

# 2016

## ANNUAL REPORT

INTERHIDES PUBLIC CO., LTD.



## Contents

Financial Highlights	1
General Information of the Company	2
Message from the Chairman and Managing Director	5
Board of Directors	7
Business Nature of the Company	8
Industrial Trend and Competition	16
Risk Factors	23
Shareholding Structure and Dividend Policy	26
Management Structure	28
The Consideration of the Remuneration	33
The Election of the Directors	35
Definition of the Independent Directors	36
Directors and Management Remuneration	37
Good Corporate Governance	39
Insider Information Control	45
Internal Control	46
Management Information	50
Audit Committee Report	53
Related Party Transactions	56
Report of the Board of Director's Responsibilities for Financial Statements	61
Management Discussion and Analysis of Financial Status and Performance	62
Report of Independent Auditor	1-6
Financial Statement	1-8
Note of Financial Statements	1-39

## Financial Highlight

(unit : thousand Baht)

	Consolidated financial statement			Separate financial statement		
	2016	2015	2014	2016	2015	2014
<b>Statements of comprehensive income</b>						
Sales and service revenue	1,943,202	2,295,097	1,851,645	1,686,248	1,951,283	1,453,329
Total revenue	1,957,450	2,406,704	1,862,624	1,776,471	2,210,275	1,605,815
Gross profit	392,518	308,298	349,259	310,958	155,119	184,328
Selling & Administrative expenses	146,802	130,734	119,624	140,111	121,612	111,003
Profit before finance costs and corporate income tax	259,964	266,343	240,615	261,070	269,687	225,810
Income tax	32,635	25,983	12,234	32,706	25,469	5,790
Total comprehensive income	191,272	201,779	193,702	192,109	205,637	185,342
<b>Statements of financial position</b>						
Current assets	973,476	1,070,364	994,915	848,126	947,847	870,448
Total assets	2,740,028	2,670,808	2,142,374	2,614,012	2,535,317	2,002,972
Current liabilities	1,094,743	1,286,549	736,102	1,072,912	1,256,149	705,334
Total liabilities	1,466,362	1,538,634	1,043,980	1,442,251	1,505,887	1,011,180
Shareholders' equity	1,273,667	1,132,173	1,098,394	1,171,761	1,029,430	991,792
<b>Per share data</b>						
Earning per share	0.39	0.41	0.40	0.39	0.42	0.38
Book value per share	2.60	2.70	2.62	2.39	2.45	2.36
Cash dividend (Baht/share) *	-	-	-		0.40	0.35
<b>Financial ratio</b>						
Net profit margin (%)	9.84%	8.79%	10.46%	11.39%	10.54%	12.75%
Return on equity - ROE (%)	9.61%	11.07%	11.14%	10.14%	11.88%	11.17%
Return on assets - ROA (%)	15.90%	18.09%	18.01%	17.45%	20.35%	19.04%
Debt/Equity ratio - D/E ratio (times)	1.15	1.36	0.95	1.23	1.46	1.02

**Remarks:** As of 30 June 2016, company's net profit after tax of 107.69 million baht, therefore proposed

interim dividend from net income and retained earnings as follows

Paid the company's ordinary share at the rate of six existing shares to 1 new ordinary share at par value of 1 Baht per share.

In case of fractions of shares, company will pay cash at the rate of 0.16666667 Baht per share

Paid in cash, 0.01851852 Baht per share to support the withholding tax at the government rate.

Total was 0.18518519 Baht per share, or representing a total payment 77,777,554 Baht or 72.22 percent of the net profit,

which is follow the company's policy about dividend payment.

## General Information of the Company

Company's name in Thai	: บริษัท อินเตอร์ไฮด์ จำกัด (มหาชน) (“บริษัทฯ”)
Company's name in English	: Interhides Public Company Limited
Nature of Business	: Producing and distributing leather covering for car seats and other related products

### Location:

Headquarter	: 678 Soi T.J.C. Sukhumvit Rd. Tambon Bangpoomai Amphoe Muang Samutprakarn 10280
First factory	: 192 M. 6 Soi Foknung Kilometer 34 Sukhumvit Rd. Tambon Bangpoomai Amphoe Muang Samutprakarn 10280
Second – Third factory	: 678 Soi T.J.C. Sukhumvit Rd. Tambon Bangpoomai Amphoe Muang Samutprakarn 10280
Fourth Factory	: 999 Soi T.J.C. Sukhumvit Rd. Tambon Bangpoomai Amphoe Muang Samutprakarn 10280
Fifth Factory	: 555 Soi T.J.C. Sukhumvit Rd. Tambon Bangpoomai Amphoe Muang Samutprakarn 10280
Sixth Factory	: 1111 M. 6 Soi Foknung Kilometer 34 Sukhumvit Rd. Tambon Bangpoomai Amphoe Muang Samutprakarn 10280
Seventh Factory	: 775 Bangpu Industrial Estate, Moo 2, Soi 4, Tambon Bangpoomai Amphoe Muang Samutprakarn 10280
Eighth Factory	: 183 M. 6 Soi Foknung Kilometer 34 Sukhumvit Rd. Tambon Bangpoomai Amphoe Muang Samutprakarn 10280
Ninth Factory	: 1111/2 M. 6 Soi Foknung Kilometer 34 Sukhumvit Rd. Tambon Bangpoomai Amphoe Muang Samutprakarn 10280
Tenth Factory	: 1111/3 M. 6 Soi Foknung Kilometer 34 Sukhumvit Rd. Tambon Bangpoomai Amphoe Muang Samutprakarn 10280

Ei

Company's Registration Number	: PLC 0107548000595
Website	: <a href="http://www.interhides.com">http://www.interhides.com</a>
Telephone	: (662) 323 - 2754 - 5, (662) 709 - 5512 - 4, (662) 709 - 6288 - 9, (662) 710 - 6244 - 5
Fax	: (662) 709 - 5516, (662) 323 - 2749
Register Capital	: 594,998,274 ordinary shares at par value of Baht 1
Paid-up Capital	: 489,998,113 ordinary shares at par value of Baht 1

## **Other Referees**

### **1. Auditor**

EY Office Limited  
33rd Floor Lake Rajada Office Complex (Near Queen Sirikit National  
Convention Centre)  
193/136 - 137 Rajadapisek Road Bangkok 10110  
Tel: (662) 264 - 9090  
Fax: (662) 264 - 0789 - 90

### **2. Securities Registrar**

Thailand Securities Depository Co., Ltd.  
62 The Stock Exchange of Thailand Building,  
Rachadapisek Road, Klongtoey, Bangkok 10110  
Tel: (662) 229 - 2800  
Fax: (662) 359 - 1259

## **Information of the subsidiary company**

Company's name in Thai	: บริษัท อินเทอร์เน็ต กัฟเวอร์ จำกัด
Company's name in English	: Inter Seat Cover Company Limited
Nature of Business	: Producing and distributing trim covering for car seats, steering wheel and gear knob
Location	: 999 Soi T.J.C. Sukhumvit Rd. Tambon Bangpoomai Amphoe Muang Samutprakarn 10280
Company's Registration Number	: 0115554009416
Telephone	: (662) 323 - 2754 - 5, (662) 709 - 5512 - 4
Fax	: (662) 709 - 5516, (662) 323 - 2749
Register Capital	: 200,000 ordinary shares at par value of Baht 100
Paid-up Capital	: 200,000 ordinary shares at par value of Baht 100
No. of Held Shares	: 199,998 shares
Tax privileges	: Exemption corporate tax for 8 years by the Board of Investment (BOI)

Company's name in Thai	: บริษัท อินเตอร์ กรีน จำกัด
Company's name in English	: Inter GreenCompany Limited
Nature of Business	: Protein Hydrolysate
Location	: 1111/2 Soi Foknung Kilometer 34 Sukhumvit Rd. Tambon Bangpoomai Amphoe Muang Samutprakarn 10280
Company's Registration Number	: 0115559014850
Telephone	: (662) 323 - 2754 - 5, (662) 709 - 5512 - 4
Fax	: (662) 709 - 5516, (662) 323 - 2749
Register Capital	: 500,000 ordinary shares at par value of Baht 100
Paid-up Capital	: 500,000 ordinary shares at par value of Baht 80
No. of Held Shares	: 499,997 shares
Tax privileges	: -

## **Message from Managing Director**

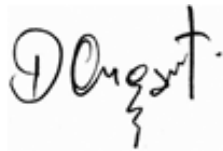
In the year 2016, Thailand's economic has been faced with slow moving economy, GDP growth rate is 3.2 percent when compare with 2015 that had growth rate is 2.8 percent. While the overall automotive industry has expanded in a narrow range as well. The automotive industry is the one of the major industries of the country. It predicts that the automotive industry is likely to grow and stand out in the future. In 2016, the total vehicle production at 1.94 million units, increased 1.64 percent from 2015. While sales in 2016 of 768,788 units, decreased 3.9 percent. Because of the buying power to purchase has accelerated since 2015, also concern that taxed will rise in 2016. The export sales is 1.19 million vehicles as decreased 1.36 percent, due to the economic slowdown in The Middle East, Africa and South America. However, the company can maintain the growth under the gradually recovering economy. Company's Total Revenue is 1,943 million baht, decreased from 2015 as 15.30 percent. Due to the reduced both volume of domestic and export sale volume of the automotive sector. However, company can expand outstanding service sector, therefore the net profit is 191 million baht, or 10 percent of the total revenue, or profit rose 199 percent when compare with 2015. Calculated by comparing the net profit from operations of 96 million baht only, excluding other income from the reversal of the balance 105 million baht. For year 2017, company expect Thailand's economy will continue to grow up from last year. Due to the political situation is more stable and the elections will occur in the near future will build confidence and is expected to stimulate Thailand's economy. The government continues to emphasize and promote in innovation, exports and investment; both public and private sector. These will be key factor that driving the overall economy and the automotive industry to expand more than last year.

In 2017, company continued to hold policy as management and cost control to gain the more production efficiency and effectiveness. Including, continued focus on Research and Development; both product and human resource at all level to adapt to the competition of Global Supply Chain, and meet the trend of automotive technology in the future. The commitment of management executive and the efforts of staff at all levels are very important to the company's successful and sustainable. In 2017, company expect to grow steadily and continuously. The company's revenue still come from the leather for automotive industry and services business are increasing. Also the revenue from the proteins product, which bring the dust shaving leather that is the industrial waste can recycled to use the production process. The most important is environmental conservation, under company's policy is "Business and Environment and Social".

Another project with the environment sector, which company is very proud that is, company receive the certification, environmental industries in the "GOLD RATE" from The Leather Working Group (LWG). We are the first Thailand company receive this level and will be accepted by the procedures and buyers from the worldwide. It is an opportunity to expand the market and increase revenue as well.

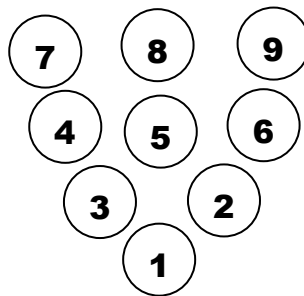
For the energy saving sector, company's policy is to reduce energy consumption by our vision of building strengths in management and cost control. It also reduce global warming pollution. Company have plan to invest the Solar Roof System and will installed on the factory's roof within 2017. Company would like to thank you all the employees who committed administrative and operational tasks, efforts to overcome the difficulties and obstacle together. Including customers, partners, shareholders and benefactors that trust and support company as well for over the years.

Finally, company is particularly promising that we will be an organization to focuses on providing quality, pleasure and satisfaction, and provide benefits to all stakeholders, with the principles of good governance and social responsibility and the environmental forever.

A handwritten signature in black ink, appearing to read 'Ongart' followed by a stylized flourish.

(Mr.Ongart Thumrongsakunvong)

Managing Director



## Board of Directors

1. Mr.Thira	Wipuchanin	Chairman of the Board of Directors and Independent Director
2. Mr.Ongart	Thumrongsakunvong	Deputy Chairman of the Board of Directors and Managing Director
3. Mr.Somchart	Limpanuphap	Audit Committee and Independent Director
4. Miss.Chutima	Busayapoka	Director and Deputy Managing Director
5. Mr.Chor.Nun	Petpsisit	Chairman of the Remuneration Committee and Independent Director
6. Mr.Somyot	Akapaiboon	Chairman of the Nomination Committee and Independent Director
7. Mr.Ouychai	Matitanaviroon	Director
8. Mr.Thaksa	Busayapoka	Director
9. Mr.Niti	Nerngchamnong	Director

## Nature of Business

Company was established to operate the tanning industry at Samutprakarn, on 25 September 1992 (as under name “Inter-Hides Leather Co., Ltd.) with capital 5 million baht by Mr. Ongart Thumrongsakunvong and Miss.Chutima Busayapoka. At the beginning, the company has imported raw hides for tanning, steaming, and dressing of leather drying for furniture industry. In 1998, company has developed a line of leather for automotive industry, because the top management have a vision foreseen by opportunity in the automotive industry. Thus, company change the production line from leather furniture to a comprehensive manufacturing for leather automotive. Since tanning from the raw hides (cow or buffalo) until the finishing leather. The company’s product are leather for car seats and car interior leather used, such as steering wheel, gear knob. The company is a manufacturer of leather and leather parts for cars indirectly. (Second Tier Original Equipment Manufacturer or 2<sup>nd</sup> Teir OEM). for the leading car makers such as Toyota, Honda, Nissan, Ford, Mitsubishi, Isuzu, Mazda. The company had been entrusted to manufacture leather upholstery such as steering wheel and gear knob, to delivery to seats makers (First Tier Original Equipment Manufacturer or 1<sup>st</sup> Tier OEM). The production for sale to customers in both domestic and export market.

On 22 December 2005, company was registered as a public limited company, and listed on the Stock Exchange of Thailand, with capital 300 million baht and paid-up capital 300 million baht, with the par value of 5 baht as at 31 December 2005. The major shareholder is Group of Mr. Ongart Thumrongsakunvong held 47.15 percent and Sumitomo Group held 20 percent.

On 14 December 2007, The Extraordinary General Meeting of Shareholders no.1/2550, they approved change the par value of 5 baht as 60,000,000 shares to the par value 1 baht as 300,000,000 shares. And company changes in the value of shares was registered with the Ministry of Commerce as at 21 December 2007.

On 1 April 2010, Mr. Ongart Thumrongsakunvong bought the share 60,000,000 shares from Sumitomo Group, it is 20.00 percent of the paid-up capital. That made Mr. Ongart Thumrongsakunvong and persons under Section 258 hold share together was 64.97 percent of the paid-up capital.

The company’s share capital has changed as follows:

1. Resolutions of General Meeting of Shareholders on 24 April 2012, allowed to increase of 50,000,000 shares at par value 1 baht per share for the stock dividend.
2. Resolutions of General Meeting of Shareholders on 26 April 2013, allowed to reduction capital remaining from the allotment of shares by resolutions of General Meeting of Shareholders on 24 April 2012, 770 shares with par value of 1 baht per shares.
3. Resolutions of General Meeting of shares on 26 April 2013, allowed to increase of 69,999,846 shares at par value 1 baht per share for the stock dividend.
4. Resolutions of General Meeting of shares on 19 September 2016, allowed to increase of 174,999,492 shares at par value 1 baht per share for the stock dividend.

At the present, company has capital 594,998,274 Baht and paid-up capital 489,998,113 Baht.

## **Details of subsidiaries**

### **INTER SEAT COVER CO., LTD.**

Inter Seat Cover Co., Ltd. Establish on 20 June 2011, located at 999 Moo 2 Soi T.J.C. Sukhumvit Rd., Bangpoomai, Muang, Samutprakarn. Interhides Public Co., Ltd. Hold 99.99 percent. Current capital 20 million baht, with the aim to increase the efficiency of management.

Inter Seat Cover Co., Ltd is a manufacturing and distributor leather trim cover and leather for steering wheel and gear knob. Inter Seat Cover Co., Ltd. has been promoted by the Board of Investment, to right to receive corporate income tax exemption for 8 years.

### **INTERGREEN CO., LTD.**

Intergreen Co., Ltd. was established on July 2016, located at 1111/2 Moo 6 Tambon Bangpoomai, Muang, Samutprakarn. Interhides Public Co., Ltd. Hold 99.99 percent which capital of 50 million baht, with aims to produce protein from the scrap leather through the process of industrialization.

Intergreen Co., Ltd. has invested in research and development for these project and can be produced as the first in Southeast Asia. Hydrolyte protein can be used in other industries such as Chemical industry, Cosmetic and Pharmaceutical industries, etc.

### **Revenue Proportion for Each Product Line or Business Unit of the Company and subsidiary**

Revenue by product (Unit : Million Baht)	Operated by	% of Shareholders	2016		2015		2014	
			Sales	%	Sales	%	Sales	%
Cut Part	IHL	100%	799.21	41.12%	1,073	47%	708	38%
Trim Cover	ISC	100%	462.77	23.81%	658	28%	560	30%
Steering wheel and gear knob	ISC	100%	32.52	1.67%	8	1%	39	2%
Fabric for Car Seat	ISC	100%	4.08	0.21%	18	1%	89	5%
Finished leather	IHL	100%	19.08	0.98%	18	1%	46	3%
Crust leather & Wet Blue	IHL	100%	187.49	9.65%	45	2%	19	1%
Services	IHL	100%	305.04	15.70%	303	13%	257	14%
Protein	IG	99.97%	0.46	0.02%	-	-	-	-
Other products	IHL	100%	132.74	6.83%	172	7%	134	7%
<b>TOTAL</b>			<b>1,943.39</b>	<b>100%</b>	<b>2,295</b>	<b>100%</b>	<b>1,852</b>	<b>100%</b>

## Policy and Market Nature of Product and Service

### Nature of Business

Business of company is produce and distribution leather for car seat, streeting wheel, gear knob, furniture, shoe. The company produce the finished leather by using buffalo and cow hides by tanning, dyeing and cutting or sewing to become product. Including the new product such as Protein Product, which product and service is based on the order from customer. We can separate the product as detailed below:



## **Vision, Mission and Goals of the company**

### **1. Vision**

“To be the fore-runner of leather manufacturing technology and production management in Asia”

### **2. Mission**

1. Increasing customer satisfaction for business continued growth.
2. Ready to meet the all customer requirements.
3. To be the leadership of manufacturing technology and production management in Asia.
4. Staff is ready to accept the new challenge to the organization and employees have a better living.
5. Strong in Financial

### **3. Goals of the company**

- The company set the target as sales and earnings to continue growing by focusing on expansion in the automotive industry, reduce process cost by decrease of losses in the production process with expertise and learning from work, implement KPI system (Key Performance Indicator), and take advantage from the Economy of Scale by to order materials in large quantities, so company can reduce the cost of raw materials. Including, improvement the efficiency of human resource in order to maximize value, with create the production process and services with good quality, and reduced cost.
- Increasing research and development of automotive leather seats in term of engineering and interior which there are use leather as components. Including, develop the waste raw material from the production process to become the new product. In order to be the leadership in leather manufacturing in Asia.
- The company must be able to meet and comply with all customer requirements in term of the development process, good quality and efficiency delivery.
- Staff are working together to coordinate in term of services and management in the same direction as company's vision.
- Develop human resources as effectively and systematically to meet the quality system of company and be able to achieve the business growth in the future.

## **Nature of Product and Service**

### **1. Finished Leather**

Finished Leather is the final stages after tanning process various finishes can be added to the surface such as embossing and color. Leather is ready to process further by cutting and sewing for car seat and also others such as furniture, shoe and etc. On the other side, we also provided with the processing service by receiving raw material to process according to customer requirement.



Figure 1: Finished Leather

### **2. Cut Part**

Cut Part – The Finished Leather process with drawing and cutting into pieces according to the pattern from customer, which mostly consists of parts for car upholstery and door panels.



Figure 2: Cut Part

### **3. Leather Trim Cover**

Trim Cover – The Cut part leather will be sewing together and become final product as Trim Cover which is ready to be cover into car seat.



Figure 3: Leather Trim Cover

#### 4. Steering Wheel & Gear Knob

Steering Wheels and Gear Knobs – The Finish Leather cutting in pattern and sewing as Steering Wheel and Gear Knob.



Figure 4: Steering Wheel & Gear Knob

#### 5. Tanning Service

Tanning Service – The Company provided with a processing service in all process such as Tanning, Retaining or Finishing Leather under customer specification and requirement.



Figure 5: Tanning Service

#### 6. Safety Shoe

It adds value to the scraps leather that left over from the cut part. In most of the sewing production and to develop a safety shoes. This is the reduction of biodegradable waste. To develop a product that can be use practically. The Safety Shoe has been the industry standard (TIS), under brand “BLACK BISON”



Figure 6: Safety Shoe

## 7. Protein Product

The company foresees problem about the clear up the chrome in the leather. This is a huge problem for many tannery, so the company invest in to research and development by using the chrome leather from the production process to extract to Protein Product, as chemical that can be re-used.



Figure 7: Protein Product

## 8. Other

By product from production process such as lime split from Tanning process and scrap leather from cutting process.



Figure 8: Other

The Company's is certified by ISO/TS 16949:2009 in terms of production and the overall operating system from TUV Rheinland Group, Germany. The ISO/TS 16949:2009 is an ISO technical specification aimed at the development of a quality management system that provides for continual improvement emphasizing defect prevention and the reduction of variation and waste in the supply chain. TS16949 applies to the design/development, production and, when relevant, installation and servicing of automotive-related products. The requirements are intended to be applied throughout the supply chain.

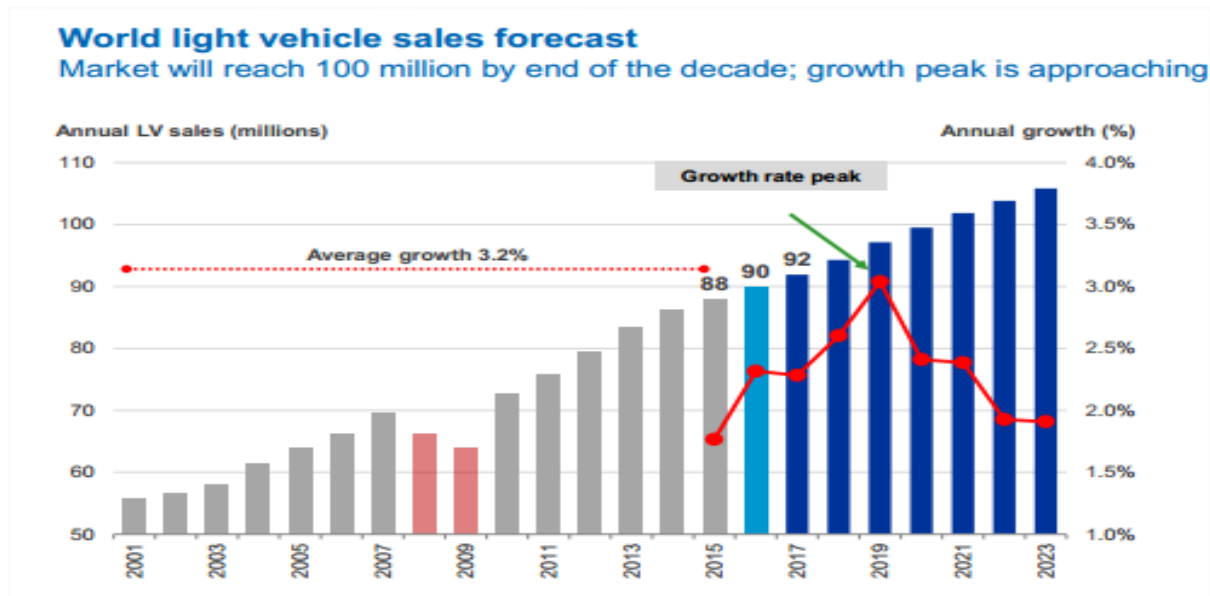
Interhides Public Co.,Ltd provided with all service base on requirement of customer both domestic and foreign. Customer can order with variety of product such as Split Leather, Cleanable leather and Chrome-Free Leather. The Company's advantage in strong management team and high technology and equipment to be able satisfy all the requirement of customers. On the other end, we also in co-operate with customer to come up with the new design of leather products for each car model.

The Company was selected from each CAR Maker by bidding competition with other suppliers. We have to focus in many criteria such as quality standard, delivery standard, sufficient capacity and price. In which we will co-operate with seat maker and designer under interior leather parts for car accessories (First Tier Original Equipment Manufacturer or 1<sup>st</sup> Tier OEM) until the car launch into market. During the life time of the model, we will receive with order and forecast for our production to process accordingly. Therefore, we would interact as Second Tier Original Equipment Manufacturer or 2<sup>nd</sup> Tier OEM.

As our main customer is a car maker in Thailand such as Toyota, Honda, Nissan, Mitsubishi, Ford, and Mazda and so on. This doesn't mean that our market is limited to Thailand, on the other end; we also can bid with a Global car seat maker as well.

