



## **PART 1 BUSINESS OPERATION**

### **1. Business Policy**

GFPT Public Company Limited (“GFPT” or “the Company”) was incorporated as a juristic person under the Civil and Commercial Code on 25 November 1981. The Company initially set up to operate chicken processing for export. The major shareholders are Sirimongkolkasem family. The Company has continuously expanded its operations; until now, the Company and its subsidiaries' core businesses cover agriculture, livestock, and food processing. Its fully vertical integrated chicken production consists of feed production, integrated farm operations, chicken meat processing, and further processing.

#### **Business Policy**

GFPT operates chicken meat processing and fully cooked chicken products with modern production technology, food safety, and feed-to-food traceability. The Company is committed to operating the business with environmental friendliness and contributing to society.



## **1.1 Vision Mission and Strategy**

### **Vision**

GFPT strives to be a leading producer and exporter of fully integrated chicken production.

### **Mission**

GFPT engages in business of production of processed chicken and processed foods from chicken. It always adheres to its missions developed by referring to extremely due care to stand in the front line of food production industry. Its missions are as follows:

**1. Food Quality:** Enhance product quality to the international standards.

Strategy: Use only finest materials; strictly control all production process; ensure product quality meet international standards; and recognized by cutomers both domestic and international.

**2. Food Safety :** Confidence through the traceability system

Strategy: Be fully confident with traceability system to ensure that all products are safe before delivery to consumers.

**3. Food Innovation :** New product development using modern technology

Strategy: Always conduct research and development of new products and adopt modern technologies to constantly expand its business.

**4. Operation by excellence personnel :** Empowering people to become the expert

Strategy: Promote capacity at all levels to become an expert in their fields, establish long term stability by providing confidence in better quality of life which will in turn lead the organization to meet international standard.

**5. Customers' satisfaction :** Attention to the needs of the customers and gain their highest satisfaction

Strategy: Always give first priority to the customer's needs, offer products with international standard quality based on fair price policy.

**6. Business Alliance :** Build strong relationship among partners

Strategy: Establish good relationship, fair treatment, and trust aimed for long term business cooperation.

**7. Social and environmental responsibility :** Build awareness and responsible to society and environment

Strategy: Promote awareness and responsibility for community and environment, maintain economic balance and interest leading to sustainable achievement of business development.



## 1.2 Significant Change and Development of the Company

GFPT Public Company Limited (the “Company”) was incorporated as a juristic person under the Civil and Commercial Code on 25 November 1981. The Company's major business is manufacture and sells fresh frozen chicken meat and further processing chicken products in both of domestic and international market.

1981 : Registered in the name of General Foods Poultry (Thai) Company Limited, consisted of 3 parties of shareholders

1. P. Charoen Phan Feedmill Company Limited (Thailand) holding 51%
2. General Foods Poultry Company Limited (New Zealand) holding 34%
3. United Trading Corporation (Luxemburg) holding 15%

1985 : 2 parties of shareholders; General Foods Poultry Company Limited and United Trading Corporation withdrawn their shares, so, P. Charoen Phan Group purchased all the shares.

1987 : The Company increased its share capital from 77.7 million Baht to 100 million Baht in order to expand the production capacity to eviscerate chicken at the rate of 6,000 birds/hour.

1989 : The Company increased its registered share capital from 100 million Baht to 150 million Baht in order to expand the production capacity to eviscerate chicken at the rate of 7,200 birds/hour.

: In October, the Company's name changed to “P. Charoen Phan Poultry Company Limited”.

: In December, the Company's name changed to “GFPT Company Limited”.

1990 : The Company increased its registered share capital from 150 million Baht to 420 million Baht to expand the business as an integrated chicken farm and acquired 99.99% shares of 2 subsidiary companies:

1. Krungthai Farm Company Limited operates parent chicken farm.
2. M.K.S. Farm Company Limited operates broiler farm.

1991 : The Company invested 99.99% shares in a subsidiary company, GF Foods Company Limited, operates the production and distribution of processed food.

: The Company increased its registered share capital from 420 million Baht to 1,000 million Baht.

: The Company acquired 65% shares in a subsidiary company, Krungthai Feedmill Public Company Limited, listed in the Stock Exchange of Thailand since 1988, which operates feed mill business.



