd.

On 25<sup>th</sup> February 2016, SK1 entered into the agreement of selling fuels – wood chip to Kaewlumduan Group in the amount of Baht 11.58 million (9,046 tons). As at 31<sup>st</sup> December 2015, SK1 had Kaewlumduan Group as creditors for raw materials purchase amounted to Baht 12.14 million and the inventory of fuel – raw materials of 9,046 tons in custody of Kaewlumduan Group.

SET requested for clarifying the additional information as follows:

1. Reasoning whether purchase raw materials in advance from Mr. Suthus and Mr. Utid was necessary, rationale of the full advance payment of raw materials purchase to both parties (Mr. Suthus Suklerd, Baht 66 million and Mr. Utid Singkarn, Baht 10 Million)

#### **Clarification**

The full advance payment of raw materials was reasonable, as SK1 was a new player in the biomass power plant markets, which has been in commercial run since around the end of 2014. Therefore, it was essential to create a partnership network with biomass feedstock vendors by way of such advance payment in order to prevent the feed stock risk to SK1.



The feed stock supply agreement entered with Mr. Suthus Suklerd had been previously effective before IEC invested in Kaewlumduan Power Supply (Currently, “IEC Sakao 1 Co., Ltd.”) under a variety of different feed stocks,i.e. wood chip, wood bark, EFBs, etc.

The feed stock supply agreement entered with Mr. Utid Singkarn is the advance feed stock purchase contract for wood chips only, which is one of the major feed stocks at SK1’s plant. The agreement is currently effective and had been entered after IEC acquired this business unit from Kaewlumduan Power Supply Co., Ltd. This can alleviate risk from sourcing the feed stocks supply from the few wood chip vendors with main objective of creating the safety stock for the power plant after the acquisition of Kaewlumduan Power Supply Co., Ltd.

2. Reasoning behind raw materials sourcing from the individuals for SK1 whereby both individuals failed to deliver feedstock within deadline. If that is the case, it has caused any impact on the production plan of SK1?

**Clarification**

There are both individuals and companies selling the feed stocks in the market. But sourcing from individuals would gain cost-competitive prices when comparing to the sourcing from companies. Furthermore, sourcing from both individuals was for securing the safety stock of raw materials for running the biomass power plant whereas the plant also had its own feed stocks for the operation. SK 1 has not specific key suppliers of raw materials because SK 1 wants to diversify risk by purchasing raw materials from many suppliers ,who are able to provide feed stocks continuously under quality and price control. Thus, it had less impact to the operation when such two individual suppliers failing to supply feedstock to the plant.



3. Provide key summary of feed stocks supply agreements entered with Mr. Suthus and Mr. Utid. Have such agreements stipulated any compensation in case of failed feed stock delivery? Also, clarify the reason that the company has not imposed any penalties or interest charge to both persons for failed feedstock delivery on time.

**Clarification**

Key summary of feed stocks supply agreements	Mr. Suthus Suklerd (Seller)	Mr. Utid Singkarn (Seller)
<b>Date of agreement</b>	1st June 2014	19th January 2015
<b>Types of fuel – raw materials</b>	Rice husk, palm kernel shell, wood chip, wood bark, EFBs, palm fiber, etc.	Wood chip
<b>Duration</b>	Not less than 18 months after the first delivery	Not less than 12 months after the first delivery
<b>Delivery</b>	Seller will only deliver upon request from the buyer, (However, SK1 had asked the supplier to deliver the feed stocks as agreed upon, but the supplier could not make it as requested. Therefore, SK1 was not at ease and called the supplier to clear debts from the undelivered feedstock. Finally, SK1 was able to collect those debts, which did not have any impact to SK1.)	Seller will only gradually deliver the feed stocks upon the request from the buyer. The first delivery was made in July 2015
<b>Advance payment</b>	Baht 66 million	Baht 10 million
<b>Penalty or compensation</b>	If the seller failed to pay or to deliver the feed stocks under the agreed quality and quantity, The penalty will be imposed at 15% p.a.	If any parties failed to pay within deadline, interests of 7.5% per annum will be imposed since the maturity date for the remaining debt amount.

There are clauses of penalty when there is failure in debts collection or failed delivery of feed stocks according to the predetermined quantity and quality at 15% per annum in the agreement for feedstock purchase with Mr. Suthus Suklerd. However, there was a negotiation and entering of a debt acknowledgement under three installments on 25<sup>th</sup> February 2016 with Mr. Suthus Suklerd as following:

The first installment will be paid Baht 17,872,687.81 within 29 February 2016. The repayment was received on 26 February 2016.

The second installment will be paid Baht 17,872,687.81 within 31 March 2016. The repayment was received on 14 June 2016.

The third installment will be paid Baht 17,872,687.81 within 30 April 2016. The repayment was received on 4 May 2016.

Regarding the reason why SK1 has not imposed any penalties according to the clause in the contract, there was the verbal negotiation for exempting penalty for his failure to deliver wood chips as requested by virtue of Mr. Suthus Suklerd's best intention to repay. Mr. Suthus has already paid both principal and relevant penalty for his prior repayment failure.

Agreement of feedstock purchase with Mr. Uthid Singkarn does stipulate penalties of 7.5% per annum for failure to payment in the contract. However, Mr. Uthid Singhakarn attempted to negotiate for the exemption from penalty by the settlement of the advance payment for feedstock by SK1 at the amount of Baht 10



million with the feedstock due by SK1 to Kaewlumduan Group at the same amount of Baht 10 million. On 29 February 2016, SK1 then off set such advance payment with account payable – feedstock at the amount of Baht 10 million.