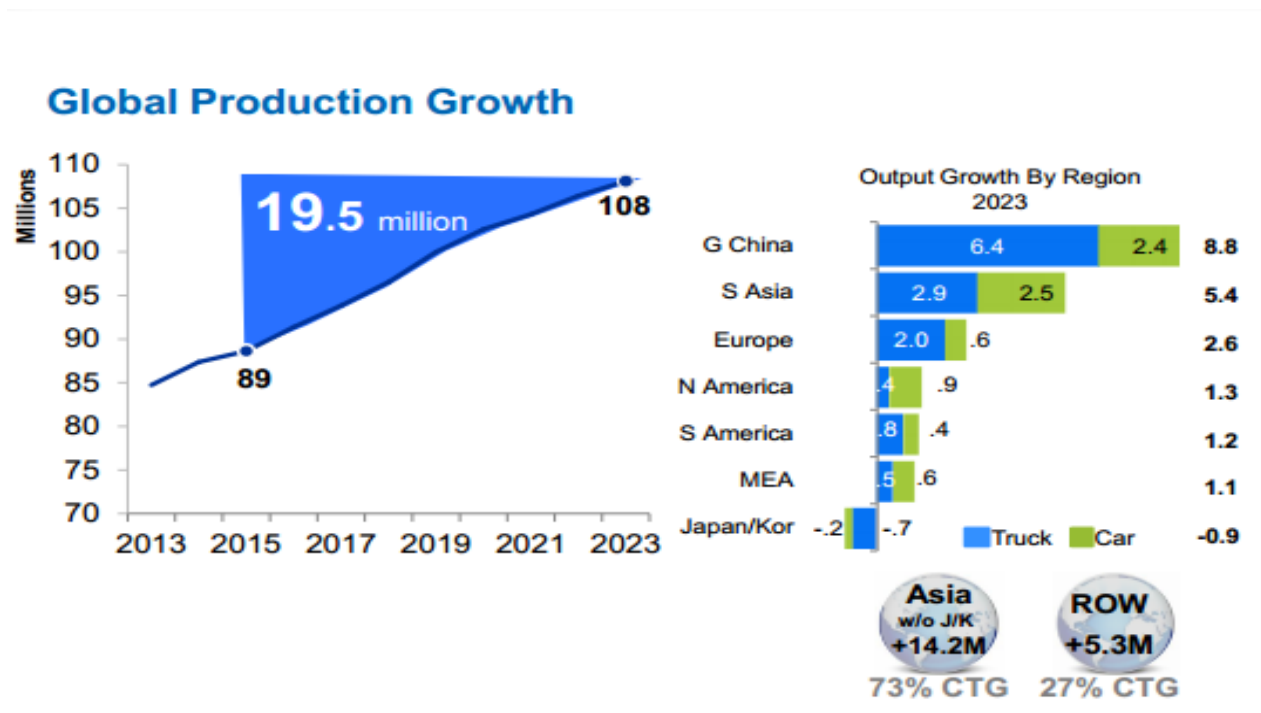
## Industry and competitive conditions (Industrial competitiveness)

The global automotive market, term of value will rise to 36,752.40 million US\$ in 2020. The production will have exceeded 100 million unit very soon. The expectation that the industry will have highest growth rate in 2019. Also the new car will emphasize design with lightweight, free of pollution, increase fuel efficiency, safety and comfort to driver.



Source: <http://www.umtri.umich.edu>

The importance automotive market in the world, comprising United States and China. Automotive market in United States is the highest competitive, if can penetrate the United State market, able to do any place in the world as easily. China is the largest market in the world, has already surpassed United States market. Car makers are still confident that China's stability and growth. Over the next 5 years, China's automotive industry is likely grow 6 -7 percent per year. Another interesting story is, currently there are vehicle around 172 million units and then it will increase to 300 million units in 2020. Therefore, China is remains a key market for automotive in the world.



Source: <http://www.umtri.umich.edu>

## ASEAN Automotive Industry

The main factor for ASEAN automotive industry is the integration of ASEAN as a single market. The automotive manufacturers in the region is 6<sup>th</sup> of the world's top producer, which around 4 million vehicles per year or around 4 – 5 per cent. Therefore ASEAN region is very important market, more role, with the advantage of lower labor costs. It can be seen from the car maker have closed plants in the other countries and to expand production in ASEAN region, such as TOYOTA will close Australia plants by 2017.

unit: vehicle

PRODUCTION MOTOR VEHICLES IN ASEAN COUNTRY 2012 - 2016					
COUNTRY	2012	2013	2014	2015	2016 (Oct)
Indonesia	1,065,557	1,208,211	1,298,523	1,098,780	980,929
Malaysia	569,620	601,407	596,418	614,664	440,049
Philippines	75,413	79,169	88,845	98,768	97,009
Thailand	2,453,717	2,457,057	1,880,007	1,913,002	1,637,841
Vietnam	73,673	93,630	121,084	171,753	192,306
TOTAL	4,237,980	4,439,474	3,984,877	3,896,967	3,348,134

Source: ASEAN AUTOMOTIVE FEDERATION

Although ASEAN has many advantages, but there are high competition within the region as well. Indonesia have policy to leverage standard of automotive industry, especially the small car project. Indonesian government has a clear policy to develop the automotive industry. Indonesia Product Champion is Low Cost Green Car and take advantage of the population, so the demand for vehicle is continues to grow steadily. As a result, Indonesia is fastest growing car market in ASEAN production from 296,008 units in 2006, to 1,098,780 units in 2015 and target to produce 4,200,000 units in 2025.

Malaysia is the one of the major automotive manufactures in ASEAN. Malaysia focused on passenger cars, will increase the potential to become an international hub for manufacturing in save energy small cars (Energy-Efficient Vehicles or EEVs). Also Malaysia will reduction of the severity of Law, to increase incentives for foreign investors to come to Malaysia as a manufacturing base. Therefore the price of car will fell around 20 – 30% by 2018.

Vietnam do not have good enough technology in the automotive industry. Therefore, it would be necessary to import from other countries. But there is an interesting story is Vietnam is a high trade country in luxury cars, although the fees are very high. Because of it easy to loans and income of Vietnamese was rising. The investors are very interesting to invest in Vietnam.

There are several car makers will set up the production plants in the ASEAN region, with the strategy produced in accordance with the advantages of each country (Comparative Advantage).

## Thailand Automotive Industry

Thailand's automotive industry has continued develop over 50 years and are capable of producing is the highest in this region, in term of Sale Volume, Vehicle assembly, employment, production, marketing, technology development and related industry. Thailand is a manufacturing base of motorcycle and pick up production in the world. Thailand government has set a target to produce cars to meet 3 million units in 2020.

Thailand Automotive market trends in 2017 is expected sales are likely to recover because of many positive aspects. Thus, consumers in the middle-income groups, farmers and businesses will more power buying the vehicle. Small car are expected to have adapted better than others. Due to the First Car Project will complete the five-year tenure in 2017 and will give the consumers the opportunity to replace a new car. There is a survey that consumers participating First Car Project to buy new car around 10 -20 per cent, or around 125,000 – 250,000 units. Therefore, total vehicle market in 2017 will grow 2 - 6 per cent or around 770,000 – 800,000 units.

While the pickup market, there are growing signs in 2017 by some agricultural commodities are likely to improve. Including the public and private projects will begin operation in 2017, so demand for pickup trucks trends to be better.

For the Hybrid Car market is still in a stable condition. Hybrid car sales accounted for 1 percent of the total sales, which same level since 2012. Because of consumer point of view that price of Hybrid Car is much higher than passenger car when compare with the other similar vehicles model. The car maker also said that Thai Government should have policy that affects the selling price to able sell in Thailand market.

For the electricity car, is a very interesting market because can answer the current environment problems, energy efficiency and renewable energy. Thai Government is also paying attention designated as 1 of 10 industries as to drive the economy in the future (New Engine of Growth). The Next Generation Automotive, beside to the emphasis on energy-saving and environmentally friendly. Including the production design, Engine. And improve Thailand as a center of research and development, or a test prototype vehicles in the region. Through reduced taxation to reinforce the advantage on a commercial scale.

The car marker should prepare in many sectors, especially in personnel, because the development electric vehicle technology is not only replace the parts of the car.

In addition, the operator should prepare, especially in personnel. The development of electric vehicle technology is not only to replace the parts of the car. Whether battery-powered or motor-powered instead of fuel to the engine only. It will affect to auto parts, electronic or electric devices used in cars is more complicated. It is necessary to accelerate the development of a skilled and adequately prepared to transfer technology from the parent company or business partners from abroad in the future.

## The competitive environment Porter's 5 Forces

### 1. Rivalry Among Current Competitors

- There are some manufacturing in the leather for car upholstery that can be produced according to the standards of car makers, so the huge company will take the advantage.
- There are high competition in this industry, especially the price competition. Therefore, every entrepreneur need the model. Including carmakers have to control of the product design, for control costing to meet their target.
- The product quality – adding warranties or service marks are very common in current, to maintain the quality level and improve the quality product.
- Technology – currently every industry will competition by the efficacy of work with the minimum cost. Therefore technology is more importance in this situation.

### 2. Bargaining Power of Suppliers

- Main Raw Material (Salted Hide) – Bargaining power in the medium level, because the raw hides are import from abroad. Including, there are calculation the usage amount in advance. There are many suppliers, so the bargaining power of the supplier are not too high.
- Chemical- The power of negotiate is too low, due to every chemical suppliers has a similar feature chemical, could be replace for each other. Including company can be

purchased directly from the parent company from abroad with the reasonable price. So the bargaining power of the supplier are not too high.

- Machine – In the tanning industry is very unique, also the test tools was determined by car makers. So company need to follow that order, so the supplier has power to negotiate.
- Company has set up a good governance policy clearly. So every supplier can make sure that company do not take advantage in term of price. Company focus on reasonable price in both terms of quality and quantity.

### 3. Bargaining Power of Customer

- Economy of Scale – Every car makers have compiled various production volume in each country together as the regional, to take the advantage from Economy of Scale to get the lower price.
- Localization – After mass production for a period, car makers are making Localization policy by using the raw material within the country instead of import from abroad. The purpose is to reduce the cost of raw material.
- Cost Reduction – Every car maker are bringing Cost Reduction as an element to make decision to allow any manufacturer to have business. Therefore, manufacturers must to consider the cost reduction when bidding the new model. So bargaining power of customer is high.
- Specification – Car maker set up the Specification by themselves for each product. So the authority to making decision is up to car maker.

### 4. Threat of Substitute Products or Services

- Fabric Seat – Car maker will determine whether any vehicle to use fabric or leather upholstery. Normally, the small cars will use a fabric upholstery. Normally middle size cars to use leather upholstery. Including there are many consumer still want to change the fabric seat to leather seat.
- Leatherette – Many people think the price of leatherette is cheaper than leather such as PU leather or Synthetic Leather. In fact, leather is more long life (time of use) when compare with leatherette. Also leather is more durability, luxurious, elegance, flexibility is better than leatherette.

### 5. Threat of New Entrants

- Capital – Investment in the tanning industry for car seat is quote high. Because of the cost of raw material, chemicals, testing machine, wages and so on.
- Experience – Tanning industry for car seat is depend on the experience, get in touch with products. Leather is bordered by nature materials, each source, species will be different. Including topography and weather are factors and effect to the process and quality of the leather.
- Environment is the importance things that tanning industry must be concern. There are waste that occur in every stage of leather production. So the entrepreneur must have the plan how to treatment all the waste, especially everyone interesting in the environments.
- Government Policy- Tanning industry is under control by government, that must be located at the same areas which government allowed. Including the Environment

Law that forcing the entrepreneur to follow such as water treatment to protect the environment.

## **SWOT Analysis**

### 1. Strengths

- There are skill and experience in product leather more than 70 years and seat leather more than 18 years.
- Company is certified by ISO/TS 16949:2009, IEC:17025 from TUV Rheinland and LWG (Leather Working Group) GOLD RATE
- Company has been recognized in the automotive industry, both car makers and seat makers.
- Company has expand the new factory, so capacity increasing up to 79 million square feet per year
- Able to control the quality in every process because company is start from ternary to sewing.
- Able to meet the all customer requirement, since leather hides till sewing as “All in one service”.
- Expand new production line “Vertical Integration Strategy” to new products is “Protein Hydrolysate”
- Worker have skill and always joined both internal training and out sourcing training.

### 2. Weakness

- Must be strengthened in terms of Design
- Staff still turn over in high level, due to automotive market need more employees.
- Employees also need to improve language skills to support competition in ASEAN community
- No advertise to the end user, because produce the leather to OEM only.

### 3. Opportunities

- Market will become bigger due to AEC, especially CLMV countries that get benefit from reduce the import tax and discourage policy.
- Government policy to support automotive industry, such as ECO CAR PHASE 2
- Consumer still need the leather seat because they change the fabric seat to leather seat as After Market
- Investment from car makers to support Thailand become the hub of automotive industry in ASEAN region.

### 4. Threats

- Price war competition from aboard such as China and Indonesia.
- The problem of economic stagnation make people want to save money.
- The raw material (Salted Hides) has a high tendency following global price
- Customer clearance Logistic tax charge resulting in redundant and cannot compete in the world market

## Competitive Strategy

### 1. Product Strategy

The products are high quality and certified to international standards ISO / TS 16949: 2009 by TUV Rheinland. It is recognized in the automotive industry and can tailor the products according to the customer's unique demand (Make to order) which development together with the automobile manufacturers. The Company has a team of experienced engineers and modern machinery. Currently, it has a capacity for up to 79 million square feet per year. In addition, the Company also has developed new products regularly to meet the needs of our customers even more especially the environmentally safe products, such as Chrome-free Leather and also including with innovative products, such as Split Leather.

### 2. Service Strategy

Maximize customers satisfaction is one of the main goals of the company's operation. The Company has developed continuously in terms of product quality, on time delivery and reasonable price. In particular, the delivery of which the Company is well aware that the customers cannot stop their production line after planning. So the Company has prepared sufficient inventory to meet the steadily rising demand.

### 3. Price Strategy

The Company has developed continuously, to meet both excellent quality and reasonable price especially to meet the customers' expectation, which will maintain company profit at a sustainable level. The Company has established product development teams in order to conduct research and take care of the particular pricing management.

### 4. Marketing Strategy

Other than fulfilling the basic needs of customers in terms of quality, delivery and reasonable price, the Company has offered more choices by offering new products to customers. This strategy involves closely examining information from automotive manufacturers, seat manufacturers and automotive parts manufactures pertaining the needs and preferences of the customers on the materials used to make their automotive seats such as the pattern and color.

# RISK MANAGEMENT

## PEST ANALYSIS

Tanning industry is a type of agriculture industry (Argo-Industry), which added value on the hide. There are customers both domestic and abroad, so a tremendous amount of revenue for the country. However, the nature of tanning business has affect to the community, environment, air pollution, water pollution, chemicals waste; all of these is the internal factors that was make by entrepreneur. Also there are some external factors that to create the risk, which direct effect to the tanning business.

### ➤ POLITICAL

#### ✓ Exemption and reduction of import duty

The main raw material for tanning industry is salted hides. The supply of cattle hide amount is based on the consumption of meat. For Thailand, Thai consumed beef are less popular so the hide amount will less also. That does not enough to meet demand, and cattle species in Thailand is native to tropical, it is too small, skin too thin, and natural parenting not for trading. So the skin will have a lot of defect such as scratch disease, insect bites. Including, the carving do not correct so there are many the Roy knife. Therefore entrepreneur import salted hide from aboard to solve these problems. That why government reduce import duty from 10% to exemption of import duty. For the salted hides that use in our company are all import from aboard.

#### ✓ Investment and Export Policy

The government has had a policy to encourage the export in the tanning industry in a variety of formats such as export duty, raw hides will collect 5 baht per kilogram and leather in other format will collect 4 baht per kilogram. For the investment policy via BOI (Board of Investment), policy to encourage investment 7 years (2015 – 2021). It has benefits in terms of tax-exempt entity (refer statute 31) for 5 years, except Machine Duty (refer statute 28), duty exemption of raw materials for export (refer statute 36). Provided that entrepreneur requires technology that environmentally friendly, such as reduce chemical usage, or use enzyme or bio-catalyst (Biological Catalyst) was used instead of chemicals. Company has research and development of protein products derived from scraps leather which left over from production, and bring to re-use in the normal process with reduce chemical usage.

### ➤ EOCONOMIC

The critical situation affecting the global economy, consisting of the British withdrawal from the EU and winning the election of Donald Trump.

From the British withdrawal from the EU, cause enormous impact to the world economic and world money market. Which the UK Pound (£) has fallen for 30 years and impact to the Euro (€) has fallen also. Therefore, the imported products will more expensive that direct effect to the consumers. Because of its 75 percent in the market is the imported products. Which affect to the international trade, so the British need to negotiate with the imported country because Britain does not need to be referred to the Law of European Union. Direct impact to Thailand still not severe because of the trade between Thailand and England just only 1.8 percent. Also Thailand remains strong both in terms of current account and foreign exchange reserves are relatively high. However, need to continue to monitor the Value of Baht that will be appreciation and may affect to the exports.

Another event that affects the global economy is winning the election of Donald Trump. So many people worry that extreme policy that he declared. That will direct impact to the global economy. For example, Increasing Tax Policy up 45% for the United States to exploit, especially China. Currently, China has a serious bubble economy due to stimulate economy in full. Also China's overall debt rose to 467% (Bloomberg) while the private company's debt rose to 165% of GDP. These are risk factors for the Chinese economy and the global economy. If the US implement this Increasing Tax Policy for products from China, it would affect to the consumption, Chinese's currency (Yuan) will be declined, and capital will out flow from country. So the ability to pay debt will be declined so it become to serious problem for the Chinese economy.

The policy to resist the agreement of "The Paris Climate Agreement" by do not paying to United Nation for the Global Warming situation. If member do not follow the agreement, exports of those countries will be charged tariffs of the member countries. The main members whose role it is European Union (EU), if EU collect tariffs on United State goods and then United State retaliate, it will become to a trade war between member states and will effect to world trade volume to decrease.

Thailand's economy in the short term, it is likely not fine. Although the government is trying to push out stimulus policies continued. In order not to weaken the economy further. The hope is that the government investment in large infrastructure projects are driven Thailand economy. But do not forget that the agriculture price is decline at this moment will affect millions of people and the overall Thailand economy. There are perdition about value of agricultural output will be distributed in 2016 will drop to about 6 percent or total value more than 4.52 billion baht. The related industries are directly affected consist of chemical, fertilizers, agricultural machinery, distribution business. Also the high luxury products industries such as automotive, furniture, jewelry would have been affected as well.

## ➤ SOCIAL

Samutprakarn known as the Frist Industrial Estate Authority of Thailand is Bangpoo Industrial Estate. There are many industries was located at this Industrial Estate. So many people poured into housing more as well, and it makes this area faced may pollution such as pollution of water, air, noise, dust, waste, and chemical waste. As long time it will be come to big issue between the entrepreneur and the communities living around the plant.

Tanning industry is the only one industry in Thailand that integration of many tannery located in the same area. There are 138 tannery is the members of Thai Tanning Industry Association (TTIA) located at Sukhumvit Road KM. 30 and KM 34 Samutprakarn. The nature operation of tanning industry is process leather by using water, chemical and mechanical processes. At every stage of the production process is using water and occur waste water, leaves a smell of hydrogen sulfide and Methyl Mercaptan (Liquid gas is colorless,  $\text{CH}_3\text{SH}$ ). Waste water from washing process have a lot of protein and fats, if left over without treatment, it will have bad smell causing the degradation by anaerobic bacteria. It is acidic, some of the nitrogen becomes smells fishy.

In the generally tannery will be drained waste water into the same trough and then sent to the treatment plant. It is quite tricky to treat waste water. Due to the nature of the waste water in each process, each tannery, is a huge difference in terms of the type and chemical contamination. Company is aware of waste water problem, so company built the water treatment plant by ourselves on area of 1,184 square meters and can treatment  $1,500 \text{ M}^3$  per day, protect the environment and reduce the impact with the community. Also company aware the impact of chemicals usage in production, so company set up the policy to eliminate and reduce chemicals usage. Company has invented a new product is the protein product, made from the leather scraps that left over from production process. Protein product can be used in the production process again. This is an alternative way to reduce the pollution problems.

## ➤ TECHNOLOGY

The main problem for tanning industry is the lack of raw materials, labor and manufacturing technologies. Raw hides is the main raw material that will be emphasize the source of purchase. Because of the leather is built by the nature, so there are some natural defect, including the process of carving hides will affected to the quality of raw hides. However, the tanning industry to be used technologies in order to conceal the traces of defect that means technologies and innovations to add value to products. Company have adopted new technology to use in the production process such as Laser Technology, it can remove the surface of skin to make the tracery or punching to the hole with different size in the same leather. Including new technology (Juki Sewing Machine) for sewing trim cover for new format, to serve the new design from the car maker. However company still concern about the quality to meet the customer requirement.

# Shareholding Structure

At present, the Registered Capital of Interhides Public Co., Ltd. is Baht 594,998,274 and the Paid Up Capital is Baht 489,998,113 divided into 489,998,113 ordinary shares with the par value of 1 Baht.

## Top 10 major shareholders

				December 30, 2016	
Name				Number of Shares	% of Share
1	Mr.Ongart Thumrongsakunvong’s Group				
	Mr.	Ongart	Thumrongsakunvong	120,045,482	24.50%
	Miss	Chutima	Busayapoka	100,804,954	20.58%
	Mr.	Wasin	Thumrongsakunvong	23,333,333	4.76%
	Mr.	Warit	Thumrongsakunvong	23,333,333	4.76%
	Miss	Wanvisa	Thumrongsakunvong	23,333,333	4.76%
Total Mr.Ongart Thumrongsakunvong ’s Group				290,850,435	59.36%
2	Mr.	Keawjai	Limpisuk	23,333,333	4.76%
3	Mr.	Charnchai	Kulthawarakorn	23,333,333	4.76%
4		Modernform	Group Public Co., Ltd.	23,333,333	4.57%
5	Mr.	Yothin	Vanicharakit	21,363,766	4.36%
6	Mr.	Pongchai	sertheewan	5,853,333	1.19%
7	Mr.	Surasak	Raosaichua	4,491,666	0.92%
8	Mr.	Nisachon	Areewongsin	3,420,000	0.70%
9	Mr.	Chaiyaporn	Wongsaenganan	3,300,000	0.67%
10	Ms.	Sukunya	Tonpom	2,934,050	0.60%
	Others			88,718,197	18.11%
Total Shares				489,998,113	100.00%

Mr.Ongart Thumrongsakunvong's group nominated 2 directors: Mr.Ongart Thumrongsakunvong and

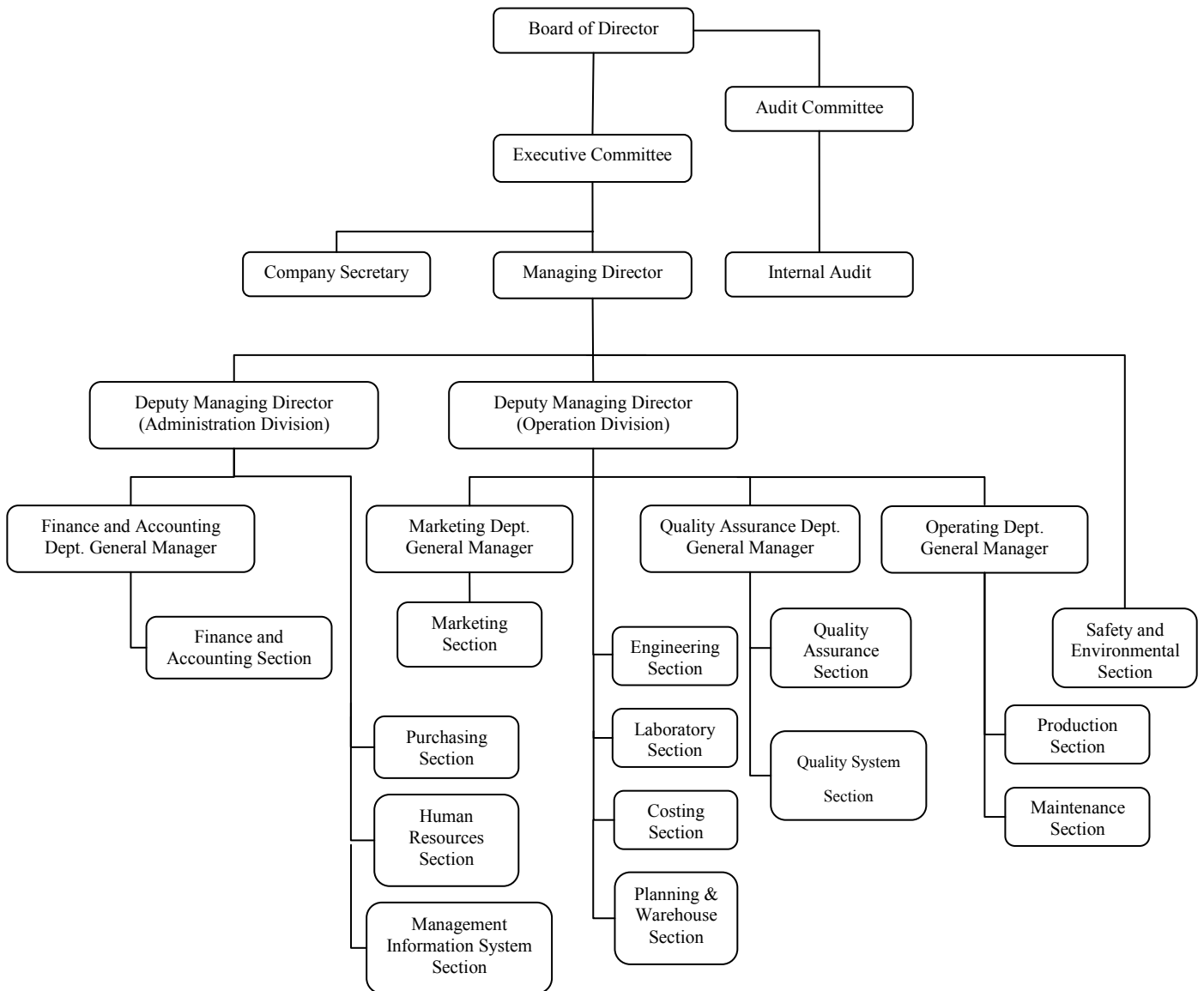
Miss Chutima Busayapoka.

### Dividend Payment Policy

The Board of Directors sets a dividend payment policy of the Company that whenever the Company has a net profit, the Company will pay dividend to the Company's shareholders at the rate of not lower than 40% of the net profit except in case that the Company has other investment projects.