- 1992 : The Company was listed in the Stock Exchange of Thailand with the registered share capital of 1,000 million Baht and paid-up capital of 570 million Baht.
- 1993 : The Company invested 49.00% shares in McKey Food Services (Thailand) Limited, which manufactures and sells processed frozen food. McKey Food Services (Thailand) Limited has a registered and paid-up capital of 100 million Baht and is a joint-venture company between the Company and Keystone Food Corporation (USA) that holds the remaining 51.00% shares.
- 1994 : GFPT Company Limited changed from being a "Company Limited" to "Public Company Limited".
- : Krungthai Feedmill Company Limited changed from being a "Company Limited" to "Public Company Limited".
- 1998 : Krungthai Feedmill Public Company Limited delisted from the Stock Exchange of Thailand.
- 2000 : The Company increased its paid-up capital from 570 million Baht to 626.91 million Baht.
- 2002 : The Company bought additional shares of Krungthai Feedmill Public Company Limited, consequently, the Company's share ownership increased from 65% to 96.5%.
- 2003 : The Company increased its share registered capital from 1,000 million Baht to 1,400 million Baht and paid-up capital from 626.91 million Baht to 1,253.82 million Baht.
- : The Company invested 99.99% shares in a subsidiary company, GP Breeding Company Limited, operates rearing grand-parent chicken.
- 2008 : The Company invested 49.00% shares in GFPT Nichirei (Thailand) Company Limited, operated fully cooked chicken products and chicken meat for domestic and international sales. GFPT Nichirei (Thailand) Company Limited has a registered and paid-up capital of 1,170 million Baht and is a joint-venture company between the Company and Nichirei Foods, Inc. (Japan) that holds the remaining 51.00% shares.
- 2010 : The Company performed stock split from 10 Baht per share to 1 Baht per share. Therefore, the registered share capital of GFPT Public Company Limited was unchanged at 1,400 million Baht but the number of shares outstanding increased from 140 million shares to 1,400 million shares.
- 2011 : The Company bought additional shares of Krungthai Feedmill Public Company Limited, consequently, the Company's share ownership increased from 96.5% to 97.85%.



2012 : GFPT Nichirei (Thailand) Company Limited, a joint-venture company, increased its registered share capital. Therefore, the Company bought additional shares being offered amounted 903.56 million Baht to maintain its 49% share ownership. The details of GFPT Nichirei (Thailand) Company Limited registered capital are as follows:

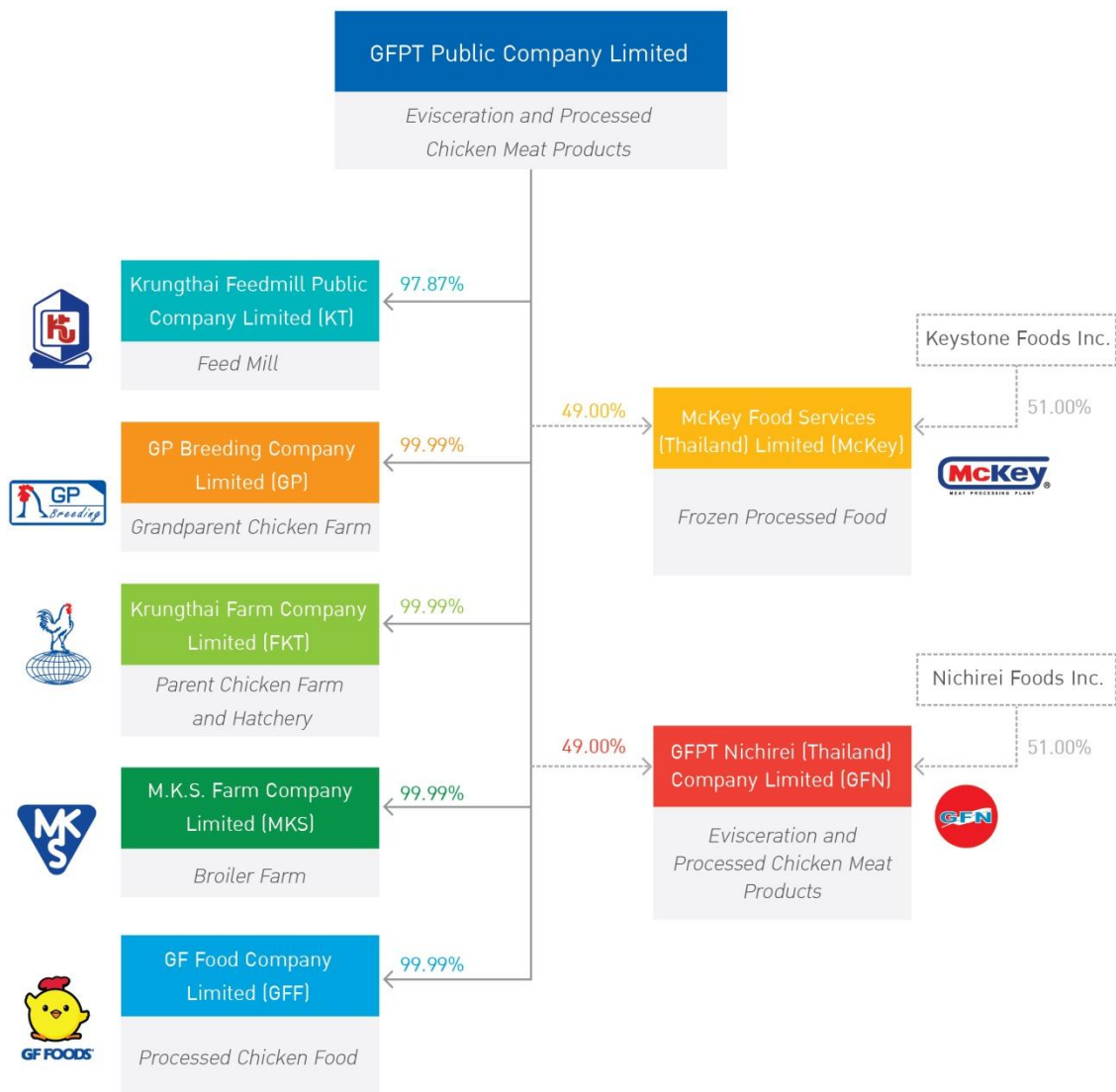
- In May, GFPT Nichirei (Thailand) Company Limited increased registered capital from 1,170 million baht to 1,514 million baht. (GFPT 168.56 million baht)
- In December, GFPT Nichirei (Thailand) Company Limited increased registered capital from 1,514 million baht to 3,014 million baht. (GFPT 735.00 million baht)