4.Reasoning SK1 entered into the feedstock sale agreement of wood chip with on 25<sup>th</sup> February 2016 with the same amount of feedstock purchased by SK 1 and put it under the custody of Kaewlumduan Group Co., Ltd.

**Clarification**

According to the result of annual inventory inspection of fuel under the custody of Kaewlumduan Group Co., Ltd, it was found that such feedstock had been stored for a long period of time and deteriorated in quality, which would be damaged. Therefore, the Company negotiated with Kaewlumduan Group Co., Ltd for selling of such feedstock to Kaewlumduan Group Co., Ltd for further trading instead since Kaewlumduan Group Co., Ltd engaged in trading business of feedstock likewise. Apart from that, the reason that the Company has not consumed such fuel for its own operation is the higher cost of wood chip in the region and there were also adjustments in production formula for electricity resulting in decrease in wood chip demand.

5.Details of parties entered into the agreement of feedstock purchase with the Company, including nature of business, relationships between the Company and its subsidiaries. In the case of such party is juristic person, elaborate relationships between the Company and its subsidiaries, including whether there are related shareholders, directors, managing directors including any persons and by what means.

**Clarification**

Both parties, Mr. Suthus Suklerd and Mr. Uthid Singkarn, are the vendors and the owners of wood chip mills, not related to the Company and subsidiaries.

Kaewlumduan Group Co., Ltd related to SK1 because of having some co-directors and shareholders.

Company	Kaewlumduan Group Co., Ltd.
Core business	Trading processed wood: Currently, one of suppliers for biomass fuel to SK1.
Borad of Directors (4 persons)	<ol style="list-style-type: none"> <li>Ms. Jaruwan Pusanapibalkupt</li> <li>Mr. Suthin Thumjai</li> <li>Ms. Sum-ang Poosanapibalkupt</li> <li>Mrs. Janpen Darapong (Formerly, “Poosanapibalkupt”)</li> </ol>
Registered capital	Baht 12,000,000 (Baht Twelve Million)
Location	69 Moo 7, T. Salalumduan, A. Srakaew, Srakaew
Shareholder’s list	<ol style="list-style-type: none"> <li>Ms. Jaruwan Pusanapibalkupt: 69,999 shares</li> <li>Mr. Suthin Thumjai: 50,000 shares</li> <li>Mrs. Janpen Darapong (Formerly, “Poosanapibalkupt”), one share</li> </ol>
Related parties	<u>Common shareholders</u> <ul style="list-style-type: none"> <li>Mr. Suthin Thumjai</li> <li>Ms. Janpen Darapong</li> </ul> <u>Common directors</u> <ul style="list-style-type: none"> <li>Mr. Suthin Thumjai</li> <li>Ms. Jaruwan Poosanapibalkupt</li> </ul> <u>Kaewlumduan Group Co., Ltd’s directors and SK1’s shareholders</u> <ul style="list-style-type: none"> <li>Ms. Sum-ang Poosanapibalkupt</li> </ul> <u>Loan guarantors to K1</u> <ul style="list-style-type: none"> <li>Kaewlumduan Group Co., Ltd.</li> <li>Mr. Suthin Thumjai</li> <li>Ms. Jaruwan Poosanapibalkupt</li> </ul>



6. Do the advance payment for raw materials and raw materials purchase by putting in physical custody of seller (Kaewlumduan) is the normal practice for the industry? Elaborate the reasons of doing it by SK 1.

**Clarification**

Advance payment for purchasing the feed stock is the normal practice for this business because it could prevent delivery risk at the requested quantity. Regarding several types of raw materials being under the physical custody of Kaewlumduan Group Co., Ltd, such act is the suitable business strategy, considering the nature of the industry. SK1 employed this strategy because of the limitation in storage space for raw materials being handled. After the adequate consideration, Kaewlumduan Group Co., Ltd has the existing substantial storage capacity and also the capability to handle these fuels because of its well-facilitated storage warehouse when compared to SK1's warehouse that has limited storage space and even if SK1 keep such feedstock outside the warehouse, there would have been risks of quality deterioration in feedstock. On top of that, Kaewlumduan Group Co., Ltd's warehouse is located close to the power plant , resulting in a convenient transportation of its own without outsourced transportation expenses.

7. Opinion of Audit Committee towards reasonability of the criteria SK1 employed to select and verify the contract parties' capacity to be a feedstock vendor, to enter into the contract, including the proper monitoring system upon the contract compliance.

**Clarification**

Audit Committee was of opinion that the agreement of buying feedstock in advance from Mr. Suthus Suklerd was the old commitment prior to the takeover of SK1 by IEC. As for the agreement of buying wood chip feedstock in advance from Mr. Uthid Singkarn, it was essential for the SK1 management to reduce the supply risk arising from few vendors and also to create safety stock at the factory. The Audit Committee understood the rationale of management for carrying out this issue most appropriately. In view of vendor selection, vendor capability assessment, supply contract preparation, and the proper monitoring of contract compliance; the Audit Committee was informed by the SK1 management and opined that vendor capability assessment was in line with criteria set forth by SK1. The supply contract was prepared under the mutual negotiation between the SK1 management and the vendor. After the supply contract signing, it is the duty of SK1 management to follow up and get it complied with the contract. The Audit Committee, thus, viewed that the aforementioned criteria and procedure are proper and correct.

We therefore kindly clarified the inquiries to SET for this occasion, and will further distribute to shareholders and investors for acknowledgement.

Best regards,

(Dr. Bhusana Premanode)  
Chairman of the Boards and Group President