	2014	2015	2016
Net Profit (Baht)	185,341,870.00	205,637,397.00	192,108,750.00
Profit per Share Basic (Baht/Share)	0.44	0.49	0.39
Interim dividend per share (Baht/Share)	0.2	0.15	0.02
Dividends paid to Share Basic (Baht/Share)	-	-	0.17
Dividends paid in cash (Baht/Share)	0.25	0.1	0.15
Dividend Amount per Share (Baht/Share)	0.45	0.25	0.34
Dividend payout ratio relative to earning (%)	101.97%	51.06%	78.75%

# Management Structure



## **Structure of Board of the Company**

The corporate structure of the Company comprises 5 committees, namely, Board of Directors, Executive Committee, Audit Committee, Remuneration Committee and Nomination Committee.

- **Board of Directors**

As of December 31, 2016, Board of Directors consists of 9 committees as follows:

<b>Name</b>	<b>Position</b>
1. Mr.Thira Wipuchanin	Chairman and Independent Director
2. Mr.Ongart Thumrongsakunvong	Deputy Chairman
3. Mr.Somchart Limpanuphap	Chairman of Audit Committee and
4. Mr. Chor.Nun Petpaisit	Audit Committee and Independent Director
5. Mr. Somyot Akapaiboon	Audit Committee and Independent Director
6. Ms. Chutima Busayapoka	Director
7. Mr.Ouychai Matitanaviroon	Director
8. Mr.Thaksa Busayapoka	Director
9. Mr.Niti Nerngchamnong	Director

Remarks: Mr. Theera Wipuchanin has resigned from the Board with effect from 15 November 2016 onwards.

### **Roles, Duties and Responsibilities of the Board of Directors**

In order for the Company to gain strength where good corporate governance is concerned and to ensure utmost efficiency of and benefit to the Company, the Board of Directors is responsible for proactive roles and duties, as well as the determination of direction and supervision as follows:

1. Discharge their duties and supervise the operation of the Company to ensure strict compliance with laws, objectives, articles of association, and resolutions of the Annual General Meeting while adhering to the "Code of Best Practice for Directors of Listed Company" principles as issued by the Stock Exchange of Thailand.
2. Dedicate time to and recognize the significance of the visions, missions, directions, and strategies of the Company by jointly and openly sharing opinions, as well as seeking information beneficial to the determination of the direction which the Company should take.
3. Review and approve key strategies and policies, as well as the financial objectives and operational plans of the Company. Regularly supervise and monitor the management to encourage compliance with the established operational plans in accordance with the direction and the strategies of the organization in order to ensure that the management is capable of efficiently delivering results from the established visions, missions, directions, and strategies.

4. Establish a corporate governance and business code of conduct policy which provides for preferred practices of Directors, the Management and all Employees including Contract Staff. This policy should focus on the awareness of responsibility to one's duties. Complete understanding and strict observance of this policy must be required alongside the Company's articles of association in order to ensure fairness to all stakeholders.
5. Implement a credible accounting system, financial reporting and audit. Provide for a procedure with which the suitability of internal control and audit systems can be efficiently evaluated.
6. Review possible major risks and establish a comprehensive risk management guideline. Ensure that the Executives have the efficient risk management systems or procedures, seek potential business opportunities arising from such risks and implement sufficient and efficient internal controls.
7. Manage and resolve potential Conflicts of Interests and Related Transactions by reviewing significant transactions in order to ensure utmost benefit to the shareholders and stakeholders.
8. Arrange for appropriate channels of communication with each group of shareholders. Supervise disclosure of information in order to ensure correctness, coherence, transparency and credibility of the highest standards.
9. Regularly evaluate one's own performance and discharge of duties, as well as those of the Chief Executive Officer.
10. Arrange for an appropriate system or mechanism for the determination of compensation for the Executives of the Company which corresponds with their performance in order to create short-term and long-term motivation.
11. Lead and be the role model of a performing and ethical individual in accordance with the Company's corporate governance policy.
12. Provide for a suitable, transparent and fair nomination system for individuals to assume all executive positions.
13. Notify the Company of the connected transactions of oneself and affiliated entities in the management of the Company or a Subsidiary.
14. All Directors are required to attend every Board of Directors meeting and Annual General Meeting. In the event where they are otherwise engaged, Directors must report that to the Chairman of the Board of Directors.
15. Directors must value the conduct of business which is responsible to the society and environment, and which contributes to the sustainability of Thailand. This is first done by improving the quality of life of people in communities surrounding our own plants in order that communities and plants may co-exist in the most sustainable manner possible.

## 2. Executive Directors

As of December 31, 2016, there are 2 Executive Directors as follows:

Name	Position
1. Mr.Ongart Thumrongsakunvong	Chairman of Executive Directors
2. Miss.Chutima Busayapoka	Executive Directors

### Authorized directors who can sign on behalf of the Company

Authorized signatories to sign on behalf of the Company are Miss.Chutima Busayapoka and Mr.Ongart Thumrongsakunvong, sign jointly with the Company's seal.

### Roles, Duties and Responsibilities of the Director

1. To set up business plan, targets, strategies, operations plans, annual budget and administrative powers to propose to the Board of Directors for approval.
2. To oversee business performance operation according to the policies of the Company, targets, business strategy, and budget as approved by the Board of Directors in an efficient manner and corresponding to the condition of the business as well as provide consultant, recommendation, management to Executive committee.
3. To consider and approve capital expenditure or financial transaction with financial institutions for open account, borrowing or seeking credit facilities, mortgage, loan guarantees and other activities, including any trading/ registered land transactions in the normal course of business under the defined Company's budget.
4. To establish an organization structure and efficient management and administration, covering recruitment, training, hiring and termination of employees, who are executives or members of senior management. The Executive Committee may authorize Chief Executive Officer of the Company to act on the Company's behalf in signing employment agreements.
5. To supervise, control and approve matters relating to the operations of the Company. The Executive and Strategy Committee may appoint or authorize one or more persons to take any action on behalf of the Executive and Strategy Committee as it may deem appropriate and may terminate, change or amend such authority.
6. To scrutinize all pieces of work presented to the Board of Directors, with the exception of ones under responsibilities and/or authority of other Sub-Committees who scrutinize their pieces of work and directly present them to the Board of Directors
7. To carry out other duties as assigned by the Board of Directors.

However, in the granting of powers, duties and responsibilities, the Executive and Strategy Committee shall not be granted or sub-grant power to a grantee that causes the Executive and Strategy Committee or the grantee to approve transactions in which the Executive and Strategy Committee or the grantee, or any person who may have any conflict of interest (as defined in the notification of the SEC), may have a vested interest, or any other conflict of interest with the Company or its subsidiaries. Approval of such transaction is required to be presented to the Board of Directors Meeting and/or the Shareholders. Meeting as the case may be, for approval, as required by the Articles of Association of the Company or the subsidiaries or the relevant laws, except where the

approval of such transactions is consistent with normal business practice and has a clearly defined scope.

### **3. The Audit Committee**

As of December 31, 2016, the Audit Committee consist of 3 independent directors follows:

<b>Name</b>	<b>Position</b>
1. Mr.Somchart Limpanuphap	Chairman of Audit Committee and Independent Director
2. Mr. Chor.Nun Petpaisit	Audit Committee
3. Mr. Somyot Akapaiboon	Audit Committee

Mr.Poobaize Benjasiriworakul is the secretary of the Audit Committee.

#### **Duties and responsibilities of the Audit Committee**

1. To review financial reports to ensure their accuracy and adequacy.
2. To review the internal control system and audit functions to ensure their appropriateness and effectiveness and review the sufficient independence of the internal audit, and provide opinions for the appointment, transfer, and promotion of heads of the internal audit or other offices with responsibilities for internal audit activities.
3. To review the Company's operations and activities to ensure their compliance with the Securities and Exchange Act, SET regulations and other applicable laws to the Company's business.
4. To consider and propose for the persons with independence of performing the duties of external auditors for the Company, purpose the remunerations, and arrange the meeting with external auditors at least once a year without the presence of the Company's management.
5. To review the connected transaction or transactions with potential conflict of interest to be in compliance with laws and requirements of the Stock Exchange of Thailand in order to ensure that such transactions are reasonable and provide the best benefits for the Company.
6. To prepare and disclose the audit committee reports in the annual reports which must be signed by the Chairman of the audit committee. The report should consist of:
  - a) Opinions about the process of conducting and disclosing information in the Company's financial report as well as its accuracy, completeness and reliability.
  - b) Opinions about the sufficiency of the Company's internal control system.

- c) Opinions about the compliance with laws on securities and exchange, requirements of the Stock Exchange of Thailand and any other laws relating to the Company's business.
  - d) Opinions about the appropriateness of external auditors.
  - e) Opinions about transactions with potential conflict of interest.
  - f) Number of meetings to be convened by the Audit Committee and meeting attendance of each Audit Committee member.
  - g) Opinions or general findings obtained by performing its duties in accordance with the Audit Committee Charter.
  - h) Opinions about other matters that should be inform to general shareholders and investors under the scope of duties and responsibilities assigned by the Board of Directors.
7. In performing the duties, if the Audit Committee finds or suspects that there is a transactions with conflict of interest, a fraud case, an irregularity, or deficiency of a significant magnitude in the internal audit system or any violation of laws and regulations related to Securities or the Stock Exchange or any laws related to the business of the Company which may significantly affect the financial position and the performance of the Company, the Audit Committee is required to submit a report to the Board of Directors for improvement or correction within a timeframe considered appropriate by the Audit Committee.
8. To perform any acts as assigned by the Board of Directors of the Company together with and approval and under the scope of duties and responsibilities of the Audit Committee.

#### **4. The Remuneration Committee**

As of December 31, 2016, there are 3 Remuneration Committee as follows:

<b>Name</b>	<b>Position</b>
1. Mr. Chor.Nun Petpaisit	Chairman of Remuneration Committee
2. Mr.Somchart Limpanuphap	Remuneration Committee
3. Mr.Ouychai Matitanaviroon	Remuneration Committee

#### **Duties and responsibilities of the Remuneration Committee**

1. To determine guidelines and methods for paying remuneration and propose fair and reasonable remuneration of Directors and Sub-Committees to the Board and Shareholder Meeting for approval.
2. To propose the approach for evaluation and remuneration of Chief Executive Officer (CEO) to IHL's Board for approval.
3. To acknowledge and recommend the re-structuring of the Company and its departments, including appraisalment and remuneration of Chief Operation Officers.

4. To possess direct responsibility to the Board through their specific areas. The Board is ultimately responsible for IHL business matters to all its stakeholders.
5. To report the outcome of the Remuneration Committee operation in the annual report
6. To perform other Board-assigned tasks.

## 5. The Nomination Committee

As of December 31, 2016, there are 3 Nomination Committee as follows:

Name	Position
1. Mr. Somyot Akapaiboon	Chairman of Remuneration Committee
2. Mr.Somchart Limpanuphap	Remuneration Committee
3. Mr.Ouychai Matitanaviroon	Remuneration Committee

### Duties and responsibilities of the Nomination Committee

1. Select persons who deserve to be nominated as the new Directors, or select of Managing Director.
2. Determine the procedures and regulations on selection of Directors or Managing Director to ensure the transparency.

## 6. The Management Team

As of December 31, 2016, there are 2 directors as follows:

Name	Position
1. Mr.Ongart Thumrongsakunvong	Managing Director
2. Miss.Chutima Busayapoka	Deputy Managing Director (Operation )
3.Miss.Wanvasa Thumrongsakunvong	General Manager
4.Mr.Wasin Thumrongsakunvong	General Manager Marketing / Quality Assurance / Production
5.Mr.HIRONORI IDE	Assistant Marketing Manager

## 7. Company Secretary

### **Roles and Responsibilities of Company Secretary**

In compliance with the Securities and Exchange Commission act (No.4) 2008 Section 89/15 and 89/16, The Board of Directors has appointed MissWanvisa Thumrongsakunvong to performing as corporate secretary; which has the following roles and responsibilities:

1. Arranging meetings for the Board of Directors, Management Committee and AGM as well as coordinate to ensure that all resolutions have been implemented and complied with the Company's Articles of Association.
2. Ensuring the compliance of the Company and the Board of Directors with the relevant laws, rules & regulations, resolutions of both the Board and AGM's meetings including corporate governance practices.
3. Providing support for Directors and Executives to attend training courses in their relevant areas.
4. Arranging Director's training/briefing for newly appointed Directors.
5. Informing Directors and Executives of any changes in regulations related to them.
6. Evaluating the performance of the Board of Directors.
7. Preparing and keeping important documents of the Company.

### **The Consideration of the Remuneration**

The Company has the policy to consider the Remunerations as follows;

- |                          |  |
|--------------------------|--|
| Directors' remuneration  | : setting up clear remuneration and suitable level in keeping with the industry.   |
| Executives' remuneration | : remuneration based on guideline and policy set by the Board which related to the Company's operation outcome and performance of each executive |

Moreover, the remuneration of directors and executives should be fair appropriate and sufficient to keep qualified executives required by the Company and create sufficient motivation to perform with good standard appropriate for the assigned tasks

### **Rules and procedures for recruitment**

According to the Good Corporate Governance, the company had granted the shareholders to propose the director nominee to the company from December 1, 2015 to December 30, 2015. The names of qualified candidates will initially review by the Nomination Committee before propose to the board of directors.

The Company has verify with Remuneration Committee for the audit normination and remuneration of the company shall be considered by the Committee of public company. Which shal have qualification as below:

- (1) Qualify and not disqualified according to the public company raw and the Securities and Stock Exchange commission to gether with the corporate governance of listed company
- (2) Capable, knowledge, ability and independence wi th duty of care and duty of loyalty. Able to dedicate to the company's with honesty. A healthy body and mental integrity and be creative in the conference. A straightforward person and working with ethics and morality as well as a acceptable person by society.

- (3) Be specialize in one of the way either in business field, accounting and finance, stretegic management, good corporate governance or law and regulations.
- (4) Nomination committee is the qualified person and is not prohabited under foregoig. Then the Board of Directors for approval before presenting the the shareholders for approval.

The election of directors by the shareholders meeting shall be in accordance with the following rules and procedures:

- (1) A shareholder shall have one vote for one share.
- (2) Each shareholder shall use all his or her votes under (1) to elect one or several persons as a director. However, he or she may not divide his or her votes among candidates.
- (3) The persons who receive the most votes in ranking order will be elected as directors until all the director positions are filled. In case the persons being elected in descending order are tied but their election will exceed the number of director positions available, the chairman of the meeting shall have a casting vote.

At each annual general meeting of shareholders, one-third of the Company's directors shall retire in rotation. Should the number of directors to retire in rotation is not a multiple of three, the number of directors closest to one-third (1/3) of all directors shall retire.

In the first and second year of the registration of the Company, directors retiring from office shall be selected by drawing lots. In subsequent year the director who has held office longest shall retire. A director who vacates office may be re-elected.

### **Definition of Independent Director**

"Independent Director" means the director, who is independent in expressing his opinion to the operation of the Company, must be a person who has no involvement or interest to the result of operation either directly or indirectly. The qualifications of the Independent Director are as follows:

1. Hold share not more than 1% of paid up capital of the Company, Affiliates Company, joint company, associated company, including the shares held by the related person.
2. Being independent either directly or indirectly of both financial and management of the Company or joint company or major shareholders of the Company, and having no benefit or interest in such manner within 2 years before being appointed as the Independent Director, unless the Board of Director has carefully considered and see that such participation in having benefit or interest will not affect the duty performing and the independence in giving an opinion.
3. Being independent from the executives and major shareholders of the Company. Must not be the Director who has been appointed as the representative to maintain the interest of the Director of the Company, major shareholders, or shareholders who are related to the major shareholders of the Company.
4. Must not participate in management and must not be employee, staff or consultant who receives regular salary in the Company, Affiliate Company, joint company, company or major shareholder of the Company.

5. Must not be related person or relatives of the executive or major shareholders of the Company.
6. Capable to perform his duty and express opinion or report result of duty performing independently as assigned by the Board of Directors, and not under the control of the Executive or major shareholders of the Company, including related person or close relatives of such person.
7. No other character that causes the inability to give opinion to operation of the Company independently.

### **Directors and Management Remuneration**

1. The total amount of directors and management remuneration for year 2016 is 20,296,993.89 baht by dividing the remuneration to the Directors positions, the Executive Directors and Management details are as follows :
  - a.) The Directors Positions : 3,440,000 baht
    - Remuneration for the Board of Director: 2,840,000 baht
    - Remuneration for the Audit Committee: 600,000 baht

Name	Board of Director (Baht)	Audit Committee (Baht)	Total (Baht)
1 Mr.Thira Wipuchanin	440,000	-	480,000
2 Mr.Ongart Thumrongsakunvong	300,000	-	300,000
3 Miss.Chutima Busayapoka	300,000	-	300,000
4 Mr.Somchart Limpanuphap	300,000	240,000	540,000
5. Mr. Chor.Nun Petpaisit	300,000	180,000	480,000
6. Mr. Somyot Akapaiboon	300,000	180,000	480,000
7 Mr.Ouychai Matitanaviroon	300,000	-	300,000
8 Mr.Thaksa Busayapoka	300,000	-	300,000
9 Mr.Niti Nerngchamnong	300,000	-	3,000
	2,840,000	600,000	3,440,000

- b.) Remuneration for the Executive Directors and Management<sup>1</sup> for year 2016 comprising salaries, bonus and welfare is totally of 16,856,993.89 baht.

**Summary of director attendance for the year 2016**

Name	Board of Director	Audit Committee	Remuneration Committee	Nomination Committee
	Number of Attendance/Total Meeting	Number of Attendance/Total Meeting	Number of Attendance/Total Meeting	Number of Attendance/Total Meeting
1 Mr.Thira Wipuchanin	8/8	-	-	-
2 Mr.Ongart Thumrongsakunvong	7/8	-	-	-
3 Miss.Chutima Busayapoka	8/8	-	-	-
4 Mr.Somchart Limpanuphap	8/8	4/4	1/1	1/1
5 Mr. Chor.Nun Petpaisit	7/8	4/4	1/1	-
6 Mr. Somyot Akapaiboon	6/8	3/4	-	1/1
7 Mr.Ouychai Matitanaviroon	8/8	-	1/1	1/1
8 Mr.Thaksa Busayapoka	8/8	-	-	-
9 Mr.Niti Nerngchamnong	8/8	-	-	-

## Corporate Governance

Interhides Public Co., Ltd., appreciate that the operating principle of good corporate governance and business ethics, transparency and accountability that is fundamentally important factors to achieve the mission of the company as “Focus on good governance and adherence to corporate social responsibility”. Enhanced performance to be transparent, and make the confidence to shareholders and stakeholders, as well as the increased competitiveness of the company. Company has published corporate governance’s policy and practices through the company’s website: [www.interhides.com](http://www.interhides.com)

Company’s objective is to promote to be a powerful organization in the tanning business with corporate governance and good management. Our focus is to maximize the benefit to shareholders and stakeholders. Company have the moral, the transparent and verifiable. Company set up the good governance’s policy, which The Executive Committee and Employees adhere to following as detail below

1. Treat all stakeholders equally, with fairness.
2. Responsibility for our decisions and actions, able to clarify and explain about the decisions.
3. There are responsibility to act with sufficient capacity and performance.
4. There are vision to creating value add to the organization in the long term.
5. Ethics in business is the management structure, the relationship between the Board, management and shareholders equally and fairly.
6. Transparency in the operation can be monitored and transparent disclosure to those involved.

Company recognizes its responsibility in the tanning business, which need to rely on natural resources and environment very well, to prevent and reduce the impact that may occur. Besides these, company instill the concept and practice to human resources to focusing on themes of good corporate governance, which activates a critical foundation for stable and sustainable growth of the organization.

### Compliance with the principles of corporate governance.

#### Rights of Shareholders

Board of Directors are focusing on the protecting the rights of shareholders. By without any action which would violate or infringe the rights of shareholders. And company has set up a policy and public through the company’s media, support and facilitate the shareholders to exercise the right issues. Even the fundamental right under the law, and the right to receive the important information, the right to proposal to the annual general meeting of shareholders (AGM), nominate individuals who deserve to be elected as company’s committee and submit question in advance of the AGM. As well as the right to attend and vote at the AGM. Also requiring the improvement and development of such exercise for the benefit of its shareholders regularly.

- Require the Annual General Meeting of Shareholders within four months after the end of the financial year. And there is an urgent need to consider at a special session could be impact or relate with the shareholders, which must be approved by shareholders, Board of Directors can call an extraordinary meeting.

- Publish the Notice of Meeting, Agenda of the Annual General Meeting of Shareholders, Opinion of the committee, Proxy all Type consist of type A, type B and type C (For foreign shareholders who appointed custodian in Thailand Only) as prescribed by the Ministry of Commerce. Including information for consideration of the agenda via the company's website at least 30 days in advance of the shareholders' meeting prior to sending the meeting invitation to the shareholders. Along with details of the agenda and necessary information for the Board's consideration, the last minutes of the meeting, the annual report, proxy and specify the method of proxy and other related meeting documents and delivery to shareholders at least 21 days prior to the meeting date. To provide shareholders with sufficient, accurate, complete information. And announced in both Thai and English newspapers for 3 consecutive days prior to the meeting date at least 3 days in order to notify the meeting of shareholders in advance for the shareholders to prepare to attend the meeting.

- Facilitate to the shareholders at the meeting by equally. BY arranging reception staff and providing sufficient information and registration to attend the meeting. The company will be open for shareholders to receive the registration 1 hour before the meeting time. Company using BARCODE system to register for the convenience and speed of registration.

- Given the opportunity for shareholders to propose agenda items and nominate qualified persons to be elected director of the company. Also available for 30 days prior to the meeting.

- Submit the invitation letter about the Annual General Meeting of Shareholders, by specifying date, time and place of the meeting. Together with details of the agenda, objective and Board's opinion and the last minutes of the meeting, the annual report, proxy and specify the method of proxy and other related meeting documents and delivery to shareholders at least 21 days prior to the meeting date. To provide shareholders with sufficient, accurate, complete information. And announced in both Thai and English newspapers for 3 consecutive days prior to the meeting date at least 3 days in order to notify the meeting of shareholders in advance for the shareholders to prepare to attend the meeting.

- After the meeting, company reveal resolution of the Annual General Meeting of Shareholders and the results of the next business day of the Annual General Meeting were disclosed. By sending a letter to Stock Exchange of Thailand (SET) via the Electronic Listed Company Information Disclosure (ELCID) of the SET and disclose it on the company's website.

- Company has identified the directors' interests in the invitation letter. And in the shareholders meeting, if any member has any interest or involvement in any agenda. The chairman of the meeting will inform the participants of the meeting prior to the consideration of the agenda and abstain on that agenda.

## **Equitable Treatment of Shareholders**

Shareholders to ensure with the company that there is equal treatment for all shareholders. Board of Directors has established a policy to supervise the company, to equal treatment and protection of shareholders' rights in ensured in such matters as equal rights both major and minor shareholders in the shareholders' meeting. Define equitable disclosure guidelines. Also prevent conflicts of interest or use of internal information to benefit themselves by wrongly and good relationships with shareholders.

Company will arrange the shareholders' meeting according to the agenda. And company has a policy not to add an agenda without prior notice to the shareholders. The meeting time is sufficiently allocated. It also provides an equal opportunity for shareholders to comment and question in the meeting.

## **Role of Stakeholders**

Company's operations involves a wide range of stakeholders, from shareholders, customers, partners, competitors, government, employees, community, society and the environment which each group has difference need. Therefore, company has set a policy of responsibility for dealing with stakeholders in accordance with the needs of each group as follows:

**Treatment of Shareholders:** Company is committed to acting as a representative of the shareholders in conducting business transparently, reliable accounting and financial system. To maximize shareholder satisfaction, taking the company's long term growth and continuously return the appropriate level. By all member of Board of Directors and all employees work with honesty, and decide on any action with sincerity and fair to both large and small shareholders, and for the benefit of the most relevant group. Do not do anything in a manner that may cause conflict of interest to the company. Do not seek self-interest and do not disclose confidential information to outsiders.

**Treatment of Shareholders:** Company has policy as "On-time delivery of quality product with our advanced technology performance." Commitment to customer satisfaction and confidence. People will get good quality products and services with the reasonable price. Continuous raise standards and maintain relationships, provide communication channels for customers to complain about quality of products. No unfair commercial terms are imposed on customers. Follow the agreement, terms, or conditions as transparently and equally to customers. Keep the confidential information is the importance policy and do not use that information for their own benefit and / or other stakeholders.

**Treatment of Partners:** Company consider equality and honesty in running a business and maintain benefit with partners. By strictly adhering to the laws and regulations that define them. There is a code of conduct for business, not asking, receiving or paying any interest as dishonest in trade with partners. Company strictly follow the partners' conditions. In case of the condition cannot be fulfilled, must notify the partners in advance, to find the solutions. By using the principle of reasonableness and keep the partners' confidential as serious. Including do not bring the partner information for own benefit and those involved.

**Treatment of Competitors:** Company treats competitors in accordance with international principles, under the framework of the law and fair competition rules. Company will operate under a fair competition framework without damaging the reputation of its competitors by alleged misconduct and attacked by unreasonable opponents.

**Treatment of Creditors:** Company will strictly comply with the terms and conditions of the creditors. Company will report the financial status to creditors with honesty, accuracy and timeliness as regularly. In case of the contract cannot be fulfilled must notify the creditors in advance, to find the solutions and prevent damage.

**Treatment of Employee:** Commit to develop the organization as learning organization, strengthen culture and working atmosphere, promote teamwork, fair returns, and security and maintain a working environment, pay attention to the development, convey knowledge and employee capabilities. Listen to any feedback and suggestions from all levels of employees as equally and equitably. Define and further cultivate corporate culture. Recognizing that all employees are an important and valuable part of our success, process and growth of the company. Manage human resources consistently and support business strategies / goals and system and process of human resources management are comparable to leading business. It is clear, transparent and fair in the same direction. By developing human resources as a corporate, commander and all employees.