: The Company bought additional shares of Krungthai Feedmill Public Company Limited, consequently, the Company's share ownership increased from 97.85% to 97.86%.

2013 : The Company bought additional shares of Krungthai Feedmill Public Company Limited, consequently, the Company's share ownership increased from 97.86% to 97.87%.



## 1.3 Company Group Structure



GFPT Public Company Limited (“GFPT”) founded in 1981 and became a public Company in 1994. Nowadays, GFPT has registered capital of 1,400,000,000 Baht and paid-up capital of 1,253,821,000 Baht. GFPT is the parent company of the group who operates the chicken production and distribution of frozen chicken meat, processed chicken, and its by-products under the customer and company brand name for both domestic and overseas market. In 2013, GFPT has chicken processing capacity of 124,600 tons per year and cooked chicken products capacity of 24,000 tons per year from the plant located at Samutprakarn Province.

GFPT Public Company Limited and its subsidiary companies operate integrated poultry business that are chicken evisceration and processed food, hatchery farm, selling day-old-chicks, parent chicken farm, broiler farm, feed mill, processed food production.



The GFPT group is integrated poultry business. Beginning with the investment of 97.87% in Krungthai Feedmill Public Company Limited ("KT"), with paid-up capital of 400 million Baht, KT engages in feed mill business under the Company's brand. KT's main products are land animal feed and aquatic animal feed. KT distributes land animal feed especially chicken feed to the Company's subsidiaries namely MKS, FKT, GP, and also other animal raisers in general. For the aquatic animal feed, KT distributes aquatic animal raisers in general.

In 2013, KT has total capacity of 1,111,000 tons. The first feed mill, located at Samutprakarn Province, consists of 1 land animal feed line and 2 aquatic feed lines, with the total capacity of 599,000 tons. The second feedmill, at Banbueng, Chonburi province, has 1 broiler feed line with the total capacity of 512,000 tons. Moreover, KT also operates parent chicken farms to produce seed eggs for selling to FKT. In 2013, KT has total capacity of 21,000,000 of seed eggs from its 3 farms in Chonburi province. There is no conflict of interest between the rests of shareholders and The Company.

The Company invests 99.99% in GP Breeding Company Limited ("GP"), with registered capital 200 million Baht, GP engages in grandparent chicken farming to produce parent day-old-chicks for FKT, KT, and customers. In 2013, GP has total capacity of 1,100,000 of parent stocks from its 1 farm in Chonburi province.

The Company invests 99.99% in Krungthai Farm Company Limited ("FKT"), with registered capital of 350 million Baht, FKT engages in parent breeder farming and hatchery business. For the commercial day-old-chicks, FKT purchases parent breeders from GP to produce commercial day-old-chicks and sells to MKS. In addition, FKT also imports the layer breeders to produce layer day-old-chicks and sell to KT and domestic layer farmers. In 2013, FKT produces 92 million commercial day-old-chicks from its 5 farms and 3 million layer day-old chicks from its 1 layer farm in Chonburi province.

The Company invests 99.99% in M.K.S. Farm Company Limited ("MKS"), with registered capital of 550 million Baht. MKS engages in broiler farm business by purchasing commercial day-old-chicks from FKT and raising them for 41-43 days. MKS sells broilers to GFPT and GFN (joint venture company). In 2013, MKS has total capacity of 73 million broilers from its 12 farms in Chonburi province. The excess amount of the production will be sold to local market.

The Company invests 99.99% in GF Foods Company Limited ("GFF"), with paid-up capital of 40 million Baht. GFF engages in production and distribution of processed foods business. Its main products are sausages, meat balls, chicken rolls, and other processed products which are distributed under "GF Foods" brand through fresh markets and wholesalers. In 2013, GFF has total capacity of 9,000 tons from 1 factory in Samutprakarn province.