- The organization will select and create talented people who have professional working behavior and develop their knowledge and ability to perform their duties continuously.
- The supervisor is responsible for planning, monitoring, and evaluating, providing feedback and support the development of employees equitably.
- Employees have the same opportunity to develop their skills and abilities.

Company also provides fair compensation to employees, by career advancement, reward and motivation. It depends on the quality, achievement, attitude and employee potential. Encourage employees to have a quality of working life. Good safety and hygiene, keeping environment safe for life and property of employees.

**Treatment of Community, Social and Environment:** Company is responsible for the community, society and environment, both in terms of safety, quality of life and conservation of natural resources. Promote energy efficiency, beware of the quality of community and social life. By researching the process of waste disposal and reuse of industrial waste, to reduce industrial waste. Cultivate a sense of social responsibility and environmental responsibility. Among employees at all levels continuously and seriously.

**The importance of quality, security, safety, occupational health, the environment, and business continuity:** Company work with continuous standards, define and review policies for quality, security, safety, health, environment and business continuity. By all employees must work with quality, security, safety, health, environment and business continuity, to maximize efficiency, effectiveness and ultimate value to the physical, the property and the environment. Company will operate in every possible way to control and prevent losses in various ways. Due to accident, fire, injury or illness from work. Loss or damage to property security breach poor performance and the mistakes that occurred. As well as maintaining a

safe working environment for employees, contributor and employees of the contractor, it is the responsibility of the management and employees to report the accident or incidence by following the steps. Ready to implement the emergency control and prevention plan. Ready for public relations and communication to build awareness among employees and raise awareness about quality, safety, health and the environment. It is a way of daily life of employees.

## **Disclosure and Transparency**

Disclosure of important information related to the company, both financial and non-financial information be fully operational, transparent, timely, and accessible through easy-to-access channels. Equality, reliable, Straightforward. It is sufficient for the investor's decision and does not conflict with the disclosure requirements of the regulatory authorities. In addition, important information also includes: Report of the Board of Directors and Subcommittees, Corporate Governance Policy and Compliance with policies.

To ensure that important information is relevant to the company to be fully disclosed, transparent, timeliness. The Board of Directors has set the guidelines as follows:

- Disclosure of corporate governance policy, business ethics and policies through various channels such as annual reports, company website.
- To disclose the company's financial and general information to shareholders and investors in an accurate, complete, timeliness, transparent manner and without conflict of the disclosure requirements of regulatory authorities. Include a report of the Board of Directors' responsibility for the financial report along with the auditor's report in the annual report.
- To disclose the roles and duties of the Board of Directors and Subcommittees. Number of meeting and number of times that each director attended the meeting in the past year and the opinions of the board of directors. This includes continuing professional training and development of the Board of Directors in the annual report.
- To disclosure of remuneration policies for directors and executives that reflect the obligations and the responsibilities of each person, including the form or nature of the compensation in the annual report. Include the remuneration that each director will be the director of the subsidiary company also.
- To disclosure of direct and indirect shareholding of the company's directors and executive is their own and indirect shareholding, such as shareholding of the spouse in the annual report.
- Directors and executives are required to report their interests in accordance with the rules and procedures prescribed by the Board of Directors.
- To disclose information through the company website, both Thai and English keep up with current events. In addition to the information disseminated to the criteria and through the channels of The Securities and Exchange Commission or The Stock Exchange of Thailand.

## **Boards Responsibilities**

The Board has the duty and responsibility to perform its duties in accordance with the requirements of law, objectives, regulations, rules and regulations in force. Including resolutions of the shareholders meeting. Include consideration and approval to set policies and direction of management, financial goals and budgets, as well as monitoring the operation to meet the policies set effectively for the maximum benefit of shareholders under the ethical standards with good faith and caution.

## **Insider Information Controls**

The Company had the policy to ensure correct and adequate disclosure of information such as financial statements and other significant data or information related to the business, on a transparent and timely basis to shareholders, investors and general public.

The Board of Directors is committed to comply with rules and regulations with regarding to the disclosure of information in a timely manner with full transparency. The monitoring of the use of insider information of the Company is considered the responsibility of the Directors, Executives and senior staff who are obliged to strictly monitor and prevent any leaks of the Company's confidential and privileged information including information not yet revealed to the public or any data that might affect the Company's operations or share price. This includes the prohibition on use of Company's information obtained from directorships or employment for personal benefit or conducting business or other activities in competition with the Company.

Pursuant to section 59 of the Securities and Exchange Act B.E. 2535, all Directors and Management personnel are required to report the changes in their (and that of their spouse and minor children) shareholding to the Office of the Securities and Exchange Commission, which was fully complied by the Company's Directors and Management during the previous year. Moreover, the Directors in an executive position, who are full-time employees of the Company (or its subsidiary) and Senior Management, are not allowed to trade / transfer in the Company's shares during the period of 2 weeks before and 2 days after public the Financial Statement. The Management personnel are also strongly encouraged to follow this policy and during the year 2013, all members of Management have fully complied with this policy and no non-compliance cases have been observed.

### **Penal Provision**

Furthermore, The Company has issued the penal provision for those seeking personal benefits by using insides information. The penalty deemed as appropriate includes verbal warning, warning, probation and dismissal.

## Internal Control

The company's Board of Directors and management are aware and give precedence to internal control system as a crucial factor to create confidence and minimize business risks which enhances efficiency to serve the company objectives by allocating company's resources appropriately as planned.

The Board of Directors has assigned the Audit Committee to effectively and appropriately regulate the company's internal control and risk management. In other words, the Audit Committee has to supervise the company to follow the related laws and regulations in order to prevent conflicts of interests, or connected transactions. Apart from that, the Audit Committee also needs to monitor and control the company's operation, and to prevent illegitimate or unauthorized uses of company's properties. In addition to that, the Audit Committee has to prevent the company's assets from missing, loss, misconduct or corruption. The company has established audit mechanisms by having internal audit independently preformed auditing, evaluating the efficiency and the competence of internal control process, risk management process, and compliance process in every operational unit. The company has applied international standards of The Committee of Sponsoring Organizations of the Tread way Commission (COSO) and the risk management framework (Enterprise Risk Management) to apply for the internal management, and it has become more complete, for the company's operations have more efficiently and effectively as possible. Management team will consider the results to rectify the matter concerned, to develop the quality of work. The Internal Audit has established a system to monitor the implementation as frequency.

The Board of Directors has appointed an Audit Committee to direct efficient and effective internal control and to ensure that the Company operates in check and balance providing appropriate and tight control. All aspects of operations; finance, accounting and general administration are audited in compliance with laws, regulations and guidelines of related business areas. Assessments include operational risks and internal control systems that are effective tools to safeguard shareholder's interests as well as the Company's assets. All operational instructions and department administrative guidelines are provided in writing including approval authorities in each business area and disciplinary code of conducts expected from executives as well as employees in charge of that particular business area. Internal auditors are responsible for auditing, testing and reviewing operational systems of each business line according to the annual audit plan. The Board of Directors will be reported with audit results and operational results from internal auditors. As an effort of continuous improvement, the Audit Committee together with the Board of Directors, review and re-assess performance of the internal control system annually. For 2013, the Board of the Directors concluded that the internal control at present is sufficient and effective and resolved this opinion in Board Meeting no.1/2015 on February 23, 2015. The Board of Directors agreed that the Company and its subsidiaries have sufficient levels of internal control appropriate to the industry and type of business. The Company is aware of the importance in having the internal control as a tool for risk management for executives about the significance of risk management and internal control where each department was urged to develop its own internal control system for the purpose of control self-assessment (CSA). In addition, the Internal Audit Department was entrusted to enhance understanding and assess the CSA procedures in all other departments. This is to build up confidence that the administration and implementation systems accord with the Company's control structure and internal

control objectives in terms of creditability and accurateness of the information and practice along with the rules and regulations, security of property in order to have efficient and effective performance, and actually achieve the Company's objectives and goals. The internal control comprises of the following elements as summarized below.

### **1. Internal Environment**

The Board of Directors has put in place an organization structure that allows future adjustments to suit the business growth and changing business environment. Policies and regulations are regularly reviewed and communicated to staff in writing so that everyone has the same understanding, which will allow employees to perform their duties effectively while the Company can constantly enhances their skills and capacity to be in line with their responsibilities.

Furthermore, the Company pays high attention on the internal control in employee's ethics and quality of people, concentrating on self - control together with the implementation control and creation of control environment for positive attitude to the internal control that enable both employees and executives to be aware of the internal control's benefits and lead to the continuous improvement. The code of conduct sets out guidelines of professionalism; conflicts of interests, integrity, handling sensitive information which all would lead our staff to always do the right thing and use the utmost of integrity in order to protect the benefits of our company and stakeholders. Adherence to their guidelines in their day-to-day activities is ensured by close follow-up.

### **2. Objective Setting**

The Company has clearly set its objectives and business goals that are not only achievable but also measurable. Guidelines, strategies, business plans, authority, line of command, reporting procedures and standard operating procedures are written for each corporate level to be in synchronize with the Company's Core Value. Employees took part in setting objectives in the work process that they were involved so that their performance would effectively correspond with the corporate's main objective that they commonly recognized.

In addition, the objective is reviewed from time to time to ensure that it aligns with the Company's overall goal.

### **3. Event Identification**

The Company has an ability to identify risks from various changes at various levels. The focus is to enable each department or unit to identify both the event risks and other risk factors that may jeopardize both the organizational and operational goals of the Company from either internal or external threats on a regular basis. In addition, both opportunities and risks are identified in order to find a right solution from our internal process to manage these risks in a coordinated manner.

### **4. Risk Assessment**

The Company recognizes the importance of Risk Assessment as a tool to indicate a dangerous signal that could result in loss and, therefore, the Company has annually assessed prominent risks. Such assessments bring out the risks that affect the Company's operations which are then required to be managed through a set- up of correct and appropriate control systems. The results of Risk Assessment for various activities are reported periodically to the Management and the Board of Directors for consideration.

## **5. Risk Response**

The Company gives importance to following the internal control guidelines of COSO - ERM in elements of risks such as risk identification, risk evaluation and response to risk. Both internal and external risk factors are focused from activity level to the organizational level. The Company's Internal Control Department applies the risk management analytical concept for evaluation of the adequacy of the internal control, encourages self - control within work units. This aims at collaboration on arrangement of the specific, measurable, and practical work plan and objectives which accord to the Company's vision and mission and are communicated to the employees and executives to be aware of the importance of the risk management and the internal control in reducing damages that may arise and in containing risk at the acceptable level and establishes work standards for better efficiency.

## **6. Control Activities**

The Company has established internal control at all levels and all duties of our operation as deemed necessary with a written policy and operation procedures to make sure that all employees have been provided with necessary guidance to work and coordinate under the same standards of practice in all departments i.e. finance, purchasing, sales. The guideline clearly states the level of checks and balances in asset management, segregated approval authority and performance evaluations. Authorization and approval limits are also clearly stipulated. There is a provision of a work implementation plan in line with the organization's policy and objectives under an appropriate timeframe. The Internal Audit Department performs its duty and monitor results independently to increase efficiency and effectiveness of the Company's internal control procedures.

## **7. Information and Communications**

The Company also provides sufficient information technology and both internal and external communications channels that are reliable and in time for shareholders, investors, stakeholders, directors and the Management to make decision on the basis of accurate and up-to-date information. Financial report, general information and important information affecting a decision-making process are published in the Annual Report, the 56-1 Annual Information Report Form, the company's website and other channels of the Stock Exchange of Thailand (SET) access into information is controlled to be in line with the levels of work implementation assigned by the Company. Examination is performed to ensure that the input control, data interpretation, processing control, and output control are accurate, efficient and in time as designated by relevant rules and regulations. This is to allow for efficient management and decision making. We have set sufficient and proper information back-up system, safety system and emergency plan to safeguard our international technology system to not only to better manage our IT but also to accommodate our expansion.

## **8. Monitoring**

The Board of Executive Directors will continue to measure business results regularly by meeting with management teams at least 1time / quarter to measure performance against goals and departmental objectives. This will ensure that we work effectively and efficiently toward our goals and allow us to adjust tactics or fix problems in time. During 2011, we introduced the use of KPI (Key performance Index) as the Company's measuring index ultimately making concrete measurement

of all results and corresponding with the Company's core value in supporting goal achievement and objective evaluation of individual performance. This is to ascertain the adherence to the Company's vision, mission, and strategy.

In addition, the Internal Control Department is set to independently perform audit and evaluation. Each project audited is monitored closely on its performance. This appears on an annual audit plan of the Internal Control Department which is directly reported to the Audit Committee. This is to push for improvement and adjustment following any suggestions as a mean to prevent drawbacks that may significantly affect the Company's work processes, reputation and financial status. The monitoring system builds up confidence on the Company's good corporate governance, internal control and business ethics that truly allow clearness, transparency and optimal benefits to the shareholders.

# Management Information

Name	Age	Education	No. and % of Shares	Relationship	No. of service year	Employment Record		
						Period	Position	Company
1. Mr.Thira Wipuchanin Chairman	67	- BBA. University of Wisconsin, USA.  - DCP 6/2001 and ACP 5 Program of IOD	-	-	12	2005 - Present	Chairman and Independent Director	Interhides Public Company Limited
						2005 - Present	Chairman of Audit Committee	Bangkok First Investment & Trust Public Company Limited
						2003 - Present	Audit Committee and Independent Director	Siam Macro Public Company Limited
						2000 - Present	Chairman and Independent Director	United Palm Oil Industry Public Company Limited
						2000- Present	Chairman and Independent Director	Precious Shipping Public Company Limited
						1998 - 2003	Senior Deputy Managing Director	Export-Import Bank of Thailand
						1994 - 1997	Deputy Managing Director	Premier Group
						1990 - 1994	Thailand Branch Representative	Prudential Asset Management Asia Ltd.
						1975 - 1990	Deputy Chairman	American International Assurance Co.,Ltd.
2. Mr.Ongart Thumrongsakunvong - Deputy Chairman - Chief Executive Director - Managing Director	59	- High school, Assumption Sriracha School  - DAP 44/2005 Program of IOD	220,850,436 (45.08%) (including Spouse)	Spouse of No. 3	25	2005 - Present	Director	Vivid Atelier Company Limited
						2005 - Present	Director	Schumans Electronics Company Limited
						2005 - Present	Director	Automotive Accessory Company Limited
						1992 - Present	Chief Executive Director	Interhides Public Company Limited
						1992 - 1994	Managing Director	OC Leather Limited Partnership (Closed)
						1988 - 1991	Manager	OC Leather Limited Partnership (Closed)
3. Mr.Chor.Nun Petpaisit - Independent Director - Audit Committee	65	- Master Degree of Accounting from Thammasat University - Director Accreditation Program 28/2547 - Director Certification Program 76/2549 - Audit Committee Program 28/2552 - Successful Formulation & Execution of Strategy - Financial Institution Governance Program	-	-	2	2015- Present	Audit Committee and Independent Director	Interhides Public Co.,Ltd
						2006-Present	Independent Director	Bangkok Insurance
						2011 – 2012	Director	Government Saving Bank
						2011 – 2012	Auditor	Minister of Finance
						2008 – 2012	Consulting	The Revenue Department
						2001 – 2008	Plan 9 and Policy Analyst	The Revenue Department
						2000 - 2001	Director Bureau of Audit Operations	The Revenue Department, Minister of Finance

Name	Age	Education	No. and % of Shares	Relationship	No. of service year	Employment Record		
						Period	Position	Company
<b>4. Mr.Somchart Limpanuphap</b> - Independent Director - Chairman of Audit Committee	65	- Master of Accountancy Thammasat University - DAP 43/2005 and ACP 8 Program of IOD	700,000 (0.15%)	-	12	2008 - 2013	Head of Provincial Loan Recovery Department	Bangkok Bank Public Company Limited
						2005 - Present	Audit Committee and Independent Director	Interhides Public Company Limited
						1999 - 2008	Manager (Credit Dept.)	Bangkok Bank Public Company Limited
						1985 - 1999	Branch Manager	Bangkok Bank Public Company Limited
						1975 - 1984	Internal Auditor	Bangkok Bank Public Company Limited
<b>5. Mr.Somyot Akapaiboon</b> - Independent Director - Audit Committee	66	-Master of Accountancy Chulalongkorn University -Modern Managers Program Chulalongkorn University Batch 11 - MAP (Year 1996)	-	-	2	2016- Present	Deputy Managing Director of Audit	Saraburi concrete Company Limited
						2015- Present	Audit Committee and Director	Interhides Public Company Limited
						2010- Present	Senior Executive Vice President	Saraburi Techni Concrete Company Limited
						1975 - 2010	Auditor/ Branch Manager/ VP Operation/ VP Risk Department	Siam commercial Bank
<b>6. Miss Chutima Busayapoka</b> - Director - Deputy Chief Executive Director - Deputy Managing Director (Operation) - Production General Mgr. - Quality Assurance General Mgr. - Marketing&Engineering General Mgr.	56	- Diploma Certificate, Phanyapranit College - DCP 66/2005 Program of IOD	220,850,436 (45.08%) (including Spouse)	Spouse of No. 2	25	1992 - Present	Managing Director	Interhides Public Company Limited
						1992 - 1994	Managing Director	OC Leather Limited Partnership (Closed)
						1988 - 1991	Assistant Manager	OC Leather Limited Partnership (Closed)
<b>7. Mr.Ouychai Matitanaviroon</b> - Director	57	- MBA. Campbell University, USA. - DAP 44/2005 Program of IOD	-	-	12	2008 - Present	Director and Division Head Transportation and Infrastructure Division	Sumitomo Corporation Thailand Company Limited
						2005 - Present	Director	Interhides Public Company Limited
						2006 - 2008	Director and Deputy Transportation and Infrastructure Division	Sumitomo Corporation Thailand Company Limited
						2003 - 2006	General Manager	Sumitomo Corporation Thailand Company Limited
						1998 - 2003	Deputy General Manager	Sumitomo Corporation Thailand Company Limited
						1993 - 1998	Manager	Sumitomo Corporation Thailand Company Limited
						1992 - 1992	Assistant Manager	Sumitomo Corporation Thailand Company Limited
						1989 - 1989	Senior In charge	Sumitomo Corporation Thailand Company Limited

Name	Age	Education	No. and % of Shares	Relationship	No. of service year	Employment Record		
						Period	Position	Company
						1986 - 1986	Officer	Sumitomo Corporation Thailand Company Limited
8. Mr. Thaksa Busayapoka - Director	67	- Master, New Technology Venture College of Management, Mahidol University - B.Com Marketing Chulalongkorn University Faculty of Commerce and Accountancy - DCP 32/2003 Program of IOD	1,834,000 (0.38%)	Brother of Miss.Chutima	4	2013 - Present 2013 - Present 2006 - Present 1989 - Present 2005 - Present 1997 - Present	Director Director Executive Director Executive Director Chairman Chief Executive Director	Absolute Hygienics Co.,Ltd Interhides Public Company Limited Rafa Associate Company Limited Modernform Tower Company Limited Modernform Health & Care Company Limited Modernform Group Public Company Limited
9. Mr.Niti Nerngchamnong - Director	36	- Master of Laws (LL.M.) Assumption University Thailand in collaboration with Indiana University, USA. - Bachelor of Laws (LL.B.) in recognition of Academic Excellence Assumption University Thailand - High School Diploma The Winchendon School Boston American	116,666 (0.03%)	-	4	Present Present Present Present 2013 - Present 2005 2002	managing director Director of Thai International Health Care Standard Training Center Director Sripatum Legal Center and Lecture Faculty of Laws Director Director Professor/ Business Law Lawyer	NITI & ASSOCIATES INTERNATIONAL LEGAL CO.,LTD. Sripatum University Sripatum University Modernform Group Public Company Limited Interhides Public Company Limited Assumption University International Legal Counsellors Thailand Ltd.(ILCT)
10. Miss Wanvisa Thumrongsakunvong - Company Secretary	31	- Master Degree of Executive MBA, Nation University. - Bachelor Degree of Business Economics, Asian University. -The Company Secretary Program ,43/2011, IOD	23,333,333 (4.76%)	Daughter of No.2 and 6	6	2016 2011 – Present 2008 – 2015	General Manager Company Secretary Purchasing Manager	Interhides Public Company Limited Interhides Public Company Limited Interhides Public Company Limited

Remarks: Mr. Theera Wipuchanin has resigned from the Board with effect from 15 November 2016 onwards.

# Audit Committee Report

Attn: Shareholders of Interhides Public Company Limited

At present, Audit Committee of company comprises of 3 independent members are Mr. Somchart Limpanuphap as Chairman, Mr. Char.Nun Petpaisit and Mr. Somyot Akapaiboon as Committee Members. All members possess adequate qualifications for their posts as required by Audit Committee Charter and in accordance with the Stock Exchange of Thailand's Best Practice Guidelines. Secretary of the Audit Committee is Mr. Poobaize Benjasiriworakul.

Audit Committee has performed its duties and responsibilities as assigned by Board of Directors in supervising and overseeing company's state of affairs in order to show precisely and ensure that management and executive directors, who are accountable to shareholders of company, execute their duties with honesty and responsibility, and in accordance with the policy of company accurately and completely, and by reaching a level of standard practice. Audit Committee conducted a total of 4 meetings in 2016 and appropriately discussed and shared opinions with senior management, external auditors, and internal auditors on related matters. These can be summarized as follows:

1. Reviewed quarterly and annual financial statements of company for 2016, which had already been reviewed and audited by external auditor, before submitting them to the Board of Directors for approval. Audit Committee inquired into accuracy and completeness of financial statements of external auditor and management, and the adequacy of financial disclosure. In addition, Audit Committee considered and acknowledged management letter and audit approach for external auditor's 2016 financial statement. Audit Committee had the conclusion that internal control of the financial reporting process was adequate to ensure that such financial statements represented company's financial status and operating results accurately, that they were in accordance with legally defined accounting principles, and that they were adequately and promptly disclosed for the benefit of investors and users of such statements when making investment decisions.

2. Reviewed connected transactions executed by company with related parties who were considered as having a conflict of interest, and reviewed the sufficiency of disclosure of these transactions in accordance with requirements of the Stock Exchange of Thailand. Audit Committee had conclusion that aforementioned transactions were conducted by management fairly and priced with a view to giving the utmost benefit to company at an arm's length basis, and that they were accurately and adequately disclosed.

3. Reviewed, from a total of four meetings, compliance with Securities and Exchange Laws, Regulations of the Stock Exchange of Thailand, and other relevant Laws including Securities and Exchange Acts, Regulations of the Securities and Exchange Commission, Rules, Revenue Code, Labor Law, and Business Commitments. Audit Committee had conclusion that company had complied with all applicable regulatory requirements.

4. Reviewed Internal Control System in its evaluation of adequacy and effectiveness of company in achieving its goals. Audit Committee reviewed Internal Audit Report for 2016, according to the approved Internal Audit Action Plan, of major business processes such as inventory control process, production management system or collection management. There were no major weaknesses or significant errors in internal control. In addition, Audit Committee evaluated company's Internal Control System, which consisted of management control, financial control and compliance control based on guidelines of the Office of the Securities and Exchange Commission. Audit Committee had conclusion that the Internal Control System was adequate and functioning effectively with regards to the internal environment, risk assessment, control activities, information and communication systems, and monitoring system.

5. Reviewed Risk Management System to evaluate its adequacy and effectiveness. Audit Committee considered risk management policy, Risk Management Manual, risk identification, and risk response including the progress of the Risk Management Plan as proposed by Top Management on a yearly basis. Audit Committee had conclusion that Risk Management System was adequate and functioning effectively with clear objectives, complete risk identification, appropriate risk assessment and risk response.

6. Considered the nomination and appointment of external auditor and the annual audit fee for 2017 to seek approval from Company's Board of Directors for 2017 Annual General Meeting of Shareholders. Audit Committee reviewed independence, performance, and services of external auditor including audit fees, and judged that external auditor gave useful opinions and recommendations regarding financial reporting and internal control. Therefore, Audit Committee proposed that an external auditor from EY Office Limited be appointed Certified Public Accountant of Company for 2017. This recommendation was made to the Board of Directors prior to being presented to the Annual General Meeting of Shareholders.

7. To propose activity reports of Audit Committee to Board of Directors for every meeting of Audit Committee in order to be in conformity with good conduct of Audit Committee.

8. To consider annual audit plan and reexamine report of inspecting result as well as evaluating the internal control in order to assure that internal control is efficient enough to meet the acceptable risk and suitability for changing business environment.

9. Anti-Corruption Policy, Audit Committee defined this policy in operation guidelines, without support, and avoid under table paying to the government officer and private sectors. The management control staff members to supervise strictly observed.

In 2016, Audit Committee conducted as total of 4 meeting, the summary of attendance are as following:

Name of Audit Committee	Position	Number of Attendance/Total Meeting
Mr. Somchart Limpanuphap	Chairman	4/4
Mr. Char.Nun Petpaisit	Committee Members	4/4
Mr. Somyot Akapaiboon	Committee Members	3/4

Audit Committee exercised its judgment and independently fulfilled its duties and responsibilities with sufficient competency, with circumspectness, and with full access to information from management, employees, and relevant persons. Audit Committee also gave comments and recommendations on the equitable treatment of stakeholders

In summary, Audit Committee is of the opinion that Board of Directors, Management, and executive directors have operated with an ethical mind and have had intention of performing duties professionally to achieve company's goals. Furthermore, company has committed itself to operate the business under an effective Internal Control System. In addition, company has established a concise and appropriate Risk Management System and has effective corporate governance.