The Company invests 49% in McKey Food Services (Thailand) Company Limited ("McKey"), with registered capital of 100 million Baht. McKey engages in production and distribution of semi-finished frozen foods for export market. McKey's products are distributed to McDonalds' restaurants both in Thailand and overseas. In 2013, McKey has a total production 25,000 tons from 1 factory in Samutprakarn province. There is no conflict of interest between the rests of shareholders and The Company.

The Company invests 49% in GFPT Nichirei (Thailand) Company Limited ("GFN"), with registered capital of 3,014 million Baht. GFN engages in chicken evisceration and processing and distribution for export domestic market. The capacity of chicken processing is 81,600 tons per year and the capacity of cooked chicken products is 26,000 tons per year from 1 factory in Chonburi province. There is no conflict of interest between the rests of shareholders and The Company.

#### **1.4 Relationship with business of major shareholders.**

- None -



## 2. Business Characteristics

## Income Structure (according to consolidated financial statements)

| Revenue Breakdown<br>of GFPT and its<br>subsidiaries | Operated<br>by      | % of<br>Share<br>holding | 2013<br>Income<br>(MB) | %             | 2012<br>Income<br>(MB) | %             | 2011<br>Income<br>(MB) | %             |
|------------------------------------------------------|---------------------|--------------------------|------------------------|---------------|------------------------|---------------|------------------------|---------------|
| Evisceration/<br>Processed Chicken                   | GFPT                |                          | 7,035.44               | 40.83         | 5,803.86               | 37.26         | 6,101.15               | 42.60         |
|                                                      | McKey, GFN          | 49.00                    | 220.72                 | 1.28          | (74.39)                | (0.48)        | (111.29)               | (0.78)        |
| Feed Mill                                            | KT                  | 97.87                    | 4,817.96               | 27.96         | 5,294.03               | 33.99         | 4,838.82               | 33.79         |
| Chicken Farms /<br>Day-Old-Chicks                    | FKT, GP, MKS,<br>KT | 99.99<br>97.87           | 4,004.94               | 23.24         | 3,664.25               | 23.52         | 2,812.83               | 19.64         |
| Processed Foods                                      | GFF                 | 99.99                    | 840.69                 | 4.88          | 607.67                 | 3.90          | 456.75                 | 3.19          |
| Other Income                                         |                     |                          | 311.65                 | 1.81          | 281.13                 | 1.81          | 222.96                 | 1.56          |
| <b>Total</b>                                         |                     |                          | <b>17,231.40</b>       | <b>100.00</b> | <b>15,576.55</b>       | <b>100.00</b> | <b>14,321.22</b>       | <b>100.00</b> |

## 2.1 Product Characteristics

Chicken Evisceration and Processed Chicken

The business line of chicken evisceration and processed chicken operates by GFPT Public Company Limited ("GFPT"), a parent company of the group. The product of the Company is fresh chicken parts, cooked chicken and by product from chicken evisceration. The distribution channel is through both domestic sales and export sales at the proportion of 59% and 41%, respectively. The competition in this market can be considered in 2 parts as follow:

## 1) Domestic market

Competitor of the Company is the operator of evisceration business in Thailand. The Company has advantage over its vertical integrated poultry business that covers feed mill, chicken farm, chicken evisceration and processed food production, therefore, able to control the quality of products and cost of production.

## 2) Foreign market

Competitor of the Company is a large broiler producer including the United States of America, Brazil and China. Thailand is also considered to be one of the large broiler producers and has potential to compete with other countries. Most of the export value came from processed cooked chicken at beginning of the year and fresh frozen chicken at the end of the year. This is because the European Union has just allowed importing fresh frozen chicken from Thailand after Thailand controlled the outbreak of bird flu.

Dependent on large or few distributors

The raw material is chicken meat; the Company needs to depend on 1 distributor, which is M.K.S. Farm Company Limited, a broiler farm. In the year 2013, the purchase order amounted Baht 4,200 million. The Company expects that depending on 1 distributor will not affect the operation because M.K.S. Farm Company Limited is a subsidiary company with the same group of management.

Promotional Privileges

GFPT Public Company Limited was granted 4 investment promotional certificates from the Board of Investment, which include the benefits and privileges under sections 25, 26, 28, 31 paragraph 1, 31 paragraph 2, 31 paragraph 3, 31 paragraph 4, 34, 36(1), 36(2) and 37 of the Investment Promotion Act B.E. 2520. The privileges granted the exemption of import tariff of machinery. It also granted the exemption of corporate income tax on net profits from investment of promotional activities not exceed 100 percent of total investment of the project excluded the value of land and working capital for eight years commencing from the first day when the Company starts to earn income from the operation of promotional operation as follows:

| <u>Certificate No.</u> | <u>Date</u>       | <u>Type of Promotional Activities</u> | <u>The First Date</u> | <u>The Expiry Date</u> |
|------------------------|-------------------|---------------------------------------|-----------------------|------------------------|
| 1776(2)/2545           | December 11, 2002 | Finished Chicken Products             | January 21, 2005      | January 20, 2013       |
| 1699(3)/2547           | August 25, 2004   | Finished Chicken Products             | July 23, 2007         | July 22, 2015          |
| 1329(2)/2552           | April 24, 2009    | Evisceration Chicken                  | July 1, 2011          | June 30, 2019          |
| 1051(3)/2553           | January 18, 2010  | Finished Chicken Products             | January 15, 2011      | January 14, 2019       |