Mr. Somchart Limpanuphap  
Chairman of the Audit Committee



Mr. Chor.Nun Petpaisit  
Audit Committee member



Mr. Somyot Akapaiboon  
Audit Committee member

INTERHIDES PUBLIC CO., LTD

INTERNAL REPORT

For Quarter 1/2016

BALANCE SHEET								
Code	Details	Shoeman	AAC	ISC	Modernform	Ms. Chutima	Mr. Ongart	Total
10-001-02-01-01	Business Debtor	-	-	26,963,489.51	7,498,141.61	-	-	34,461,631.12
10-001-05-15-02	Other Debtor	-	-	3,391,024.22	-	-	-	3,391,024.22
10-001-06-01-01	Equipment Debtor	-	-	-	-	-	-	-
20-001-02-01-01	Business Creditor	-	-	20,544.00	-	-	-	20,544.00
20-001-08-02-32	Other Creditor	-	-	-	-	-	-	-
	Total	-	-	30,375,057.73	7,498,141.61	-	-	37,873,199.34
STATEMENT OF INCOME								
Code	Details	Shoeman	AAC	ISC	Modernform	Ms. Chutima	Mr. Ongart	Total
		O-SHU1/DO-AC-SME	D-AAC	D-ISC	D-MDF	PT-H002	O-ONG1	
43-009-01-00-11	Other Income	-	-	-	-	-	-	-
43-001-01-00-11	Rent Income	-	-	2,025,270.00	-	-	-	2,025,270.00
43-002-01-00-11	Public Utility Income	-	-	247,406.92	-	-	-	247,406.92
41-001-01-xx-11	Selling Income to ISC	-	-	62,176,141.55	-	-	-	62,176,141.55
41-001-01-xx-11	Selling Income to MDF	-	-	-	2,532,890.90	-	-	2,532,890.90
43-011-00-00-00	Income from Management Fee	-	-	3,158,192.04	-	-	-	3,158,192.04
43-011-02-01-11	Income Labour Cost-ISC	-	-	3,539,269.11	-	-	-	3,539,269.11
43-007-00-00-00	Sell Machine and Equipment	-	-	-	-	-	-	-
	Buying Office Equipment and Others	-	-	19,200.00	-	-	-	19,200.00
51-001-01-00-11	Buying Finished Goods	3,901.20	-	-	-	-	-	3,901.20
52-001-07-00-11	Buying Raw Material-Sewing Equipment in Thailand	-	-	12,308.00	-	-	-	12,308.00
60-030-00-00-11	Consulting	-	-	-	-	-	-	-
60-051-00-00-11	Rent Payment	-	-	-	-	-	-	-
	Service expenses (Wage Bill to IHL)	-	-	-	-	-	-	-
	Interest	-	-	-	-	-	-	-
	Dividend	-	-	-	-	-	-	-
	Total	3,901.20	-	71,177,787.62	2,532,890.90	-	-	73,714,579.72

INTERHIDES PUBLIC CO., LTD

INTERNAL REPORT

For Quarter 2/2016

BALANCE SHEET								
Code	Details	Shoeman	IG	ISC	Modernform	Ms. Chutima	Mr. Ongart	Total
10-001-02-01-01	Business Debtor	-	-	20,826,890.96	3,317,872.89	-	-	24,144,763.85
10-001-05-15-02	Other Debtor	-	-	2,988,938.38	-	-	-	2,988,938.38
10-001-06-01-01	Equipment Debtor	-	-	-	-	-	-	-
20-001-02-01-01	Business Creditor	82,196.26	-	22,684.00	-	-	-	104,880.26
20-001-08-02-32	Other Creditor	-	-	9,375.00	-	-	-	9,375.00
	<b>Total</b>	<b>82,196.26</b>	<b>-</b>	<b>23,847,888.34</b>	<b>3,317,872.89</b>	<b>-</b>	<b>-</b>	<b>27,247,957.49</b>
STATEMENT OF INCOME								
Code	Details	Shoeman O-SHU1	IG O-ITG	ISC D-ISC	Modernform D-MDF	Ms. Chutima PT-H002	Mr. Ongart O-ONG1	Total
43-009-01-00-11	Other Income	-	-	-	-	-	-	-
43-001-01-00-11	Rent Income	-	-	2,025,270.00	-	-	-	2,025,270.00
43-002-01-00-11	Public Utility Income	-	-	303,972.18	-	-	-	303,972.18
41-001-01-xx-11	Selling Income to ISC	-	-	58,975,646.54	-	-	-	58,975,646.54
41-001-01-xx-11	Selling Income to MDF	-	-	-	3,044,486.40	-	-	3,044,486.40
43-011-00-00-00	Income from Management Fee	-	-	2,873,769.67	-	-	-	2,873,769.67
43-011-02-01-11	Income Labour Cost-ISC	-	-	3,337,267.23	-	-	-	3,337,267.23
43-007-00-00-00	Sell Machine and Equipment	-	-	-	-	-	-	-
	Buying Office Equipment and Others	-	-	50,400.00	-	-	-	50,400.00
51-001-01-00-11	Buying Finished Goods	76,818.94	-	-	-	-	-	76,818.94
52-001-07-00-11	Buying Raw Material-Sewing Equipment in Thailand	-	-	10,251.52	-	-	-	10,251.52
60-030-00-00-11	Consulting	-	-	-	-	-	-	-
60-051-00-00-11	Rent Payment	-	-	-	-	-	-	-
	Service expenses (Wage Bill to IHL)	-	-	9,375.00	-	-	-	9,375.00
	Interest	-	-	-	-	-	-	-
	Dividend	-	-	23,999,760.00	-	-	-	23,999,760.00
	<b>Total</b>	<b>76,818.94</b>	<b>-</b>	<b>67,585,952.14</b>	<b>3,044,486.40</b>	<b>-</b>	<b>-</b>	<b>70,697,882.48</b>

INTERHIDES PUBLIC CO., LTD

INTERNAL REPORT

For Quarter 3/2016

BALANCE SHEET								
Code	Details	Shoeman	IG	ISC	Modernform	Ms. Chutima	Mr. Ongart	Total
10-001-02-01-01	Business Debtor	-	-	17,044,263.95	6,126,087.28	-	-	23,170,351.23
10-001-05-15-02	Other Debtor	-	245,786.01	6,748,071.70	-	-	-	6,993,857.71
10-001-06-01-01	Equipment Debtor	-	-	-	-	-	-	-
20-001-02-01-01	Business Creditor	12,612.41	898,800.00	25,083.79	-	-	-	936,496.20
20-001-08-02-32	Other Creditor	-	-	20,183.14	15,461.50	-	-	35,644.64
	<b>Total</b>	<b>12,612.41</b>	<b>1,144,586.01</b>	<b>23,837,602.58</b>	<b>6,141,548.78</b>	<b>-</b>	<b>-</b>	<b>31,136,349.78</b>
STATEMENT OF INCOME								
Code	Details	Shoeman O-SHU1	IG O-ITG	ISC D-ISC	Modernform D-MDF	Ms. Chutima PT-H002	Mr. Ongart O-ONG1	Total
43-009-01-00-11	Other Income	-	-	-	-	-	-	-
43-001-01-00-11	Rent Income	-	-	2,025,270.00	-	-	-	2,025,270.00
43-002-01-00-11	Public Utility Income	-	29,706.55	252,014.53	-	-	-	281,721.08
41-001-01-xx-11	Selling Income to ISC	-	-	48,528,047.87	-	-	-	48,528,047.87
41-001-01-xx-11	Selling Income to MDF	-	-	-	5,925,118.50	-	-	5,925,118.50
41-001-01-xx-11	Selling Income to IG	-	122,672.40	-	-	-	-	122,672.40
43-011-00-00-00	Income from Management Fee	-	400,000.00	3,071,428.93	-	-	-	3,471,428.93
43-011-02-01-11	Income Labour Cost-ISC	-	-	3,877,740.71	-	-	-	3,877,740.71
43-007-00-00-00	Sell Machine and Equipment	-	-	-	-	-	-	-
	Buying Office Equipment and Others	-	-	24,400.00	-	-	-	24,400.00
51-001-01-00-11	Buying Finished Goods	11,787.30	1,408,400.00	141,918.29	-	-	-	1,562,105.59
52-001-07-00-11	Buying Raw Material-Sewing Equipment in Thailand	-	-	34,464.50	-	-	-	34,464.50
60-030-00-00-11	Consulting	-	-	-	-	-	-	-
60-051-00-00-11	Rent Payment	-	-	-	-	-	-	-
	Service expenses (Wage Bill to IHL)	-	-	52,508.14	-	-	-	52,508.14
	Interest	155,169.86	-	-	-	-	-	155,169.86
	Dividend	-	-	-	-	-	-	-
	<b>Total</b>	<b>166,957.16</b>	<b>1,960,778.95</b>	<b>58,007,792.97</b>	<b>5,925,118.50</b>	<b>-</b>	<b>-</b>	<b>66,060,647.58</b>

## INTERHIDES PUBLIC CO., LTD

## INTERNAL REPORT

For Quarter 4/2016

BALANCE SHEET								
Code	Details	Shoeman	IG	ISC	Modernform	Ms. Chutima	Mr. Ongart	Total
10-001-02-01-01	Business Debtor		267,362.22	23,968,459.83	1,832,647.55	-	-	26,068,469.60
10-001-05-15-02	Other Debtor	-	11,405,180.74	5,208,682.08	-	-	-	16,613,862.82
10-001-06-01-01	Equipment Debtor	-	-	-	-	-	-	-
20-001-02-01-01	Business Creditor	1,990.20	4,023,628.00	60,780.76		-	-	4,086,398.96
20-001-08-02-32	Other Creditor	-	-	-	21,400.00	-	-	21,400.00
	Total	1,990.20	15,696,170.96	29,237,922.67	1,854,047.55	-	-	46,790,131.38
STATEMENT OF INCOME								
Code	รายการ	Shoeman O-SHU1	IG O-ITG	ISC D-ISC	Modernform D-MDF	Ms. Chutima PT-H002	Mr. Ongart O-ONG1	Total
43-009-01-00-11	Other Income	-	-	-	-	-	-	-
43-001-01-00-11	Rent Income	-	800,000.00	2,025,270.00	-	-	-	2,825,270.00
43-002-01-00-11	Public Utility Income	-	563,972.29	275,540.90	-	-	-	839,513.19
41-001-01-xx-11	Selling Income to ISC	-	-	57,063,288.44	-	-	-	57,063,288.44
41-001-01-xx-11	Selling Income to MDF	-	-	-	1,919,124.92	-	-	1,919,124.92
43-011-00-00-00	Income from Management Fee	-	600,000.00	2,948,805.55	-	-	-	3,548,805.55
43-011-02-01-11	Income Labour Cost-ISC	-	249,871.24	4,460,468.39	-	-	-	4,710,339.63
43-007-00-00-00	Sell Machine and Equipment	-	33,223,228.93	-	-	-	-	33,223,228.93
	Buying Office Equipment and Others	-	-	37,200.00		-	-	37,200.00
51-001-01-00-11	Buying Finished Goods	1,860.00	2,920,400.00	9,054.00	-	-	-	2,931,314.00
52-001-07-00-11	Buying Raw Material-Sewing Equipment in Thailand	-	-	117,420.00	-	-	-	117,420.00
60-030-00-00-11	Consulting	-	-	-	-	-	-	-
60-051-00-00-11	Rent Payment	-	-	-	-		-	-
	Service expenses (Wage Bill to IHL)			70,914.39				70,914.39
	Interest		43,698.63					43,698.63
	Dividend			23,999,760.00				23,999,760.00
	Total	1,860.00	38,401,171.09	91,007,721.67	1,919,124.92	-	-	131,329,877.68

INTERHIDES PUBLIC CO., LTD

INTERNAL REPORT

For Quarter 1-4/2016

BALANCE SHEET								
Code	Details	Shoeman	IG	ISC	Modernform	Ms. Chutima	Mr. Ongart	Total
10-001-02-01-01	Business Debtor	-	267,362.22	23,968,459.83	1,832,647.55	-	-	26,068,469.60
10-001-05-15-02	Other Debtor	-	11,405,180.74	5,208,682.08	-	-	-	16,613,862.82
10-001-06-01-01	Equipment Debtor	-	-	-	-	-	-	-
20-001-02-01-01	Business Creditor	1,990.20	4,023,628.00	60,780.76	-	-	-	4,086,398.96
20-001-08-02-32	Other Creditor	-	-	-	21,400.00	-	-	21,400.00
	Total	1,990.20	15,696,170.96	29,237,922.67	1,854,047.55	-	-	46,790,131.38
STATEMENT OF INCOME								
Code	Details	Shoeman O-SHU1	IG O-ITG	ISC D-ISC	Modernform D-MDF	Ms. Chutima PT-H002	Mr. Ongart O-ONG1	Total
43-009-01-00-11	Other Income	-	-	-	-	-	-	-
43-001-01-00-11	Rent Income	-	800,000.00	8,101,080.00	-	-	-	8,901,080.00
43-002-01-00-11	Public Utility Income	-	593,678.84	1,078,934.53	-	-	-	1,672,613.37
41-001-01-xx-11	Selling Income to ISC	-	-	226,743,124.40	-	-	-	226,743,124.40
41-001-01-xx-11	Selling Income to MDF	-	-	-	13,421,620.72	-	-	13,421,620.72
43-011-00-00-00	Income from Management Fee	-	1,000,000.00	12,052,196.19	-	-	-	13,052,196.19
43-011-02-01-11	Income Labour Cost-ISC	-	249,871.24	15,214,745.44	-	-	-	15,464,616.68
43-007-00-00-00	Sell Machine and Equipment	-	33,223,228.93	-	-	-	-	33,223,228.93
	Buying Office Equipment and Other	-		131,200.00	-			131,200.00
51-001-01-00-11	Buying Finished Goods	94,367.44	4,328,800.00	150,972.29	-	-	-	4,574,139.73
52-001-07-00-11	Buying Raw Material-Sewing Equip	-	-	174,444.02	-	-	-	174,444.02
60-030-00-00-11	Consulting	-	-	-	-	-	-	-
60-051-00-00-11	Rent Payment	-	-	-	-	-	-	-
	Service expenses (Wage Bill to IHL)	-	-	132,797.53	-	-	-	132,797.53
	Interest	155,169.86	43,698.63	-	-	-	-	198,868.49
	Dividend	-	-	47,999,520.00	-	-	-	47,999,520.00
	Total	249,537.30	40,239,277.64	311,779,014.40	13,421,620.72	-	-	365,689,450.06

# Report of the Board of Directors' Responsibilities for Financial Statements

The Board of Directors of Interhides Public Company Limited has provided the financial statements showing the Company's financial status and business operation result for the year 2016 under the Public Limited Companies Act B.E. 2535 (A.D. 1992) and Rules and Regulations of the Stock Exchange of Thailand. The Board of Directors is responsible for the Company's financial statements presented in this annual report. The Board of Directors confirms that the financial statements are in accordance with Thai Generally Accepted Accounting Principles, using appropriate accounting policy consistently employed by the Company as well as applying careful judgment and best estimation. Important information is adequately disclosed in the notes to financial statements.

Financial Statements of the Company have been audited by EY Office Limited, auditor of the Company. The Board of Directors has supported the auditor with all necessary information and documents so the external auditor could audit and express his opinion in accordance with auditing standards. The external auditor has expressed his opinion in Auditor's Report as shown in the Annual Report.

The Board of Directors has provided and maintained an efficient internal control system to ensure that accounting records are accurate, complete and adequate to protect its assets and uncover weaknesses in order to prevent fraud or materially irregular operations.

The Board of Directors has appointed an Audit Committee, which consists of Non-Executive Directors responsible for the quality of financial statements, internal control system and law compliance, whose comments on these issues are readily included in the Audit Committee Report in this annual report.

The Board of Directors is of the opinion that the Company's overall internal control system has functioned up to the satisfactory level and rendered credibility and reliability to the consolidated and company financial statements for they year ended December 31, 2016.



MR. ONGART THUMRONGSAKUNVONG

Managing Director

# Management Discussion and Analysis of Financial Position and Performance

## Summary and Overview for the past year

Thailand's automotive industry has continued develop over 50 years and are capable of producing is the highest in this region, in term of Sale Volume, Vehicle assembly, employment, production, marketing, technology development and related industry. Thailand is a manufacturing base of motorcycle and pick up production in the world. Thailand government has set a target to produce cars to meet 3 million units in 2020.

Thailand Automotive market trends in 2017 is expected sales are likely to recover because of many positive aspects. Thus, consumers in the middle-income groups, farmers and businesses will more power buying the vehicle. Small car are expected to have adapted better than others. Due to the First Car Project will complete the five-year tenure in 2017 and will give the consumers the opportunity to replace a new car. There is a survey that consumers participating First Car Project to buy new car around 10 -20 per cent, or around 125,000 – 250,000 units. Therefore, total vehicle market in 2017 will grow 2 - 6 per cent or around 770,000 – 800,000 units.

Revenue from Operation (Million Baht)	2016		2015		2014	
	Revenue	%	Revenue	%	Revenue	%
Revenue from Automotive Industry	1,637	84%	1,977	82%	1,395	75%
Revenue from Non-Automotive Industry	306	16%	318	13%	457	24%
Other revenue	9	0%	112	5%	11	1%
<b>Total</b>	<b>1,952</b>	<b>100%</b>	<b>2,407</b>	<b>100%</b>	<b>1,863</b>	<b>100%</b>

In 2016, the revenue from automotive industry sharply decreased by Baht 340 million or 17.20% from year 2015. Also, the revenue from non-automotive industry decreased by Baht 12 million or 3.77% from year 2015.

Sales and Service Revenue (Million Baht)	2015		2014		2013	
	Revenue	%	Revenue	%	Revenue	%
Domestic Sales	1,326	68%	1,698	74%	1,423	77%
Export Sales	617	32%	597	26%	429	23%
<b>Total</b>	<b>1,943</b>	<b>100%</b>	<b>2,295</b>	<b>100%</b>	<b>1,852</b>	<b>100%</b>

## **Operating Results Analysis**

For the Consolidate Financial Statement of 2016, the Company had a Net Profit 191.27 million baht which comparing to year 2015 with a net profit 201.78 million baht, decreased by 10.51 million baht or 5.21%, as a result of the following factors;

### **Revenue**

Sales and service revenue in 2016 was recorded at 1,943.20 million baht compared with Sales and service revenue of 2015 at 2,295.10 million baht, decreased 351.90 million baht or 15.33%. This is a result of the sluggish of the automotive market.

### **Expenses**

#### **Cost and Expenses**

Cost of sales and service of 2016 was 1,550.68 million baht or 79.80% of Sales and Service revenue, compared with year 2015 at 1,986.80 million baht or 86.57% of Sale and Service revenue. The main factor is still the situation of raw material, raw hides cost is downgrade. Therefore, the gross profit compared to the revenue from Sales and Service in 2016 is increasing 27.32% compared to revenue from Sales and Services.

#### **Cost of Sales and administration**

Selling and administrative expense in 2016 was 138.84 million baht or 7.14% of Sales and Service revenue, compared with 2015, selling and administrative expense was recorded at 130.73 million baht or 5.70% of Sales and Service revenue. Company's sales fell from the previous year, so the cost of Sales and Administration increased when compared to the Sales revenue that decline.

#### **Financial Expenses**

In 2016, the Company and its subsidiary recorded financial cost of 36.06 million baht, decreased from 2015, at 2.52 million baht or 6.54%. Due to 2016, company adjusted loans from financial institutions with reduce the interest rate. Besides these, company gain on the exchange of 5.32 million baht, and company recognize of the losses of exchange that incurred 5.61 million baht and foreign exchange loss on unrealized 0.29 million baht. As a result of Baht Value that increase from 36 THB / USD at the beginning of the year to 34 – 35 THB / USD at during the year.

## **Financial Analysis**

### **Total Assets**

Company and subsidiaries have total assets comprise of Cash, Debtor, Inventory, Property, Plant and Equipment. As of December 31, 2016, total assets of the Company were 2,740.03 million baht, increasing 69.22 million baht or 2.59% when compared with 2015. Caused by the major changes as below:

#### **Cash and Cash Equivalents**

As of December 31, 2016, the Company's cash and cash equivalents was 56.26 million baht increased 24.38 million baht from 2015.

#### **Trade Accounts Receivable**

As of December 31, 2016, the Company's trade accounts receivable was 207.21 million baht, decreased by 128.41 million baht or 38.26% from year 2015. This is mainly due to the efficiency of collection while decreasing in sales volume.

#### **Inventories**

As of December 31, 2016, the Company's inventories were 666.96 million baht increased 4.36 million baht or 0.65% from 2015.

#### **Total Liabilities**

As of December 31, 2016, the Company's total liabilities were 1,466.36 million baht, decreased 72.27 million baht or 4.70 % from 2015. Total liabilities are consisted of total current liabilities 1,094.74 million baht and total non- current liabilities of 371.62 million baht. This is mainly due to the expansion of investment in continuous and products.

#### **Shareholder's Equity**

As of December 31, 2016, the total shareholder's equity of the Company was 1,273.67 million baht, increased 141.49 million baht or 12.49% from 2015. The figures are followed by the balance of retained earnings 1,132.17 million baht deducted by dividend 119.78 million baht and added by net profit for the year of 191.27 million baht.

### **Audit Fees**

The Company paid to auditors, EY Office Limited amounting to 1,618,000 baht which solely for the audit fees of the Company and subsidiary. However, the Company had no obligation for other non-audit fees paying to the auditors or auditing offices, personnel, or any other businesses related to the auditors and the subsidiary of the auditors or auditing offices in any way.

Interhides Public Company Limited and its subsidiaries  
Report and consolidated financial statements  
31 December 2016

## **Independent Auditor's Report**

To the Shareholders of Interhides Public Company Limited

### **Opinion**

I have audited the accompanying consolidated financial statements of Interhides Public Company Limited and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and have also audited the separate financial statements of Interhides Public Company Limited for the same period.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Interhides Public Company Limited and its subsidiaries and of Interhides Public Company Limited as at 31 December 2016, their financial performance and cash flows for the year then ended in accordance with Thai Financial Reporting Standards.

### **Basis for Opinion**

I conducted my audit in accordance with Thai Standards on Auditing. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Group in accordance with the Code of Ethics for Professional Accountants as issued by the Federation of Accounting Professions under the Royal Patronage of His Majesty the King as relevant to my audit of the financial statements, and I have fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

I have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report, including in relation to these matters. Accordingly, my audit included the performance of procedures designed to respond to my assessment of the risks of material misstatement of the financial statements. The results of my audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements as a whole.

The key audit matters and the audit procedures performed in response to each matter are described below.

### *Revenue from sales of leather products and services*

Revenues from sales and services are significant to the Group's financial statements and directly impact on the Group's operating results. Moreover, the Group has both domestic and overseas sales transactions under various terms and conditions. I therefore focused on the Group's recognition of revenues from sales and services, especially the timing of revenue recognition.

I assessed and tested the Group's internal controls related to revenue cycle by making enquiry of responsible executives, gaining an understanding of the controls and selecting representative samples to test the operation of the designed key controls. On a sampling basis, I checked documents supporting sales and service transactions occurring during the year and near the period end. I reviewed credit notes issued by the Group to customers after the end of the reporting period and performed analytical review of the sales and services accounts.

### *Inventories*

The inventory account is significant to the Group's financial statements, accounting for approximately 24% of total assets as of 2016. Moreover, the Group has a large number and many types of inventory items and the prices of the main raw materials fluctuate in accordance with global market prices. Therefore, there is a risk with respect to the amount of costs of inventories.

I assessed and tested the Group's internal controls related to the inventory cycle, the physical count and inventory costing procedures, by making enquiry of responsible executives, gaining an understanding of the controls and selecting representative samples to test the operation of the designed key controls. I observed the physical count of the inventory of the Group. In addition, I performed analytical review of the unit costs of the major inventories of each product group and checked the supporting documents for main raw material purchases occurring near the end of the period to consider any irregularities in inventory costing.

### *Allowance for diminution in inventory value*

The basis for determining allowance for diminution in inventory value, as disclosed in Note 9 to financial statements, relies on significant management judgment and estimates made based on the experience of the management, especially with respect to determination of allowance for obsolete or slow-moving inventory, which requires analysis of the product life cycle, the competitive environment and the economic and industry situation. There is thus a risk with respect to the amount of the allowance for diminution in value of inventories.

I assessed the methods and assumptions applied by the management in determining such allowance by gaining an understanding of the criteria used in determining the allowance, and reviewing the consistency of the application of these criteria and the rational for the specific recognition. I also performed an analytical review of the inventory holding period and inventory movements to identify groups of inventory with indications of slow movement, performed analytical review to compare the net realisable value occurring after the end of the reporting period with the unit costs of inventories.

## **Other Information**

Management is responsible for the other information. The other information comprise the information included in annual report of the Group, but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Thai Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Thai Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Thai Standards on Auditing, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Miss Watoo Kayankannavee.

Watoo Kayankannavee  
Certified Public Accountant (Thailand) No. 5423

EY Office Limited  
Bangkok: 27 February 2017

**Interhides Public Company Limited and its subsidiaries**

**Statement of financial position**

**As at 31 December 2016**

(Unit: Baht)

	<u>Note</u>	<u>Consolidated financial statements</u>		<u>Separate financial statements</u>	
		<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	7	56,261,063	31,878,140	35,682,349	26,940,343
Current investment - investment unit					
in open-ended fund		31,487,678	16,767,427	-	-
Trade and other receivables	8	207,208,178	335,616,794	200,474,801	318,156,534
Inventories	9	666,957,209	671,322,309	604,557,037	588,678,227
Advance payments for purchase of raw material					
and spareparts		-	6,056,456	-	6,056,456
Other current assets		<u>11,562,278</u>	<u>8,723,023</u>	<u>7,411,329</u>	<u>8,015,445</u>
<b>Total current assets</b>		<u>973,476,406</u>	<u>1,070,364,149</u>	<u>848,125,516</u>	<u>947,847,005</u>
<b>Non-current assets</b>					
Investment in a subsidiaries	10	-	-	59,999,560	19,999,800
Property, plant and equipment	11	1,753,589,917	1,586,845,389	1,694,521,142	1,555,974,042
Intangible asset	12	4,822,520	4,136,048	4,609,098	2,964,916
Advance payments for purchase of machinery		-	192,600	-	192,600
Deferred tax assets	21	7,154,937	5,701,969	5,775,755	4,774,721
Other non-current assets		<u>984,553</u>	<u>3,567,374</u>	<u>980,773</u>	<u>3,564,314</u>
<b>Total non-current assets</b>		<u>1,766,551,927</u>	<u>1,600,443,380</u>	<u>1,765,886,328</u>	<u>1,587,470,393</u>
<b>Total assets</b>		<u><u>2,740,028,333</u></u>	<u><u>2,670,807,529</u></u>	<u><u>2,614,011,844</u></u>	<u><u>2,535,317,398</u></u>

The accompanying notes are an integral part of the financial statements.

Interhides Public Company Limited and its subsidiaries

Statement of financial position (continued)

As at 31 December 2016

(Unit: Baht)

		Consolidated financial statements		Separate financial statements	
	Note	2016	2015	2016	2015
Liabilities and shareholders' equity					
Current liabilities					
Bank overdrafts and short-term loans from					
financial institutions	13	436,000,000	510,981,324	436,000,000	510,981,324
Trust receipts	13	221,116,865	417,291,795	221,116,865	417,291,795
Trade and other payables	14	228,500,489	191,756,395	207,344,494	161,388,348
Current portion of liabilities under finance lease					
agreements	15	2,323,731	7,985,195	2,323,731	7,985,195
Current portion of long-term loans	16	171,448,444	147,055,111	171,448,444	147,055,111
Income tax payable		21,760,571	3,808,903	21,379,986	3,593,474
Provision for contingent loss	27.6	7,961,546	-	7,961,546	-
Other current liabilities		5,631,037	7,669,853	5,336,484	7,854,036
Total current liabilities		1,094,742,683	1,286,548,576	1,072,911,550	1,256,149,283
Non-current liabilities					
Liabilities under finance lease agreements, net					
of current portion	15	9,474,453	11,880,535	9,474,453	11,880,535
Long-term loans, net of current portion	16	342,684,000	220,286,648	342,684,000	220,286,648
Provision for long-term employee benefits	17	17,127,834	16,416,895	14,848,569	14,069,232
Interest rate swap contract		2,332,572	3,501,650	2,332,572	3,501,650
Total non-current liabilities		371,618,859	252,085,728	369,339,594	249,738,065
Total liabilities		1,466,361,542	1,538,634,304	1,442,251,144	1,505,887,348

The accompanying notes are an integral part of the financial statements.

Interhides Public Company Limited and its subsidiaries

Statement of financial position (continued)

As at 31 December 2016

(Unit: Baht)

	Note	Consolidated financial statements		Separate financial statements	
		2016	2015	2016	2015
<b>Shareholders' equity</b>					
Share capital	18				
Registered					
594,998,274 ordinary shares of Baht 1 each					
(2015: 419,999,076 ordinary shares of Baht 1 each)		<u>594,998,274</u>	<u>419,999,076</u>	<u>594,998,274</u>	<u>419,999,076</u>
Issued and fully paid					
489,998,113 ordinary shares of Baht 1 each					
(2015: 419,998,782 ordinary shares of Baht 1 each)		489,998,113	419,998,782	489,998,113	419,998,782
Share premium		211,584,110	211,584,110	211,584,110	211,584,110
Retained earnings					
Appropriated					
Statutory reserve - the Company	19	52,000,000	42,000,000	52,000,000	42,000,000
Statutory reserve - the subsidiary		2,000,000	2,000,000	-	-
Unappropriated		<u>518,084,568</u>	<u>456,590,333</u>	<u>418,178,477</u>	<u>355,847,158</u>
<b>Total shareholders' equity</b>		<u>1,273,666,791</u>	<u>1,132,173,225</u>	<u>1,171,760,700</u>	<u>1,029,430,050</u>
<b>Total liabilities and shareholders' equity</b>		<u>2,740,028,333</u>	<u>2,670,807,529</u>	<u>2,614,011,844</u>	<u>2,535,317,398</u>
		-	-	-	-

The accompanying notes are an integral part of the financial statements.

Directors

**Interhides Public Company Limited and its subsidiaries**

**Statement of comprehensive income**

**For the year ended 31 December 2016**

(Unit: Baht)

		<b>Consolidated financial statements</b>		<b>Separate financial statements</b>	
	<u>Note</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Profit or loss:</b>					
<b>Revenues</b>					
Sales and services revenue	22	1,943,202,199	2,295,097,184	1,686,247,725	1,951,282,951
Other income					
Gains on exchange		5,321,055	-	5,321,055	-
Dividend income from a subsidiary company	6, 10	-	-	47,999,520	125,998,740
Reversal of provision for contingent loss on allegation	27.7	-	105,000,000	-	105,000,000
Others		8,927,053	6,606,356	36,902,733	27,993,371
<b>Total revenues</b>		<u>1,957,450,307</u>	<u>2,406,703,540</u>	<u>1,776,471,033</u>	<u>2,210,275,062</u>
<b>Expenses</b>					
Cost of sales and services		1,550,684,220	1,986,798,968	1,375,289,613	1,796,164,327
Selling expenses		36,370,772	31,570,983	32,445,672	26,697,548
Administrative expenses		102,469,627	99,163,049	99,704,169	94,914,062
Other expenses	27.6	7,961,546	-	7,961,546	-
Loss on exchange		-	22,827,801	-	22,812,213
<b>Total expenses</b>		<u>1,697,486,165</u>	<u>2,140,360,801</u>	<u>1,515,401,000</u>	<u>1,940,588,150</u>
<b>Profit before finance costs and income tax expenses</b>		<u>259,964,142</u>	<u>266,342,739</u>	<u>261,070,033</u>	<u>269,686,912</u>
Finance costs		<u>(36,057,353)</u>	<u>(38,581,622)</u>	<u>(36,254,811)</u>	<u>(38,580,495)</u>
<b>Profit before income tax expenses</b>		<u>223,906,789</u>	<u>227,761,117</u>	<u>224,815,222</u>	<u>231,106,417</u>
Income tax expenses	21	<u>(32,635,123)</u>	<u>(25,982,617)</u>	<u>(32,706,472)</u>	<u>(25,469,020)</u>
<b>Profit for the year</b>		<u>191,271,666</u>	<u>201,778,500</u>	<u>192,108,750</u>	<u>205,637,397</u>
<b>Other comprehensive income:</b>					
Other comprehensive income for the year		-	-	-	-
<b>Total comprehensive income for the year</b>		<u>191,271,666</u>	<u>201,778,500</u>	<u>192,108,750</u>	<u>205,637,397</u>
<b>Earnings per share</b>	23				
Basic earnings per share		<u>0.39</u>	<u>0.41</u>	<u>0.39</u>	<u>0.42</u>
Diluted earnings per share		<u>0.38</u>	<u>0.41</u>	<u>0.38</u>	<u>0.42</u>

The accompanying notes are an integral part of the financial statements.

Interhides Public Company Limited and its subsidiaries

Statement of changes in shareholders' equity

For the year ended 31 December 2016

(Unit: Baht)

	Consolidated financial statements				
			Retained earnings		
	Issued and	Share	Appropriated		
	paid-up	premium	Statutory reserve -	Statutory reserve -	
	share capital		the Company	the subsidiary	Unappropriated
					Total
Balance as at 1 January 2015	419,998,782	211,584,110	42,000,000	2,000,000	422,811,346
Dividend paid (Note 26)	-	-	-	-	(167,999,513)
Profit for the year	-	-	-	-	201,778,500
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	201,778,500
Balance as at 31 December 2015	419,998,782	211,584,110	42,000,000	2,000,000	456,590,333
					-
Balance as at 1 January 2016	419,998,782	211,584,110	42,000,000	2,000,000	456,590,333
Unappropriated retained earnings					
transferred to statutory reserve (Note 19)	-	-	10,000,000	-	(10,000,000)
Stock dividends (Note 18, 26)	69,999,331	-	-	-	(69,999,331)
Dividend paid (Note 26)	-	-	-	-	(49,778,100)
Profit for the year	-	-	-	-	191,271,666
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	191,271,666
Balance as at 31 December 2016	489,998,113	211,584,110	52,000,000	2,000,000	518,084,568

The accompanying notes are an integral part of the financial statements.

Interhides Public Company Limited and its subsidiaries

Statement of changes in shareholders' equity (continued)

For the year ended 31 December 2016

(Unit: Baht)

	Separate financial statements			
	Issued and paid-up share capital	Share premium	Retained earnings Appropriated - statutory reserve	Unappropriated Total
<b>Balance as at 1 January 2015</b>	419,998,782	211,584,110	42,000,000	318,209,274
Dividend paid (Note 26)	-	-	-	(167,999,513)
Profit for the year	-	-	-	205,637,397
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	205,637,397
<b>Balance as at 31 December 2015</b>	419,998,782	211,584,110	42,000,000	355,847,158
<b>Balance as at 1 January 2016</b>	419,998,782	211,584,110	42,000,000	355,847,158
Unappropriated retained earnings				
transferred to statutory reserve (Note 19)	-	-	10,000,000	(10,000,000)
Stock dividends (Note 18, 26)	69,999,331	-	-	(69,999,331)
Dividend paid (Note 26)	-	-	-	(49,778,100)
Profit for the year	-	-	-	192,108,750
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	192,108,750
<b>Balance as at 31 December 2016</b>	489,998,113	211,584,110	52,000,000	418,178,477

The accompanying notes are an integral part of the financial statements.

**Interhides Public Company Limited and its subsidiaries**

**Cash flow statement**

**For the year ended 31 December 2016**

(Unit: Baht)

	<b>Consolidated financial statements</b>		<b>Separate financial statements</b>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>				
Profit before tax	223,906,789	227,761,117	224,815,222	231,106,417
Adjustments to reconcile profit before tax to net cash provided by (paid from) operating activities:				
Depreciation and amortisation	148,197,688	147,851,150	140,520,955	142,121,504
Allowance for doubtful accounts (reversal)	(63,229)	3,127,848	(63,229)	3,127,848
Written off of trade accounts receivable	85,617	-	85,617	-
Reduce inventory cost to net realisable value	7,476,383	4,851,957	4,745,393	2,355,460
Written off of withholding tax deducted at source	88,953	-	-	-
Gains on sales of current investment	(133,106)	(111,894)	-	-
(Gains) losses on sales and written-off of machinery and equipment	(1,126,934)	207,538	(5,994,921)	207,538
Provision for long-term employee benefits	2,250,371	2,137,146	1,875,356	1,745,931
Reversal of provision for contingent loss on allegation	-	(105,000,000)	-	(105,000,000)
Unrealised (gains) losses on exchange	(2,375,146)	5,102,553	(2,375,146)	5,102,553
Dividend income from a subsidiary company	-	-	(47,999,520)	(125,998,740)
Written off of other non-current assets	2,949,658	-	2,099,658	-
Change in fair value of interest rate swap contract and forward exchange contracts	(1,179,060)	3,501,650	(1,179,060)	3,501,650
Provision for contingent loss	7,961,546	-	7,961,546	-
Interest expenses	<u>34,528,393</u>	<u>31,504,274</u>	<u>34,725,851</u>	<u>31,503,147</u>
Profit from operating activities before changes in operating assets and liabilities	422,567,923	320,933,339	359,217,722	189,773,308
Operating assets (increase) decrease				
Current investment - trading securities	-14,587,145	2,344,467	-	-
Trade and other receivables	127,967,473	(238,577)	117,165,590	(12,106,213)
Inventories	2,945,173	(58,899,130)	(14,567,747)	(45,444,229)
Other current assets	-2,244,487	4,746,358	657,248	4,987,686
Other non-current assets	-1,709,447	(3,023,073)	(1,708,727)	(2,096,812)
Operating liabilities increase (decrease)				
Trade and other payables	34,081,306	30,483,498	43,293,359	29,084,963
Cash paid for long-term employee benefits	-1,539,429	(551,395)	-1,096,020	(475,798)
Other current liabilities	<u>(2,038,816)</u>	<u>(555,009)</u>	<u>(2,517,552)</u>	<u>471,641</u>
Cash flows from operating activities	565,442,551	295,240,478	500,443,873	164,194,546
Cash paid for interest expenses	-34,388,131	(31,910,281)	(34,585,589)	(31,909,154)
Cash paid for income tax	<u>-16,810,164</u>	<u>(6,511,471)</u>	<u>(15,964,143)</u>	<u>(4,814,454)</u>
<b>Net cash flows from operating activities</b>	<u>514,244,256</u>	<u>256,818,726</u>	<u>449,894,141</u>	<u>127,470,938</u>

The accompanying notes are an integral part of the financial statements.

**Interhides Public Company Limited and its subsidiaries**

**Cash flow statement (continued)**

**For the year ended 31 December 2016**

(Unit: Baht)

	<b>Consolidated financial statements</b>		<b>Separate financial statements</b>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Cash flows from investing activities</b>				
Cash paid for investment in a subsidiary	-	-	(39,999,760)	-
Dividend received from a subsidiary company	-	-	47,999,520	125,998,740
Acquisition of property, plant and equipment	(312,509,093)	(613,850,416)	(305,022,884)	(611,582,528)
Cash paid for interest capitalised	(2,468,437)	(543,800)	(2,468,437)	(543,800)
Proceeds from sales of equipment	<u>4,903,863</u>	<u>880,916</u>	<u>38,127,092</u>	<u>880,916</u>
<b>Net cash flows used in investing activities</b>	<u>(310,073,667)</u>	<u>(613,513,300)</u>	<u>(261,364,469)</u>	<u>(485,246,672)</u>
<b>Cash flows from financing activities</b>				
Increase (decrease) in bank overdrafts and short-term loans				
from financial institutions	(74,981,324)	325,587,388	(74,981,324)	325,587,388
Increase (decrease) in trust receipts	(193,918,936)	160,338,629	(193,918,936)	160,338,629
Payment of liabilities under finance lease agreements	(7,937,978)	(18,201,878)	(7,937,978)	(18,201,878)
Cash received from long-term loans	307,770,000	357,419,000	307,770,000	357,419,000
Repayment of long-term loans	(160,979,315)	(276,078,042)	(160,979,315)	(276,078,042)
Dividend paid	<u>(49,740,113)</u>	<u>(167,999,513)</u>	<u>(49,740,113)</u>	<u>(167,999,513)</u>
<b>Net cash flows from (used in) financing activities</b>	<u>(179,787,666)</u>	<u>381,065,584</u>	<u>(179,787,666)</u>	<u>381,065,584</u>
<b>Net increase in cash and cash equivalents</b>	24,382,923	24,371,010	8,742,006	23,289,850
Cash and cash equivalents at beginning of year	<u>31,878,140</u>	<u>7,507,130</u>	<u>26,940,343</u>	<u>3,650,493</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>56,261,063</u></u>	<u><u>31,878,140</u></u>	<u><u>35,682,349</u></u>	<u><u>26,940,343</u></u>
	-	-	-	-
<b>Supplemental cash flows information</b>				
Non-cash item				
Increase in accounts payable - purchase of machinery	2,967,877	4,309,058	2,967,877	4,309,058
Increase (decrease) in advance payments				
for purchase of machinery	(192,600)	110,141	(192,600)	192,600
Increase in dividend payable	37,987	-	37,987	-

The accompanying notes are an integral part of the financial statements.

## Interhides Public Company Limited and its subsidiaries

### Notes to consolidated financial statements

For the year ended 31 December 2016

#### 1. General information

Interhides Public Company Limited (“the Company”) is a public company incorporated and domiciled in Thailand. Its major shareholders are group of individuals. The Company is principally engaged in the manufacture and distribution of leather coverings for car seats. The registered office of the Company is at 678 Soi T.J.C., Sukhumvit Road, Bangpoomai, Muang, Samutprakarn.

#### 2. Basis of preparation

- 2.1 The financial statements have been prepared in accordance with Thai Financial Reporting Standards enunciated under the Accounting Professions Act B.E. 2547 and their presentation has been made in compliance with the stipulations of the Notification of the Department of Business Development dated 28 September 2011, issued under the Accounting Act B.E. 2543.

The financial statements in Thai language are the official statutory financial statements of the Company. The financial statements in English language have been translated from the Thai language financial statements.

The financial statements have been prepared on a historical cost basis except where otherwise disclosed in the accounting policies.

#### 2.2 Basis of consolidation

- a) The consolidated financial statements include the financial statements of Interhides Public Company Limited (“the Company”) and the following subsidiary companies (“the subsidiaries”).

Company	Nature of business	Country of incorporation	Percentage of shareholding	
			2016	2015
			Percent	Percent
Inter Seat Cover Company Limited	Manufacturing and trading of leather coverings for car seats	Thailand	100	100
Inter Green Company Limited	Manufacture and distribution of hydrolyzed protein from leather scrap by industrial process	Thailand	100	-

- b) The Company is deemed to have control over an investee or subsidiaries if it has rights, or is exposed, to variable returns from its involvement with the investee, and it has the ability to direct the activities that affect the amount of its returns.
  - c) A subsidiaries is fully consolidated, being the date on which the Company obtains control, and continues to be consolidated until the date when such control ceases.
  - d) The financial statements of the subsidiaries are prepared using the same significant accounting policies as the Company.
  - e) Material balances and transactions between the Company and its subsidiary companies have been eliminated from the consolidated financial statements.
- 2.3 The separate financial statements present investments in the subsidiaries under the cost method.

### **3. New financial reporting standards**

#### **(a) Financial reporting standards that became effective in the current year**

During the year, the Company and subsidiaries have adopted the revised (revised 2015) and new financial reporting standards and accounting treatment guidance issued by the Federation of Accounting Professions which become effective for fiscal years beginning on or after 1 January 2016. These financial reporting standards were aimed at alignment with the corresponding International Financial Reporting Standards, with most of the changes directed towards revision of wording and terminology, and provision of interpretations and accounting guidance to users of standards. The adoption of these financial reporting standards does not have any significant impact on the Company and its subsidiaries' financial statements.

#### **(b) Financial reporting standard that will become effective in the future**

During the current year, the Federation of Accounting Professions issued a number of the revised financial reporting standards and interpretations (revised 2016) and new accounting treatment guidance which is effective for fiscal years beginning on or after 1 January 2017. These financial reporting standards were aimed at alignment with the corresponding International Financial Reporting Standards with most of the changes directed towards revision of wording and terminology, and provision of interpretations and accounting guidance to users of standards.

The management of the Company and its subsidiaries believe that the revised financial reporting standards and interpretations and new accounting treatment guidance will not have any significant impact on the financial statements when they are initially applied. However, one standard involves changes to key principles, which are summarised below.

#### **TAS 27 (revised 2016) Separate Financial Statements**

This revised standard stipulates an additional option to account for investments in subsidiaries, joint ventures and associates in separate financial statements under the equity method, as described in TAS 28 (revised 2016) Investments in Associates and Joint Ventures. However, the entity is to apply the same accounting treatment for each category of investment. If an entity elects to account for such investments using the equity method in the separate financial statements, it has to adjust the transaction retrospectively.

This standard will not have any significant impact on the Company and its subsidiaries' financial statements because the management has decided to continue accounting for such investments under the cost method in the separate financial statements.

### **4. Significant accounting policies**

#### **4.1 Revenue Recognition**

##### *Sales of goods*

Sales of goods are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Sales are the invoiced value, excluding value added tax, of goods supplied after deducting discounts and allowances.

##### *Rendering of services*

Service revenue is recognised when services have been rendered taking into account the stage of completion.

##### *Dividends income*

Dividends are recognised when the right to receive the dividends is established.

#### **4.2 Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand and at banks, and all highly liquid investments with an original maturity of three months or less and not subject to withdrawal restrictions.

### 4.3 Trade accounts receivable

Trade accounts receivable are stated at the net realisable value. Allowance for doubtful accounts is provided for the estimated losses that may be incurred in collection of receivables. The allowance is generally based on collection experiences and analysis of debt aging.

### 4.4 Inventories

Finished goods and work in process are valued at the lower of cost (under the weighted average method) and net realisable value and includes all production costs and attributable factory overheads.

Raw materials, chemicals and supplies are valued at the lower of average cost and net realisable value and are charged to production costs whenever consumed.

### 4.5 Investments

- a) Investments in securities held for trading are stated at fair value. Change in the fair value of these securities is recorded in profit or loss.
- b) An investment in subsidiaries is accounted for in the separate financial statements using the cost method.

The fair value of unit trusts is determined from their net asset value.

The weighted average method is used for computation of the cost of investments.

### 4.6 Property, plant and equipment / Depreciation

Land is stated at cost. Buildings and equipment are stated at cost less accumulated depreciation and allowance for loss on impairment of assets (if any).

Depreciation of plant and equipment is calculated by reference to their costs on the straight-line basis over the following estimated useful lives:

Buildings	-	20	years
Building improvement	-	5	years
Condominium	-	20	years
Machinery and equipment	-	10	years
Furniture, fixture and office equipment	-	5	years
Motor vehicles	-	5	years

Depreciation is included in determining income.

No depreciation is provided on land and assets under installation and construction.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on disposal of an asset is included in profit or loss when the asset is derecognised.

#### **4.7 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### **4.8 Intangible assets**

The intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses (if any).

Intangible assets with finite lives are amortised on a systematic basis over the economic useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for such intangible asset are reviewed at least at each financial year end. The amortisation expense is charged to profit or loss.

Intangible asset with finite lives of the Company is computer software with useful live of 4 years and 10 years. No amortisation is provided for computer software under installation.

#### **4.9 Related party transactions**

Related parties comprise individuals or enterprises that control, or are controlled by, the Company, whether directly or indirectly, or which are under common control with the Company.

They also include associated companies and, individuals or enterprises which directly or indirectly own a voting interest in the Company that gives them significant influence over the Company, key management personnel, directors and officers with authority in the planning and direction of the Company's operations.

#### **4.10 Long-term lease**

Leases of equipment which transfer substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The outstanding rental obligations, net of finance charges, are included in other long-term payables, while the interest element is charged to profit or loss over the lease period. The assets acquired under finance leases is depreciated over the useful life of the asset.

Leases of equipment which do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

#### **4.11 Foreign currencies**

The consolidated and separate financial statements are presented in Baht, which is also the Company's functional currency. Items of each entity included in the consolidated financial statements are measured using the functional currency of that entity.

Transactions in foreign currencies are translated into Baht at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Baht at the exchange rate ruling at the end of reporting period.

Gains and losses on exchange are included in determining income.

#### **4.12 Impairment of assets**

At the end of each reporting period, the Company performs impairment reviews in respect of the property, plant and equipment and other intangible assets whenever events or changes in circumstances indicate that an asset may be impaired. An impairment loss is recognised 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 recognised in profit or loss.

#### **4.13 Employee benefits**

##### ***Short-term employee benefits***

Salaries, wages, bonuses and contributions to the social security fund are recognised as expenses when incurred.

##### ***Post-employment benefits and other long-term employee benefits***

###### ***Defined contribution plans***

The Company and its employees have jointly established a provident fund. The fund is monthly contributed by employees and by the Company. The fund's assets are held in a separate trust fund and the Company's contributions are recognised as expenses when incurred.

###### ***Defined benefit plans and other long-term employee benefits***

The Company has obligations in respect of the severance payments it must make to employees upon retirement under labor law. The Company treats these severance payment obligations as a defined benefit plan. In addition, the Company provides other long-term employee benefit plan, namely long service awards.

The obligation under the defined benefit plan and other long-term employee benefit plans is determined by a professionally qualified independent actuary based on actuarial techniques, using the projected unit credit method.

Actuarial gains and losses arising from post-employment benefits are recognised immediately in other comprehensive income.

Actuarial gains and losses arising from other long-term employee benefits are recognised immediately in profit and loss.

#### **4.14 Provisions**

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

#### **4.15 Income Tax**

Income tax expense represents the sum of corporate income tax currently payable and deferred tax.

##### **Current tax**

Current income tax is provided in the accounts at the amount expected to be paid to the taxation authorities, based on taxable profits determined in accordance with tax legislation.

##### **Deferred tax**

Deferred income tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts at the end of each reporting period, using the tax rates enacted at the end of the reporting period.

The Company recognise deferred tax liabilities for all taxable temporary differences while they recognise deferred tax assets for all deductible temporary differences and tax losses carried forward to the extent that it is probable that future taxable profit will be available against which such deductible temporary differences and tax losses carried forward can be utilised.

At each reporting date, the Company review and reduce the carrying amount of deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

The Company record deferred tax directly to shareholders' equity if the tax relates to items that are recorded directly to shareholders' equity.

## **4.16 Derivatives**

### **Forward exchange contracts**

Forward exchange contracts are presented in the financial statements at fair value. Unrealised gain or loss from the forward contracts is recorded in profit or loss.

### **Interest rate swap contracts**

The Company recognised, the net amount of interest to be received from or paid to the counterparty under an interest rate swap contracts as income/expense in profit or loss on accrual basis.

The interest rate swap contracts are presented in the financial statements at fair value. Unrealised gain or loss on interest rate swap contract is recorded in profit or loss.