Feed mill

The business line of feed mill operates by Krungthai Feedmill Public Company Limited ("KT"). The product of KT is animal feed for both land and aquatic animal. KT distributes land animal feed, especially chicken feed, to M.K.S. Farm Company Limited, Krungthai Farm Company Limited and GP Breeding Company Limited and also other animal raisers in general. For the aquatic animal feed, KT distributes to aquatic animal raisers in general. The competition in feed mill business is not that intense because 53% of sales revenue came from related companies and the remaining 47% of sales revenue came from other companies. KT's core strength is its long-established operation, KT operates feed mill business for more than 20 years, and thus, the customers are confident of the Company's product. The Company also arranged academic professors to advice and guide on animal farming, consequently, gained more confidence from the customers. In addition,



the Company also operates parent chicken farming using evaporative cooling system, a closed system with automatic food and water feeding, to produce and sell seed eggs to Krungthai Farm Company Limited.

#### Dependent on large or few customers

In the feed mill business, the Company depends on 3 large customers i.e. M.K.S. Farm Company Limited, Krungthai Farm Company Limited and GP Breeding Company Limited. For the seed egg, the Company relies on only one customer, which is Krungthai Farm Company Limited. In the year 2013, the Company sales revenue for chicken feed amounted THB 6.32 billion and seed egg amounted THB 185 million. The Company does not expect that large or few customers will have any impact on the business because the customers are related companies with the same group of management.

#### Promotional Privileges

Krungthai Feedmill Public Company Limited, a subsidiary company, was granted 1 investment promotional certificates to produce seed eggs and 2 investment promotional certificates to produce feed mill and premix from the Board of Investment, which include the benefits and privileges under sections 25, 26, 28, 31 paragraph 1, 31 paragraph 4, 34 and 37 of the Investment Promotion Act B.E. 2520. The privileges granted the exemption of import tariff of machinery. It also granted the exemption of corporate income tax on net profits from investment of promotional activities not exceed 100 percent of total investment of the project excluded the value of land and working capital for eight years commencing from the first day when KT starts to earn income from the operation of promotional operation as follows:

| <u>Certificate No.</u> | <u>Date</u>           | <u>Type of Promotional Activities</u> | <u>The First Date</u> | <u>The Expiry Date</u> |
|------------------------|-----------------------|---------------------------------------|-----------------------|------------------------|
| 1429(2)/2546           | August 21, 2003       | Seed Eggs                             | June 14, 2006         | June 13, 2014          |
| 1850(2)/2548           | September 20,<br>2005 | Feed Mill Production and<br>Premix    | June 1, 2009          | May 31, 2017           |
| 1173(2)/2553           | February 16,2010      | Feed Mill Production and<br>Premix    | July 12,2012          | July 11, 2020          |

Farm Segment and Day-old-chicks Distribution

Farm business segment can be divided into 3 sub-categories as follows:

1. Grandparent Chicken Farm

The business line of grandparent chicken farm operates by GP Breeding Company Limited ("GP") starting from purchasing grandparent chicks from abroad and raise them in an evaporative cooling system, a closed system with automatic food and water feeding, to produce and sell parent chicks to Krungthai Farm Company Limited and Krungthai Feedmill Public Company Limited and other animal raisers both domestic and foreign market. The grandparent chicken farming business is very competitive but since GP is a subsidiary of GFPT that operates integrated poultry business, GP then does not compete with other companies in the industry.

Dependent on large or few customers

GP depends on 2 large customers i.e. Krungthai Farm Company Limited and Krungthai Feedmill Public Company Limited. The purchase volume of parent stock in the year 2013 amounted THB 116 million. GP do not expect that large or few customers will have any impact on the business because the customers are related companies with the same group of management.