## **4.17 Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between buyer and seller (market participants) at the measurement date. The Company and its subsidiaries apply a quoted market price in an active market to measure their assets and liabilities that are required to be measured at fair value by relevant financial reporting standards. Except in case of no active market of an identical asset or liability or when a quoted market price is not available, the Company and its subsidiaries measure fair value using valuation technique that are appropriate in the circumstances and maximises the use of relevant observable inputs related to assets and liabilities that are required to be measured at fair value.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy into three levels based on categorise of input to be used in fair value measurement as follows:

- Level 1 - Use of quoted market prices in an observable active market for such assets or liabilities
- Level 2 - Use of other observable inputs for such assets or liabilities, whether directly or indirectly
- Level 3 - Use of unobservable inputs such as estimates of future cash flows

At the end of each reporting period, the Company and its subsidiaries determine whether transfers have occurred between levels within the fair value hierarchy for assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis.

## **5. Significant accounting judgments and estimates**

The preparation of financial statements in conformity with financial reporting standards at times requires management to make subjective judgments and estimates regarding matters that are inherently uncertain. These judgments and estimates affect reported amounts and disclosures; and actual results could differ from these estimates. Significant judgments and estimates are as follow:

### **Allowance for doubtful accounts**

In determining an allowance for doubtful accounts, the management needs to make judgment and estimates based upon, among other things, past collection history, aging profile of outstanding debts and the prevailing economic condition.

### **Fair value of financial instruments**

In determining the fair value of financial instruments recognised in the statement of financial position that are not actively traded and for which quoted market prices are not readily available, the management exercise judgement, using a variety of valuation techniques and models. The input to these models is taken from observable markets, and includes consideration of credit risk (bank and counterparty, both) liquidity, correlation and longer-term volatility of financial instruments. Change in assumptions about these factors could affect the fair value recognised in the statement of financial position and disclosures of fair value hierarchy.

### **Reduce inventory cost to net realisable value**

In determining a reduction of inventory cost to net realisable value, the management makes judgment and estimates net realisable value of inventory based on the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price directly relating to events occurring after the end of the reporting period. Also, the management makes judgment and estimates expected loss from stock obsolescence based upon aging profile of inventories and the prevailing economic condition.

### **Property plant and equipment/Depreciation**

In determining depreciation of plant and equipment, the management is required to make estimates of the useful lives and residual values of the plant and equipment and to review estimate useful lives and residual values when there are any changes.

In addition, the management is required to review property, plant and equipment for impairment on a periodical basis and record impairment losses in the period when it is determined that their recoverable amount is lower than the carrying amount. This requires judgements regarding forecast of future revenues and expenses relating to the assets subject to the review.

## Post-employment benefits under defined benefit plans and other long-term employee benefits

The obligation under the defined benefit plan and other long-term employee benefit plans is determined based on actuarial techniques. Such determination is made based on various assumptions, including discount rate, future salary increase rate, mortality rate and staff turnover rate.

## Provision for contingent loss

As described in Note 27.6 to the financial statements, the Company received notice of assessment of export duty and penalties and surcharges from Thai Customs Department because the Company had wrongly declared the tariff and the Company has filed an appeal to Thai Customs Department. The Company's management has exercised judgment to assess of the results of such assessment and recorded provision for contingent loss in its account. However, actual results could differ from the estimates.

## 6. Related party transactions

During the years, the Company and its subsidiaries had significant business transactions with related parties. Such transactions, which are summarised below, arose in the ordinary course of business and were concluded on commercial terms and bases agreed upon between the Company and those related parties.

(Unit: Million Baht)

	Consolidated		Separate		
	financial statements		financial statements		
	2016	2015	2016	2015	Transfer pricing policy
<b><u>Transactions with subsidiary companies</u></b>					
<i>(Eliminated from the consolidated financial statements)</i>					
Sales of goods	-	-	227	324	Approximate cost
Sales of land, machinery and equipment	-	-	34	-	Cost plus margin
Management income	-	-	13	13	Contract price
Rental and service income	-	-	11	9	Contract price
Services income	-	-	15	14	Agreed price
Purchase of goods	-	-	5	2	Cost plus margin
Dividend income	-	-	48	126	As declared
<b><u>Transactions with related companies</u></b>					
Sales of goods	13	12	13	12	Cost plus margin
Purchase of goods	-	1	-	1	Cost plus margin

As at 31 December 2016 and 2015, the balances of the accounts between the Company and those related parties are as follows:

		(Unit: Thousand Baht)	
		Consolidated	Separate
		financial statements	financial statements
		2016	2015
<b><u>Trade and other receivables - related parties</u></b>			
<b>(Note 8)</b>			
Subsidiary companies	-	-	40,849
Related company (related by common director)	1,924	5,005	1,833
Total trade and other receivables - related parties	1,924	5,005	42,682
<b><u>Trade and other payables - related parties</u></b>			
<b>(Note 14)</b>			
Subsidiary companies	-	-	4,085
Related companies (related by common director)	23	407	23
Total trade and other payables - related parties	23	407	4,108

Loan movement with subsidiary are as follows:

		(Unit: Thousand Baht)			
		Separate financial statements			
Loan from	Related by	Balance as at 31 December 2015	Increase during the year	Decrease during the year	Balance as at 31 December 2016
Inter Green Co., Ltd.	Subsidiary	-	64,000	(64,000)	-

#### **Directors and management's benefits**

During the years ended 31 December 2016 and 2015, the Company and its subsidiaries had employee benefit expenses payable to their directors and management as below.

		(Unit: Thousand Baht)	
		Consolidated / Separate	
		financial statements	
		2016	2015
Short-term employee benefits		16,309	19,574
Post-employment benefits		505	517
Other long-term benefits		43	33
Total		16,857	20,124

## 7. Cash and cash equivalents

	(Unit: Thousand Baht)			
	Consolidated		Separate	
	financial statements		financial statements	
	2016	2015	2016	2015
Cash	68	269	59	262
Bank deposits	56,193	31,609	35,623	26,678
Total	56,261	31,878	35,682	26,940

As at 31 December 2016, bank deposits in saving accounts carried interests between 0.025% - 0.37% per annum (2015: 0.10% - 0.37% per annum).

## 8. Trade and other receivables

	(Unit: Thousand Baht)			
	Consolidated		Separate	
	financial statements		financial statements	
	2016	2015	2016	2015
<u>Trade accounts receivable - related parties</u>				
Aged on the basis of due dates				
Not yet due	310	201	24,454	26,330
Past due				
Up to 1 month	144	296	144	296
1 - 2 months	775	282	775	282
2 - 3 months	322	882	322	882
3 - 6 months	373	3,344	373	3,344
Total trade accounts receivable - related parties	1,924	5,005	26,068	31,134
<u>Trade accounts receivable - unrelated parties</u>				
Aged on the basis of due dates				
Not yet due	141,066	213,240	96,217	166,492
Past due				
Up to 1 month	60,797	107,380	58,355	106,880
1 - 2 months	2,977	5,350	2,977	5,350
2 - 3 months	12	301	12	301
3 - 6 months	-	2,341	-	2,341
6 - 12 months	24	2,001	24	2,001
Over 12 months	8,402	8,612	8,402	8,464
Total	213,278	339,225	165,987	291,829
Less: Allowance for doubtful accounts	(8,402)	(8,649)	(8,402)	(8,501)
Total trade accounts receivable - unrelated parties, net	204,876	330,576	157,585	283,328
Total trade accounts receivable, net	206,800	335,581	183,653	314,462

	(Unit: Thousand Baht)			
	Consolidated		Separate	
	financial statements		financial statements	
	2016	2015	2016	2015
<u>Other receivables</u>				
Other receivable - related parties	-	-	16,614	3,692
Other receivable - unrelated parties	444	36	244	3
Total	444	36	16,858	3,695
Less: Allowance for doubtful accounts	(36)	-	(36)	-
Total other receivables, net	408	36	16,822	3,695
Total trade and other receivables, net	207,208	335,617	200,475	318,157

## 9. Inventories

	(Unit: Thousand Baht)					
	Consolidated financial statements					
	Cost		Reduce cost to net realisable value		Inventories - net	
	2016	2015	2016	2015	2016	2015
Finished goods	166,878	181,891	(11,441)	(7,690)	155,260	174,201
Work in process	376,734	353,079	(177)	(66)	376,734	353,013
Raw materials	90,735	78,758	(8,868)	(5,253)	81,867	73,505
Supplies	6,009	5,451	-	-	6,009	5,451
Raw materials in transit	47,087	65,152	-	-	47,087	65,152
Total	687,443	684,331	(20,486)	(13,009)	666,957	671,322

	(Unit: Thousand Baht)					
	Separate financial statements					
	Cost		Reduce cost to net realisable value		Inventories - net	
	2016	2015	2016	2015	2016	2015
Finished goods	147,137	165,703	(9,017)	(6,038)	138,120	159,665
Work in process	351,798	309,316	-	-	351,798	309,316
Raw materials	66,914	52,698	(5,371)	(3,604)	61,543	49,094
Supplies	6,009	5,451	-	-	6,009	5,451
Raw materials in transit	47,087	65,152	-	-	47,087	65,152
Total	618,945	598,320	(14,388)	(9,642)	604,557	588,678

During the current year, the Company and its subsidiaries reduced cost of inventories by Baht 10.5 million (2015: Baht 7.2 million) (The Company only: Baht 6.4 million and 2015: Baht 4.4 million), to reflect the net realisable value. This was included in cost of sales. In addition, the Company and its subsidiaries reversed the write-down of cost of inventories by Baht 3.0 million (2015: Baht 2.3 million) (The Company only: Baht 1.7 million and 2015: Baht 2.0 million), and reduced the amount of inventories recognised as expenses during the year.

## 10. Investment in subsidiaries

Details of investment in subsidiaries as presented in separate financial statements are as follows:

Company	Paid-up share capital		Percentage of shareholding		Cost		(Unit: Thousand Baht) Dividend received during the year	
	2016	2015	2016	2015	2016	2015	2016	2015
			percent	percent				
Inter Seat Cover Company Limited	20,000	20,000	100	100	20,000	20,000	48,000	125,999
Inter Green Company Limited	40,000	-	100	-	40,000	-	-	-
					<u>60,000</u>	<u>20,000</u>	<u>48,000</u>	<u>125,999</u>

The meeting of the Company's Board of Director held on 14 July 2016, approve the establishment of Inter Green Company Limited ("subsidiary"), to engage in the manufacture and distribution of hydrolyzed protein from leather scrap by industrial process. This company has a registered share capital of Baht 50 million (500,000 ordinary shares with a par value of Baht 100 each), with the Company holding a 100% interest. Such company was established on 15 July 2016.

## 11. Property, plant and equipment

(Unit: Thousand Baht)

### Consolidated financial statements

	Land	Land improvement	Buildings and building improvement	Condominium	Machinery and equipment	Furniture, fixture and office equipment	Motor vehicles	Assets under installation and construction	Total
<b>Cost:</b>									
As at 1 January 2015	278,261	3,446	722,807	-	1,102,144	34,534	22,844	12,665	2,176,701
Additions	392,275	28,811	-	-	8,967	2,684	5,038	180,275	618,050
Disposals/written-off	-	-	-	-	(58,560)	(745)	(2,348)	-	(61,653)
Transfers	-	-	6,566	-	59,999	156	-	(66,721)	-
Capitalised interest	-	-	-	-	-	-	-	543	543
As at 31 December 2015	670,536	32,257	729,373	-	1,112,550	36,629	25,534	126,762	2,733,641
Additions	6,687	4,969	3,503	3,432	8,835	1,557	1,485	285,201	315,669
Disposals/written-off	-	-	-	-	(7,327)	(138)	(129)	-	(7,594)
Transfers	-	-	32,506	-	125,472	140	-	(158,118)	-
Capitalised interest	-	-	-	-	-	-	-	2,468	2,468
As at 31 December 2016	677,223	37,226	765,382	3,432	1,239,530	38,188	26,890	256,313	3,044,184
<b>Accumulated depreciation:</b>									
As at 1 January 2015	-	-	357,891	-	656,560	26,521	18,945	-	1,059,917
Depreciation for the year	-	-	41,507	-	100,379	3,385	2,172	-	147,443
Depreciation on disposals/written-off	-	-	-	-	(57,691)	(732)	(2,141)	-	(60,564)
As at 31 December 2015	-	-	399,398	-	699,248	29,174	18,976	-	1,146,796
Depreciation for the year	-	-	38,628	26	103,907	3,101	1,954	-	147,616
Depreciation on disposals/written-off	-	-	-	-	(3,572)	(117)	(129)	-	(3,818)
As at 31 December 2016	-	-	438,026	26	799,583	32,158	20,801	-	1,290,594
<b>Net book value:</b>									
As at 31 December 2015	670,536	32,257	329,975	-	413,302	7,455	6,558	126,762	1,586,845
As at 31 December 2016	677,223	37,226	327,356	3,406	439,947	6,030	6,089	256,313	1,753,590
<b>Depreciation for the year:</b>									
2015 (Baht 142 million included in manufacturing cost, and the balance in administrative expenses)									147,443
2016 (Baht 145 million included in manufacturing cost, and the balance in administrative expenses)									147,616

(Unit: Thousand Baht)

## Separate financial statements

	Land	Land improvement	Buildings and building improvement	Condominium	Machinery and equipment	Furniture, fixture and office equipment	Motor vehicles	Assets under installation and construction	Total
<b>Cost:</b>									
As at 1 January 2015	278,261	3,446	722,807	-	1,033,952	34,278	22,844	12,582	2,108,170
Additions	392,275	28,811	-	-	8,491	2,651	5,038	178,433	615,699
Disposals/written-off	-	-	-	-	(58,560)	(745)	(2,348)	-	(61,653)
Transfers	-	-	6,566	-	58,074	156	-	(64,796)	-
Capitalised interest	-	-	-	-	-	-	-	543	543
As at 31 December 2015	670,536	32,257	729,373	-	1,041,957	36,340	25,534	126,762	2,662,759
Additions	6,687	4,969	-	3,432	8,128	1,178	1,485	282,303	308,182
Disposals/written-off	(4,788)	-	-	-	(7,327)	(138)	(129)	(23,567)	(35,949)
Transfers	-	-	32,506	-	124,475	6	-	(156,987)	-
Capitalised interest	-	-	-	-	-	-	-	2,468	2,468
As at 31 December 2016	672,435	37,226	761,879	3,432	1,167,233	37,386	26,890	230,979	2,937,460
<b>Accumulated depreciation:</b>									
As at 1 January 2015	-	-	357,891	-	622,358	26,410	18,945	-	1,025,604
Depreciation for the year	-	-	41,507	-	94,733	3,333	2,172	-	141,745
Depreciation on disposals/written-off	-	-	-	-	(57,691)	(732)	(2,141)	-	(60,564)
As at 31 December 2015	-	-	399,398	-	659,400	29,011	18,976	-	1,106,785
Depreciation for the year	-	-	38,357	26	96,603	3,032	1,954	-	139,972
Depreciation on disposals/written-off	-	-	-	-	(3,572)	(117)	(129)	-	(3,818)
As at 31 December 2016	-	-	437,755	26	752,431	31,926	20,801	-	1,242,939
<b>Net book value:</b>									
As at 31 December 2015	670,536	32,257	329,975	-	382,557	7,329	6,558	126,762	1,555,939
As at 31 December 2016	672,435	37,226	324,124	3,406	414,802	5,460	6,089	230,979	1,694,521
<b>Depreciation for the year:</b>									
2015 (Baht 136 million included in manufacturing cost, and the balance in administrative expenses)									141,745
2016 (Baht 138 million included in manufacturing cost, and the balance in administrative expenses)									139,972

As at 31 December 2016, the Company had an outstanding balance of a building and building improvements under construction amounting to Baht 152 million (2015: Baht 47 million). Construction of the building has been financed with loans from several financial institutions. Borrowing costs amounting to Baht 2.5 million were capitalised during the year ended 31 December 2016 (2015: Baht 0.5 million). The weighted average rate of 2.02% (2015: 2.18%) has been used to determine the amount of borrowing costs eligible for capitalisation.

As at 31 December 2016, the Company had machinery and motor vehicles with net book values of Baht 9 million (2015: Baht 34 million) which were acquired under finance lease agreements.

As at 31 December 2016, certain items of plant and equipment were fully depreciated but are still in use. The gross carrying amount before deducting accumulated depreciation of those assets amounted to approximately Baht 482 million (2015: Baht 398 million).

The Company has pledged its property, plant and equipment amounting to approximately Baht 626 million (2015: Baht 650 million) as collateral against credit facilities which the Company and its subsidiary received from financial institutions.

## 12. Intangible assets

Intangible asset of the Company and its subsidiaries are details as follows:

	Consolidated financial statements			Separate financial statements		
	Computer software	Computer software under installation	Total	Computer software	Computer software under installation	Total
As at 31 December 2016:						
Cost	9,934	1,819	11,753	9,607	1,819	11,426
Less: Accumulated amortisation	(6,930)	-	(6,930)	(6,817)	-	(6,817)
Net book value	3,004	1,819	4,823	2,790	1,819	4,609
As at 31 December 2015:						
Cost	8,493	1,992	10,485	8,166	1,067	9,233
Less: Accumulated amortisation	(6,349)	-	(6,349)	(6,268)	-	(6,268)
Net book value	2,144	1,992	4,136	1,898	1,067	2,965

A reconciliation of the net book value of intangible assets for the years 2016 and 2015 is presented below.

(Unit: Thousand Baht)

	Consolidated financial statements						Separate financial statements					
	Computer software		Computer software under installation		Total		Computer software		Computer software under installation		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Net book value at beginning of year	2,144	2,552	1,992	-	4,136	2,552	1,898	2,273	1,067	-	2,965	2,273
Acquisition of computer software	218	-	1,975	1,992	2,193	1,992	218	-	1,975	1,067	2,193	1,067
Write-off	-	-	(925)	-	(925)	-	-	-	-	-	-	-
Transfer	1,223	-	(1,223)	-	-	-	1,223	-	(1,223)	-	-	-
Amortisation	(581)	(408)	-	-	(581)	(408)	(549)	(375)	-	-	(549)	(375)
Net book value at end of year	3,004	2,144	1,819	1,992	4,823	4,136	2,790	1,898	1,819	1,067	4,609	2,965

### 13. Bank overdrafts and short-term loans from financial institutions/Trust receipts

(Unit: Thousand Baht)

	Interest rate (percent per annum)		Consolidated/Separate financial statements	
	2016	2015	2016	2015
Bank overdrafts	-	7.00 - 7.68	-	6,981
Promissory notes	2.73 - 2.80	2.80 - 3.00	436,000	504,000
Total bank overdrafts and short-term loans from financial institutions			436,000	510,981
Trust receipts	0.70 - 2.60	0.88 - 2.85	221,117	417,292

The above credit facilities are secured by mortgage sum of land with structures thereon and machinery of the Company.

#### 14. Trade and other payables

	(Unit: Thousand Baht)			
	Consolidated		Separate	
	financial statements		financial statements	
	2016	2015	2016	2015
Trade accounts payable - related parties	2	366	4,087	384
Trade accounts payable - unrelated parties	171,863	141,126	150,548	113,014
Other payable - related party	21	41	21	41
Other payable - unrelated parties	32,984	28,265	30,478	27,323
Accounts payable - purchase of machinery - unrelated parties	9,408	6,440	9,408	6,440
Accrued expenses	14,222	15,518	12,802	14,186
Total trade and other payables	<u>228,500</u>	<u>191,756</u>	<u>207,344</u>	<u>161,388</u>

#### 15. Liabilities under finance lease agreements

	(Unit: Thousand Baht)	
	Consolidated / Separate	
	financial statements	
	2016	2015
Liabilities under finance lease agreements	12,823	21,446
Less: Deferred interest expenses	(1,025)	(1,580)
Total	11,798	19,866
Less: Portion due within one year	(2,324)	(7,985)
Liabilities under finance lease agreements - net of current portion	<u>9,474</u>	<u>11,881</u>

The Company has entered into the finance lease agreements with leasing companies for rental of machinery and motor vehicles for use in its operation, whereby it is committed to pay rental on a monthly basis. The term of the agreements is generally between 3 - 10 years. Finance lease agreements are non-cancelable.

Future minimum lease payments required under the finance lease agreements were as follows:

(Unit: Thousand Baht)				
As at 31 December 2016				
	Less than 1 year	1 - 5 years	Over 5 years	Total
Future minimum lease payments	2,700	10,123	-	12,823
Deferred interest expenses	(376)	(649)	-	(1,025)
Present value of future minimum lease payments	2,324	9,474	-	11,798
(Unit: Thousand Baht)				
As at 31 December 2015				
	Less than 1 year	1 - 5 years	Over 5 years	Total
Future minimum lease payments	8,533	10,874	2,039	21,446
Deferred interest expenses	(548)	(869)	(163)	(1,580)
Present value of future minimum lease payments	7,985	10,005	1,876	19,866

## 16. Long-term loans

			(Unit: Thousand Baht) Consolidated/ Separate financial statements	
Loan	Interest rate (%)	Repayment schedule	2016	2015
1	MLR - 2	Monthly installments as from April 2013	-	13,145
2	MLR - 2	Monthly installments as from July 2014	19,444	52,778
3	THBFIX1M+1.88 for first 3 years and MLR - 2 for years 4 to 5	Monthly installments as from June 2015	203,620	263,620
4	MLR - 2.25 for first 3 years and MLR - 2 for years 4 to 5	Monthly installments as from July 2015	53,569	37,799
5	3.65% per annum	Monthly installments as from November 2016	237,499	-
Total			514,132	367,342
Less: Current portion			(171,448)	(147,055)
Long-term loans, net of current portion			342,684	220,287

The loans are secured by the mortgage sum of the Company's land with structures thereon and machinery.

The loan agreements contain several covenants which, among other things, require the Company to maintain debt-to-equity ratio, debt service coverage ratio and including restrictions on disposals of assets as prescribed in the agreements.

As at 31 December 2016, the Company has not complied with the restrictions on the transfer of assets imposed under the provisions of a loan agreement made with a local bank. The full amount of the loan from such bank was classified under current portion of long-term loans.

As at 31 December 2016, the long-term credit facilities of the Company which have not yet been drawn down amounted to Baht 85 million (2015: Baht 142 million).

## 17. Provision for long-term employee benefits

Provision for long-term employee benefits, which are compensation payable to employee after they retire and other long-term employee benefits as detailed below.

	(Unit: Thousand Baht)			
	Consolidated		Separate	
	financial statements		financial statements	
	2016	2015	2016	2015
Post-employment benefits	13,639	12,272	11,859	10,747
Other long-term employee benefits	3,489	4,145	2,990	3,322
<b>Total</b>	<b>17,128</b>	<b>16,417</b>	<b>14,849</b>	<b>14,069</b>

### 17.1 Provision for long-term employee benefits, which represents compensation payable to employees after they retire, was as follows:

	(Unit: Thousand Baht)			
	Consolidated		Separate	
	financial statements		financial statements	
	2016	2015	2016	2015
<b>Provision for long-term employee benefits</b>				
<b>at beginning of year</b>	12,272	10,784	10,747	9,516
Included in profit or loss:				
Current service cost	1,178	1,104	969	889
Interest cost	394	384	348	342
Benefits paid during the year	(205)	-	(205)	-
<b>Provision for long-term employee benefits at end of year</b>	<b>13,639</b>	<b>12,272</b>	<b>11,859</b>	<b>10,747</b>

Line items in profit or loss under which long-term employee benefit expenses are recognised are as follows:

	(Unit: Thousand Baht)			
	Consolidated		Separate	
	financial statements		financial statements	
	2016	2015	2016	2015
Cost of sales	1,131	1,021	876	764
Selling and administrative expenses	441	467	441	467
<b>Total expenses recognised in profit or loss</b>	<b>1,572</b>	<b>1,488</b>	<b>1,317</b>	<b>1,231</b>

The Company and its subsidiaries expect to pay Baht 1.1 million of long-term employee benefits during the next year (Separate financial statements: Baht 1.1 million) (2015: Baht 2.3 million, separate financial statements: Baht 2.1 million).

As at 31 December 2016, the weighted average duration of the liabilities for long-term employee benefit of the Company and its subsidiaries are 14 years and 10 years, respectively (2015: 14 years and 10 years, respectively).

Significant actuarial assumptions are summarised below:

	Consolidated financial statements		Separate financial statements	
	2016	2015	2016	2015
	(% per annum)	(% per annum)	(% per annum)	(% per annum)
Discount rate	3.4 and 3.7	3.4 and 3.7	3.7	3.7
Salary increase rate (depending on employee type)	4.0 - 5.0	4.0 - 5.0	4.0 - 5.0	4.0 - 5.0

The result of sensitivity analysis for significant assumptions that affect the present value of the long-term employee benefit obligation are summarised below:

	(Unit: Thousand Baht)			
	As at 31 December 2016			
	Consolidated financial statements			
	Increase 0.5%	Increase 1%	Decrease 0.5%	Decrease 1%
Discount rate	(309)	(601)	327	673
Salary increase rate	431	885	(411)	(802)

	(Unit: Thousand Baht)			
	As at 31 December 2016			
	Separate financial statements			
	Increase 0.5%	Increase 1%	Decrease 0.5%	Decrease 1%
Discount rate	(258)	(501)	273	563
Salary increase rate	363	746	(346)	(675)

(Unit: Thousand Baht)

	As at 31 December 2015			
	Consolidated financial statements			
	Increase 0.5%	Increase 1%	Decrease 0.5%	Decrease 1%
Discount rate	(313)	(610)	330	679
Salary increase rate	384	785	(367)	(718)

(Unit: Thousand Baht)

	As at 31 December 2015			
	Separate financial statements			
	Increase 0.5%	Increase 1%	Decrease 0.5%	Decrease 1%
Discount rate	(263)	(513)	278	571
Salary increase rate	324	664	(310)	(607)

17.2 Provision for other long-term employee benefits, namely long service awards was as follows:

(Unit: Thousand Baht)

	Consolidated		Separate	
	financial statements		financial statements	
	2016	2015	2016	2015
<b>Provision for long-term employee benefits</b>				
<b>at beginning of year</b>	4,145	4,047	3,322	3,283
Included in profit or loss:				
Current service cost	576	543	479	432
Interest cost	102	106	80	83
Benefits paid during the year	(1,334)	(551)	(891)	(476)
<b>Provision for long-term employee benefits</b>				
<b>at end of year</b>	<u>3,489</u>	<u>4,145</u>	<u>2,990</u>	<u>3,322</u>

## 18. Share capital

On 19 September 2016, the Extraordinary General Meeting of Shareholders passed the following resolutions:

1. To approve the payment of an interim dividend for 2016, comprising the following:
  - An ordinary share dividend of 70 million ordinary shares at a rate of 1 share for every 6 existing shares, with indivisible shares remaining after the allocation paid a cash dividend of Baht 0.167 per share.
  - A cash dividend of Baht 0.0185 per share to cover withholding tax costs, or a total of Baht 7.8 million.