Promotional Privileges

GP Breeding Company Limited, a subsidiary company, was granted an investment promotional certificate to produce parent chicken type 1.4 animal breeding business from the Board of Investment, which include the benefits and privileges under sections 25, 26, 28, 31 paragraph 1, 31 paragraph 3, 31 paragraph 4, and 34 of the Investment Promotion Act B.E. 2520. The privileges granted the exemption of import tariff of machinery. It also granted the exemption of corporate income tax on net profits from investment of promotional activities not exceed 100 percent of total investment of the project excluded the value of land and working capital for eight years commencing from the first day when GP starts to earn income from the operation of promotional operation as follows:

| <u>Certificate No.</u> | <u>Date</u>         | <u>Type of Promotional Activities</u> | <u>The First Date</u> | <u>The Expiry Date</u> |
|------------------------|---------------------|---------------------------------------|-----------------------|------------------------|
| 1932(2)/2548           | October 11,<br>2005 | Parent Chicken Farm                   | September 9,<br>2006  | September 8,<br>2014   |



## 2. Parent Chicken Farm

The business line of parent chicken farm operates by Krungthai Farm Company Limited (“FKT”) starting from purchasing broiler parent chicks from GP Breeding Company Limited and import egg laying parent chicks from abroad and raise them in an evaporative cooling system, a closed system with automatic food and water feeding, to raise and produce both broiler and egg laying chicks. FKT sells all broiler chicks to M.K.S. Farm Company Limited and egg laying chicks to Krungthai Feedmill Public Company Limited and other general animal raisers that operates egg laying chicken farm. The parent chicken farming business is very competitive but since FKT is a subsidiary of GFPT that operates integrated poultry business, FKT then does not compete with other companies in the industry.

### Dependent on large or few customers

FKT depends on 2 large customers i.e. M.K.S. Farm Company Limited and Krungthai Feedmill Public Company Limited. The purchase volume of broiler and egg laying parent chicks in the year 2013 amounted THB 905 million. GP expected no impact from depending on large or few customers. GP do not expect that large or few customers will have any impact on the business because the customers are related companies with the same group of management.

### Promotional Privileges

Krungthai Farm Company Limited, a subsidiary company, was granted 2 investment promotional certificates to produce parent chicken type 1.5 animal breeding business from the Board of Investment, which include the benefits and privileges under sections 25, 26, 28, 31 paragraph 1, 31 paragraph 3, 31 paragraph 4, and 34 of the Investment Promotion Act B.E. 2520. The privileges granted the exemption of import tariff of machinery. It granted the exemption of corporate income tax on net profits from investment of promotional activities not exceed 100 percent of total investment of the project excluded the value of land and working capital for eight years commencing from the first day when FKT starts to earn income from the operation of promotional operation as follows:

| <u>Certificate No.</u> | <u>Date</u>       | <u>Type of Promotional Activities</u> | <u>The First Date</u> | <u>The Expiry Date</u> |
|------------------------|-------------------|---------------------------------------|-----------------------|------------------------|
| 1187(2)/2553           | February 24, 2010 | Chicken Farm                          | None Income Yet       | -                      |
| 1591(2)/2553           | June 8, 2010      | Chicken Farm                          | August 22, 2013       | August 21, 2021        |



### 3. Broiler farm

The business line of broiler farm operates by M.K.S. Farm Company Limited ("MKS"). The product is broiler, the raw material is the broiler chicks purchase from Krungthai Farm Company Limited, feed mix purchase from Krungthai Feedmill Public Company Limited and other raw materials such as vaccine are purchase domestically. The broiler chicks are raised in an evaporative cooling system, a closed system with automatic food and water feeding, until reaches 41 to 43 days then sells to GFPT Public Company Limited and GFPT Nichirei (Thailand) Company Limited (an associated company of GFPT). Therefore, broiler business is not competitive because major customers are GPFT (the parent company) and associated company of GFPT.

#### Dependent on large or few customers

MKS depends on 2 large customers i.e. GPFT and GFPT Nichirei (Thailand) Company Limited. The sales of broiler in the year 2013 amounted THB 4.2 billion and THB 3.3 billion, respectively. MKS does not expect that large or few customers will have any impact on the business because GFPT is a parent company with the same group of management and GFPT Nichirei (Thailand) Company Limited is an associated company.

#### Promotional Privileges

M.K.S. Farm Company Limited, a subsidiary company, was granted 12 investment promotional certificates to produce parent chicken type 1.5 animal breeding business from the Board of Investment, which include the benefits and privileges under sections 25, 26, 28, 31 paragraph 1, 31 paragraph 3, 31 paragraph 4, and 34 of the Investment Promotion Act B.E. 2520. The privileges so granted the exemption of import tariff of machinery and include exemption of corporate income tax on net profits for eight years and it also granted included exemption of corporate income tax on net profits from investment of promotional activities not exceed 100 percent of total investment of the project excluded the value of land and working capital for eight years commencing from the first day when MKS starts to earn income from the operation of promotional operation as follows:

| <u>Certificate No.</u> | <u>Date</u>       | <u>Type of Promotional<br/>Activities</u> | <u>The First Date</u> | <u>The Expiry Date</u> |
|------------------------|-------------------|-------------------------------------------|-----------------------|------------------------|
| 1632(2)/2546           | November 11, 2003 | Broiler Farm                              | May 12, 2005          | May 11, 2013           |
| 1571(2)/2551           | June 6, 2008      | Broiler Farm                              | April 17, 2010        | April 16, 2018         |
| 2085(2)/2551           | November 19, 2008 | Broiler Farm                              | October 8, 2010       | October 7, 2018        |
| 1341(2)/2552           | April 28, 2009    | Broiler Farm                              | June 9, 2011          | June 8, 2019           |
| 1470(2)/2552           | June 5, 2009      | Broiler Farm                              | June 5, 2011          | June 4, 2019           |



| <u>Certificate No.</u> | <u>Date</u>      | <u>Type of Promotional<br/>Activities</u> | <u>The First Date</u> | <u>The Expiry Date</u> |
|------------------------|------------------|-------------------------------------------|-----------------------|------------------------|
| 1997(2)/2553           | August 24, 2010  | Broiler Farm                              | October 25, 2011      | October 24, 2019       |
| 1898(2)/2553           | August 24, 2010  | Broiler Farm                              | None Income Yet       | -                      |
| 2106(2)/2553           | October 19, 2010 | Broiler Farm                              | None Income Yet       | -                      |
| 2107(2)/2553           | October 19, 2010 | Broiler Farm                              | None Income Yet       | -                      |
| 2108(2)/2553           | October 19, 2010 | Broiler Farm                              | None Income Yet       | -                      |
| 1674(2)/2554           | June 9, 2011     | Broiler Farm                              | None Income Yet       | -                      |
| 1022(2)/2555           | January 12, 2012 | Broiler Farm                              | None Income Yet       | -                      |

### Processed food

The business line of processed food operates by GF Foods Company Limited ("GFF"). The products are sausages, meatballs, chicken nuggets and other processed food under brand "GF Foods". The main market for this business is the distribution channel, fresh market and wholesalers/retailers. The processed food business is very competitive because sausages, meatballs, chicken nuggets and other processed food will use chicken debris resulting from the cutting of the product. GFF main competitors are manufacturers and distributors of processed food.

### Dependent on large or few customers

GFF depends on 1 customer which is GPFT Public Company Limited, a parent company, to purchase raw materials i.e. chicken debris to manufacture and distribute. The sales in the year 2013 amounted THB 565 million. GFF do not expect that large or few customers will have any impact on the business because GPFT is a parent company with the same group of management.

## 2.2 Marketing and competition

### Chicken Evisceration and Processed Chicken

#### (a) Marketing characteristic of the product

### Significant competitive strategy

In marketing its products, the Company realized the importance of the quality. The Company had advantage over its competitors because of its 10 years extensive experience on the live stock sector. As a result, the quality of products is accepted by the customers. In addition, the Company has developed various products in accordance to the need of customers.



The Company's main policy is to manufacture value added products due to the higher cost of manufacturing in Thailand as compared to other competitors; therefore, if the products are common products, it will not be able to compete with other countries. The Company focuses on manufacturing processed food that requires skilled labor, which the competitors in other countries still behind on skilled labor or some countries have high cost of labor. The Company also emphasises on having production process to meet international standards and able to effectively trace the system back for error detection. Therefore, the Company has quality assurance in every production process to ensure product safety. A division has been set up to coordinate and monitor the shipping and storage to meet standard so that consumers and customers are confident of the quality of our products, hence, increases the Company's competitive advantage in the foreign market.

#### Nature of customers

Customers in the domestic market can be categorized into 3 groups as follow:

Group 1 Customers that are subsidiaries or associated companies such as GF Foods Company Limited (a subsidiary of GFPT) that purchases chicken parts that came from products trimming to manufacture sausages and other processed products accounted for 12% of domestic sales and 2 associated companies i.e. McKey Food Services (Thailand) Company Limited and GFPT Nichirei (Thailand) Company Limited accounted for 20% of domestic sales and 1% of domestic sales, respectively. The 2 associated companies purchases chicken parts to manufacture and sells to both domestic and foreign market.

Group 2 Customers that are manufacturer of processed food. This group of customers will purchase chicken parts and manufacture processed or semi-processed food for export to foriegn countries, accounted for 13% of domestic sales

Group 3 Customers that are wholesalers/retailers, who purchase products from the Company on a daily basis to sell to consumers, accounted for 54% of domestic sales.

As for customers in the foreign market, the Company export chicken meat to foreign countries including Japan, the European Union, Hong Kong and Singapore.

#### Target customers

The Company's target customers are consumers of meat in both domestic and foreign market.



Distribution and distribution channel

Products of GFPT distribute in both domestic and foreign market under the brand of “GFPT” and customers own trademark, accounted for 59% share of the domestic market and 41% share of the foreign markets.

For domestic market, most products are by-products of chicken evisceration such as chicken feather, head, bones, meat and leather scraps. The customers are wholesalers/retailers that purchases products on a daily basis and sell it to the customers. Another part is selling export quality products to processed food manufacturers for exports. A subsidiary company, GF Foods Company Limited, buys chicken meat to manufacture sausages and an associated company, McKey Food Services (Thailand) Company Limited buys chicken meat to manufacture fried chicken, chicken burger or nuggets.