2. To approve the issuance and allocation of up to 104,999,695 units of the IHL-W1 warrants to the existing shareholders of the Company on a pro rata basis to their respective shareholdings (Rights Offering), without charge, at an allocation ratio of 1 warrant for every 4 existing ordinary shares (In calculating the number of warrants to be allocated to each shareholder, any fractions derived from the calculation based on the allocation ratio shall be rounded down). The term of the IHL-W1 warrants is 3 years from the issue date, the exercise ratio is 1 warrant for 1 ordinary share and the exercise price is Baht 3.50 per share, with exercise dates every six months. (The first exercise is on 31 March 2017).
3. To approve a decrease in the Company's registered share capital from Baht 419,999,076 to Baht 419,998,782, by cancelling the Company's 294 unissued shares with a par value of Baht 1 each.
4. To approve an increase the Company's registered share capital from Baht 419,998,782 to Baht 594,998,274, by issuing additional 174,999,492 ordinary shares with a par value of Baht 1 each, to support the payment of stock dividend and the exercise of the warrants (IHL-W1).

The Company registered the decrease and increase in its registered share with the Ministry of Commerce on 30 September 2016 and 3 October 2016, respectively.

On 12 October 2016, the Company issued 104,999,374 warrants (IHL-W1) to its shareholders.

#### Reconciliation of number of ordinary shares

	(Unit: Share)
	Consolidated / Separate financial statements
<u>Registered share capital</u>	
Number of ordinary shares as of 1 January 2016	419,999,076
Decrease the share	(294)
Increase the share	174,999,492
Number of ordinary shares as of 31 December 2016	<u>594,998,274</u>

## **19. Statutory reserve**

Pursuant to Section 116 of the Public Limited Companies Act B.E. 2535, the Company is required to set aside to a statutory reserve at least 5 percent of its net profit after deducting accumulated deficit brought forward (if any), until the reserve reaches 10 percent of the registered capital. The statutory reserve is not available for dividend distribution.

## 20. Expenses by nature

Significant expenses classified by nature are as follows:

	(Unit: Thousand Baht)			
	Consolidated		Separate	
	financial statements		financial statements	
	2016	2015	2016	2015
Salaries and wages and other employee benefits	227,425	253,049	202,270	204,033
Depreciation	147,616	147,443	139,972	141,745
Amortisation expenses	581	408	549	375
Utility expenses	54,077	64,005	53,873	63,156
Rental expenses from operating lease agreements	8,236	7,113	8,143	7,113
Raw materials and consumables used	1,082,041	1,518,646	961,534	1,351,919
Changes in inventories of finished goods and work in process	(8,642)	(61,574)	(23,916)	(46,653)
Changes in the reduction of inventory cost to net realisable value	7,477	4,852	4,746	2,355

## 21. Income tax

Income tax expenses for the years ended 31 December 2016 and 2015 are made up as follows:

	(Unit: Thousand Baht)			
	Consolidated		Separate	
	financial statements		financial statements	
	2016	2015	2016	2015
<b>Current income tax:</b>				
Current income tax charge	34,088	6,172	33,707	5,093
Adjustment in respect of income tax of previous year	-	8	-	-
<b>Deferred tax:</b>				
Relating to origination and reversal of temporary differences	(1,453)	19,803	(1,001)	20,376
<b>Income tax expense reported in the statement of comprehensive income</b>	<b>32,635</b>	<b>25,983</b>	<b>32,706</b>	<b>25,469</b>

Reconciliation between accounting profit and income tax expense is shown below.

	(Unit: Thousand Baht)			
	Consolidated		Separate	
	financial statements		financial statements	
	2016	2015	2016	2015
Accounting profit before tax	223,907	227,761	224,815	231,106
Applicable tax rate	20%	20%	20%	20%
Accounting profit before tax multiplied by				
income tax rate	44,781	45,552	44,963	46,221
Adjustment in respect of income tax of previous				
year	-	8	-	-
Unrecognised tax losses as deferred tax assets	483	4,346	-	4,346
Effects of:				
Dividend income allowed to excluded in tax				
calculation	-	-	(9,600)	(25,200)
Promotional privileges (Note 22)	(13,584)	(23,886)	(3,320)	-
Non-deductible expenses	3,494	337	2,646	405
Additional expense deductions allowed	(2,531)	(1,320)	(1,987)	(1,320)
Others	(8)	946	4	1,017
Total	(12,629)	(23,923)	(12,257)	(25,098)
Income tax expenses reported in the statement of				
comprehensive income	32,635	25,983	32,706	25,469

The components of deferred tax assets are as follows:

(Unit: Thousand Baht)

	Statements of financial position			
	Consolidated financial statements		Separate financial statements	
	As at	As at	As at	As at
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
<b>Deferred tax assets</b>				
Allowance for diminution in value of inventories	4,097	2,602	2,878	1,929
Accumulated amortisation - Computer software	12	86	12	86
Provision for long-term employee benefits	3,046	3,014	2,886	2,760
<b>Total</b>	<b>7,155</b>	<b>5,702</b>	<b>5,776</b>	<b>4,775</b>

As at 31 December 2016, the Group have unused tax losses totaling Baht 24 million (2015: Baht 22 million), on which deferred tax assets have not been recognised as the management believe future taxable profits may not be sufficient to allow utilisation of the unused tax losses.

The unused tax losses will expire by 2021 and 2027 (2015: year 2027).

## 22. Promotional privileges

The Company has received promotional privileges from the Board of Investment for the manufacture of finishing, pursuant to the investment promotion certificate No.1785 (2)/2554 issued on 3 May 2011. Subject to certain imposed conditions, the privileges include an exemption from corporate income tax for a period of eight years from the date the promoted operations begin generating revenues (3 January 2014) to extent that the amount of tax exempted does not exceed the amount of investment (excluding land cost and working capital). This privilege will expire on 2 January 2022.

The subsidiary has received promotional privileges from the Board of Investment for the manufacture of finishing, pursuant to the investment promotion certificate No.1981 (5)/2554 issued on 14 March 2011. Subject to certain imposed conditions, the privileges include an exemption from corporate income tax for a period of eight years from the date the promoted operations begin generating revenues (1 September 2011). This privilege will expire on 31 August 2019.

The Company's and its subsidiaries's operating revenues for the years ended 31 December 2016 and 2015, divided between promoted and non-promoted operation, are summarised below.

(Unit: Thousand Baht)

	Consolidated financial statements					
	Promoted operations		Non-promoted operations		Total	
	2016	2015	2016	2015	2016	2015
Sales and services income						
Domestic	504,666	662,969	822,935	1,034,743	1,327,601	1,697,712
Export	-	-	615,601	597,385	615,601	597,385
Total sales and services income	<u>504,666</u>	<u>662,969</u>	<u>1,438,536</u>	<u>1,632,128</u>	<u>1,943,202</u>	<u>2,295,097</u>

(Unit: Thousand Baht)

	Separate financial statements					
	Promoted operations		Non-promoted operations		Total	
	2016	2015	2016	2015	2016	2015
Sales and services income						
Domestic	226,210	304,981	844,437	1,048,917	1,070,647	1,353,898
Export	-	-	615,601	597,385	615,601	597,385
Total sales and services income	<u>226,210</u>	<u>304,981</u>	<u>1,460,038</u>	<u>1,646,302</u>	<u>1,686,248</u>	<u>1,951,283</u>

## 23. Earnings per share

Basic earnings per share is calculated by dividing profit for the year attributable to equity holders of the Company (excluding other comprehensive income) by the weighted average number of ordinary shares in issue during the year, after adjusting the number of ordinary shares to reflect the impact of the stock dividend as discussed in note 18 and note 26 to the financial statements. The prior period's basic earnings per share has been recalculated as if the stock dividend had been distributed at the beginning of the earliest period reported.

Diluted earnings per share is calculated by dividing profit for the year attributable to equity holders of the Company (excluding other comprehensive income) by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares which would need to be issued to convert all dilutive potential ordinary shares into ordinary shares. The calculation assumes that the conversion took place either at the beginning of the year or on the date the potential ordinary shares were issued.

The following table sets forth the computation of basic and diluted earnings per share for year 2016 and 2015:

Consolidated financial statements						
Profit for the year		Weighted average number of ordinary shares		Earnings per share		
<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	
(Thousand Baht)	(Thousand Baht)	Thousand shares)	(Thousand shares)	(Baht)	(Baht)	(Restated)
<b>Basic earnings per share</b>						
Profit attributable to equity holders of the parent	191,272	201,779	489,998	489,998	0.39	0.41
<b>Effect of dilutive potential ordinary shares</b>						
Warrants (IHL-W1) 104,999,374 units	-	-	10,190	-		
<b>Diluted earnings per share</b>						
Profit attributable to equity holders of the parent assuming the conversion of warrants to ordinary shares	<u>191,272</u>	<u>201,779</u>	<u>500,188</u>	<u>489,998</u>	0.38	0.41
Separate financial statements						
Profit for the year		Weighted average number of ordinary shares		Earnings per share		
<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	
(Thousand Baht)	(Thousand Baht)	Thousand shares)	(Thousand shares)	(Baht)	(Baht)	(Restated)
<b>Basic earnings per share</b>						
Profit attributable to equity holders of the parent	192,109	205,637	489,998	489,998	0.39	0.42
<b>Effect of dilutive potential ordinary shares</b>						
Warrants (IHL-W1) 104,999,374 units	-	-	10,190	-		
<b>Diluted earnings per share</b>						
Profit attributable to equity holders of the parent assuming the conversion of warrants to ordinary shares	<u>192,109</u>	<u>205,637</u>	<u>500,188</u>	<u>489,998</u>	0.38	0.42

## 24. Segment information

Operating segment information is reported in a manner consistent with the internal reports that are regularly reviewed by the chief operating decision maker in order to make decisions about the allocation of resources to the segment and assess its performance. The chief operating decision maker has been identified as managing director.

For management purposes, the Company and its subsidiaries are organised into business units based on its products and services and have three reportable segments as follows:

- Manufacturing and distribution of leather and other products consisting of leather coverings for car seat and other by products from production.
- Servicing segment, which provides bleaching, dyeing finishing service and other services
- Manufacturing and distribution of protein

No operating segments have been aggregated to form the above reportable operating segments.

The chief operating decision maker monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and assessing performance. Segment performance is measured based on operating profit or loss and on a basis consistent with that used to measure operating profit or loss in the financial statements.

The basis of accounting for any transactions between reportable segments is consistent with that for third party transactions.

The following table presents revenue and profit information regarding the Company and its subsidiaries' operating segments for the years ended 31 December 2016 and 2015.

(Unit: Million Baht)

	For the year ended 31 December									
	Manufacturing and distribution of leather and other products		Services		Manufacturing and distribution of protein		Adjustments and eliminations		Consolidated	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues from external customers	1,637	1,991	306	304	-	-	-	-	1,943	2,295
Inter-segment revenues	-	-	16	14	5	-	(21)	(14)	-	-
Total revenue	<u>1,637</u>	<u>1,991</u>	<u>322</u>	<u>318</u>	<u>5</u>	<u>-</u>	<u>(21)</u>	<u>(14)</u>	<u>1,943</u>	<u>2,295</u>
Segment operating gross profit	255	184	136	124	2	-	-	-	393	308
Unallocated income (expenses):										
Other income									9	112
Gain (loss) on exchange									5	(23)
Selling expenses									(36)	(31)
Administrative expenses									(103)	(99)
Other expenses									(8)	-
Finance cost									(36)	(39)
Profit before income tax									<u>224</u>	<u>228</u>
Income tax									<u>(33)</u>	<u>(26)</u>
Profit for the year									<u>191</u>	<u>202</u>

The chief operating decision maker monitors the total assets for business operations, therefore, no allocation of assets to each segment.

### **Geographic information**

Revenue from external customers is based on locations of the customers are as follow.

	(Unit: Million Baht)	
	<u>2016</u>	<u>2015</u>
Revenue from external customers		
Thailand	1,328	1,698
England	61	89
China	275	263
India	2	22
Indonesia	95	138
Malaysia	13	21
Philippines	37	29
Japan	128	32
South korea	4	-
Taiwan	-	3
Total	<u>1,943</u>	<u>2,295</u>

### **Major customers**

For the year 2016, the Company and its subsidiaries have revenue from three major customers in amount of Baht 799 million, arising from sales by the manufacturing and distribution of leather and other products segment and one major customer in amount of Baht 263 million, arising from services segment (2015: Baht 1,355 million, arising from sales by the manufacturing and distribution of leather and other products segment and one major customer in amount of Baht 246 million, arising from services segment).

### **25. Provident fund**

The Company, its subsidiaries and their employees have jointly established a provident fund in accordance with the Provident Fund Act B.E. 2530. Both employees and the Company and its subsidiaries contribute to the fund monthly at the rate of 2 percent of basic salary. The fund, which is managed by CIMB-Principal Asset Management Company Limited, will be paid to employees upon termination in accordance with the fund rules. The contributions for the year 2016 amounting to Baht 0.7 million (2015: Baht 0.8 million) were recognised as expenses.

### **26. Dividend**

Dividends	Approved by	Total dividends (Thousand Baht)	Dividend per share (Baht)
Final dividend for 2014	Annual General Meeting of the shareholders on 24 April 2015	105,000	0.25
Interim dividend for 2015	Board of Director's meeting of the Company held on 14 August 2015	63,000	0.15
Total for 2015		<u>168,000</u>	<u>0.40</u>
Final dividend for 2015	Annual General Meeting of the shareholders on 25 April 2016	42,000	0.10
Interim dividend for 2016	Extraordinary General Meeting of the shareholders on 19 September 2016		
- Cash dividend		7,778	0.02
- Stock dividend for 69,999,331 ordinary shares		69,999	0.17
Total		<u>77,777</u>	<u>0.19</u>
Total for 2016		<u>119,777</u>	<u>0.29</u>

## 27. Commitments and contingent liabilities

### 27.1 Operating lease and service commitments

The Company has entered into several lease agreements in respect of the lease of equipment and motor vehicle and service agreements. The terms of the agreements are generally 3 - 4 years. These agreements are non-cancellable.

Future minimum payments required under these non-cancellable operating lease and service contracts were as follows.

	(Unit: Million Baht)	
	As at 31 December	
	2016	2015
Payable:		
In up to 1 year	12	11
In over 1 and up to 4 years	3	8

## **27.2 Capital commitments**

As at 31 December 2016, the Company had capital commitment of approximately Baht 57 million and USD 0.6 million relating to construction of factory building and purchase of machinery (2015: Baht 47 million and USD 0.2 million).

## **27.3 Purchase of raw material commitments**

As at 31 December 2016, the Company had commitments of approximately USD 3.1 million and Euro 0.1 million (2015: USD 1 million) relating to purchase of raw materials.

## **27.4 Uncalled portion of long-term investments**

As at 31 December 2016, the Company had outstanding commitment of Baht 10 million in respect of uncalled portion of investment in its subsidiary (2015: None).

## **27.5 Bank guarantees**

As at 31 December 2016, there were outstanding bank guarantees of Baht 13 million (2015: Baht 12 million) issued by banks on behalf of the Company in respect of certain performance bonds as required in the normal course of business. These included letters of guarantee amounting to Baht 3 million (2015: Baht 3 million) to guarantee payments due to government agencies, Baht 9 million (2015: Baht 8 million) to guarantee electricity use and Baht 1 million (2015: Baht 1 million) to guarantee for purchase of inventory.

## **27.6 Export duty assessment**

In June 2016, the Company received a tax assessment notice from the Thai Customs Department with respect to the export duty, penalties and surcharges totaling to Baht 23.9 million. In this regard, the Thai Customs Department is of an opinion that the Company had declared inaccurate tariff for its exports of wet blue hides. Consequently, the Company has filed an appeal against the tax assessment to the Legal Affairs Bureau of Thai Customs Department.

As at 31 December 2016, the Company has recorded a provision for contingent loss, in accordance with the opinion of the Company's legal advisor. The appeal is currently being considered by the Customs Department and the outcome cannot be determined at the time.

## 27.7 Reversal of provision for contingent loss on allegation

In year 2015, the Company reversed the previously recorded provision for contingent loss amounting to Baht 105 million because the Supreme Court dismissed the appeal lodged by Thai Asset Management Corporation (TAMC) requesting to issue bankruptcy order to the Company in connection with allegation and termination of debt restructuring agreements filed by TAMC. As the case finalised and the Company is not liable to such obligation to TAMC.

## 28. Fair value hierarchy

As at 31 December 2016 and 2015, the Company and its subsidiaries had the assets and liabilities that were measured at fair value or disclosed fair value using different levels of inputs as follows:

		(Unit: Thousand Baht)	
		Consolidated financial statements	
		2016	2015
		Level 2	Level 2
<b>Assets measured at fair value</b>			
Current investments			
Investment in unit trust in open-ended fund - debt instruments		31,488	16,767
Derivatives			
Forward exchange contracts		-	1,008
<b>Liabilities measured at fair value</b>			
Derivatives			
Interest rate swap contract		2,333	3,502
Forward exchange contracts		156	-

		(Unit: Thousand Baht)	
		Separate financial statements	
		2016	2015
		Level 2	Level 2
<b>Assets measured at fair value</b>			
Derivatives			
Forward exchange contracts		-	1,008
<b>Liabilities measured at fair value</b>			
Derivatives			
Interest rate swap contract		2,333	3,502
Forward exchange contracts		156	-

The method and assumptions used in estimating the fair value of financial instruments are as follows:

- a) The fair value of investments in debt instruments-unit trust has been determined by using the net asset value as published by asset management companies.
- b) The fair value of derivatives has been determined by using a discounted future cash flow model and a valuation model technique. Most of the inputs used for the valuation are observable in the relevant market, such as spot rates of foreign currencies, yield curves of the respective currencies and interest rate yield curves.

During the current year, there were no transfers within the fair value hierarchy.

## **29. Financial instruments**

### **29.1 Financial risk management**

The Company's financial instruments, as defined under Thai Accounting Standard No. 107 "Financial Instruments: Disclosure and Presentations", principally comprise cash and cash equivalents, current investment, trade and other receivables, trade accounts payable, other accounts payable, bank overdrafts and short-term loans, trust receipts, liabilities under finance lease agreements and long-term loans. The financial risks associated with these financial instruments and how they are managed is described below.

#### ***Credit risk***

The Company is exposed to credit risk primarily with respect to trade and other receivables. The Company manages the risk by adopting appropriate credit control policies and procedures and therefore does not expect to incur material financial losses. The maximum exposure to credit risk is limited to the carrying amounts of trade and other receivables as stated in the statement of financial position.

#### ***Interest rate risk***

The Company's exposure to interest rate risk relates primarily to its cash at banks, bank overdrafts and short-term loans, trust receipts, liabilities under finance lease agreements and long-term loans. Most of the Company's financial assets and liabilities bear floating interest rates or fixed interest rates which are close to the market rate.

Significant financial assets and liabilities classified by type of interest rates are summarised in the table below, with those financial assets and liabilities that carry fixed interest rates further classified based on the maturity date, or the repricing date if this occurs before the maturity date.

(Unit: Million Baht)

Consolidated financial statements							
As at 31 December 2016							
	Fixed interest rates						
	Within 1	1 - 5	Over 5	Floating	Non- interest		
	year	years	years	interest rate	bearing	Total	Interest rate
							(% p.a.)
<u>Financial assets</u>							
Cash and cash equivalents	-	-	-	18	38	56	0.025 - 0.37
Current investment	-	-	-	-	31	31	-
Trade and other receivables	-	-	-	-	207	207	-
<u>Financial liabilities</u>							
Bank overdrafts and short-term							
loans from financial institutions	436	-	-	-	-	436	2.73 - 2.80
Trust receipts	221	-	-	-	-	221	0.70 - 2.60
Trade and other payables	-	-	-	-	229	229	-
Liabilities under finance lease							
agreements	2	10	-	-	-	12	2.15
Long-term loans	50	187	-	277	-	514	3.65 - 4.25

(Unit: Million Baht)

Consolidated financial statements							
As at 31 December 2015							
	Fixed interest rates						
	Within 1	1 - 5	Over 5	Floating	Non- interest		
	year	years	years	interest rate	bearing	Total	Interest rate
							(% p.a.)
<u>Financial assets</u>							
Cash and cash equivalents	-	-	-	-	32	32	-
Current investment	-	-	-	-	17	17	-
Trade and other receivables	-	-	-	-	336	336	-
<u>Financial liabilities</u>							
Bank overdrafts and short-term							
loans from financial institutions	504	-	-	7	-	511	2.80 - 7.68
Trust receipts	417	-	-	-	-	417	0.88 - 2.85
Trade and other payables	-	-	-	-	192	192	-
Liabilities under finance lease							
agreements	8	10	2	-	-	20	2.15 - 7.00
Long-term loans	-	-	-	367	-	367	4.25 - 5.15

(Unit: Million Baht)

Separate financial statements							
As at 31 December 2016							
	Fixed interest rates			Floating interest rate	Non- interest bearing	Total	Interest rate (% p.a.)
	Within 1 year	1 - 5 years	Over 5 years				
<u>Financial assets</u>							
Cash and cash equivalents	-	-	-	9	27	36	0.025 - 0.37
Trade and other receivables	-	-	-	-	200	200	-
<u>Financial liabilities</u>							
Bank overdrafts and short-term							
loans from financial institutions	436	-	-	-	-	436	2.73 - 2.80
Trust receipts	221	-	-	-	-	221	0.70 - 2.60
Trade and other payables	-	-	-	-	207	207	-
Liabilities under finance lease							
agreements	2	10	-	-	-	12	2.15
Long-term loans	50	187	-	277	-	514	3.65 - 4.25

(Unit: Million Baht)

	Separate financial statements						
	As at 31 December 2015						
	Fixed interest rates			Floating interest rate	Non- interest bearing	Total	Interest rate (% p.a.)
	Within 1 year	1 - 5 years	Over 5 years				
<u>Financial assets</u>							
Cash and cash equivalents	-	-	-	-	27	27	-
Trade and other receivables	-	-	-	-	318	318	-
<u>Financial liabilities</u>							
Bank overdrafts and short-term							
loans from financial institutions	504	-	-	7	-	511	2.80 - 7.68
Trust receipts	417	-	-	-	-	417	0.88 - 2.85
Trade and other payables	-	-	-	-	161	161	-
Liabilities under finance lease							
agreements	8	10	2	-	-	20	2.15 - 7.00
Long-term loans	-	-	-	367	-	367	4.25 - 5.15

As at 31 December 2016, the Company has an outstanding balance of interest rate swap agreement with a local bank of Baht 204 million (2015: Baht 264 million), to swap a floating interest rate on the loan to a fixed interest rate of 4.35 percent per annum. The notional amount of the contract will gradually come due until May 2020 in accordance with the related long-term loan repayment schedule.

### **Foreign currency risk**

The Company's exposure to foreign currency risk arises from purchase and sales of goods and services and purchase of machinery that are denominated in foreign currency. The Company seeks to reduce this risk by entering into forward exchange contracts when it considers appropriate. Generally, the forward contracts mature within one year.

The balances of financial assets and liabilities denominated in foreign currencies are summarised below.

Foreign currency	Financial assets		Financial liabilities		Average exchange rate	
	as at 31 December		as at 31 December		as at 31 December	
	2016	2015	2016	2015	2016	2015
	(Million)	(Million)	(Million)	(Million)	(Baht per 1 foreign currency unit)	
US dollar	2	3	9	11	35.83	36.09

Foreign exchange contracts outstanding are summarised below.

As at 31 December 2016			
Foreign currency	Bought amount	Contractual	Contractual
		exchange rate bought	maturity date
	(Million)	(Baht per 1 foreign currency unit)	
US dollar	1	35.33 - 35.94	
		15 May - 5 July 2017	

As at 31 December 2015			
Foreign currency	Bought amount	Contractual	Contractual
		exchange rate bought	maturity date
	(Million)	(Baht per 1 foreign currency unit)	
US dollar	8	34.15 - 36.60	
		11 January - 27 May 2016	

## **29.2 Fair value of financial instruments**

Since the majority of the Company and its subsidiaries's financial instruments are short-term in nature or bear interest rates which are close to market rate, their fair value is not expected to be materially different from the amounts presented in statements of financial position.

### **30. Capital management**

The primary objective of the Company's capital management is to ensure that it has appropriate capital structure in order to support its business and maximise shareholder value. As at 31 December 2016, the Group's debt-to-equity ratio was 1.15:1 (2015: 1.36:1) and the Company's was 1.23:1 (2015: 1.46:1).

### **31. Events after the reporting period**

On 27 February 2017, the Company's Board of Directors meeting passed a resolution to propose the payment of annual dividend at the rate of Baht 0.34 per share. The Company has been paid the interim dividend at the rate of Baht 0.19 per share in October 2016. Therefore, the remaining dividend will be paid to shareholders is Baht 0.15 per share, which will be paid in May 2017 and will be proposed for approval at the 2017 Annual General meeting of the shareholders.

### **32. Approval of financial statements**

These financial statements were authorised for issue by the Company's Board of Directors on 27 February 2017.