For foreign market, GFPT sells products directly to customers. The main importers of our products are Japan and the European Union countries.

**(b) Competitive conditions within the industry**

For the competition in the domestic market, most operators that own slaughterhouses have fully integrated business, which include feed mill, breeder farm and chicken farm.

GFPT is considered to be one of the top operators in Thailand as compare to other companies. GFPT operates fully integrated poultry business that covers feed mill, chicken farm and slaughterhouse. GFPT has advantages from being fully integrated business; includes the ability to control quality, ability to process chicken evisceration by owning chicken farm as well as develop new techniques and effectively control production volume to be consistent with the market demand.

For the competition in the foreign market, the major competitors in the processed food business are China, Brazil and the United States of America. At present, the export market depends on the competitive advantage of each country such as cost of manufacturing, freight, and quality of products. Thailand is considered to have advantage over cost of manufacturing, quality and the effective product modification to match the customers' demand; consequently, Thailand export market grew every year.

**(c) The Overview of Broiler Business in 2013 and Prospect for 2014**

**Situation in 2013**

**Production**

In 2013, most top broiler production countries such as the United States and Brazil managed to increase their productions as a result of the world economic recovery and the rising demand for chicken meat. Comparing with other protein meat, chicken is relatively cheaper and having lower cholesterol. Furthermore, demand for chicken meat also increased favorably in the countries where chicken meat consumptions per capita were still low such as Mexico, China and the eastern European countries. However,



the broiler production and export in some countries were limit due to the Avian Flu outbreaks and rising cost of feed material such as China and Mexico.

In 2013, total world broiler production was approximately 84.640 million tons, an increase of 2.69% from 2012. The United States was still the world's largest broiler production followed by China, Brazil, and the European Union, respectively.

The United States produced approximately 16.958 million tons of chicken meat in 2013, an increase of 2.93% from 2012. China, the second largest world broiler producer, produced 13.500 million tons of chicken meat, decreased from 2012 by 1.46%. Brazil, the world's third largest producer, produced 12.770 million tons of chicken, increased from 2012 by only 0.16% while the EU, the world's fourth largest producer, increased its production by approximately 2.85% to reach 9.750 million tons in 2013.

In 2013, the broiler production of Thailand was approximately 1,104.050 million birds, equivalent to 1.524 million tons of chicken meat, increased only 0.63% from 2012. The broiler production increased less than expected because one of the largest integrated broiler companies temporary stopped its operations in late 2012. However, other top integrated broiler companies increased their productions to meet the export growth to EU market after lifting of the ban of Thai frozen chicken meat. Steady rising export demand was also expected after Japan and South Korea planned to lift the ban on Thai frozen chicken meat.

## **Market Situation**

### **Domestic Market**

Despite the negative effect of the inflation and political instability on the consumers' purchasing power, domestic consumption of chicken meat has managed to increase around 8.36% from 0.932 million tons in 2012 to 1.010 million tons in 2013. Although the increase is rather low, it is a good sign which reveals that the effect of economic and political crisis on the broiler meat industry is minimal.

The consumption of domestic market increased from the price of feed materials in 2013 was stable, which help maintaining the production cost and the price of chicken meat remained affordable by consumers. Furthermore, the growth of chicken meat consumption is partly from the growing concern on healthy diet among Thai consumers, who prefers low fat meat. The economic condition in Thailand had impact on the spending of Thai consumer; thus, chicken meat has become a preferred choice. Furthermore, the fast food business and quick service restaurants also helped in raising domestic demand because chicken meat is widely used as part of meat ingredients by various fast food chains. Chicken price is considerably low in comparison with other kinds of meats. Moreover, the increasing of Thai consumers' confidence on the food safety, strict bio-security system, and surveillance on Avian Flu outbreak of chicken meat also helps provide the growth of domestic consumption.



### **Export market**

Export volume of Thai chicken meat products in 2013 was lower than expected because one of the largest integrated broiler companies temporary stopped its operations. As a result, export volume in 2013 was 525,217 tons, reduced 4.91% from previous year.

The main obstacle of chicken meat export in 2013 was the slow recovery of world economy and economic recession in the EU which is the major export markets of Thai chicken meat products. However, Thai chicken export showed positive trend as Japan has announced the lifting ban of Thai fresh frozen chicken meat on December 25, 2013. In addition, major export competitors like China and Mexico cannot effectively control the Avian Flu outbreak that has repeatedly occurred in their countries.

As for the export market, the European Union was the most important market of Thai chicken meat products. In 2013, export of chicken meat products to the European Union was approximately 243,825 tons, increased 2% from previous year and its proportion to overall chicken meat export increased from 43.3% in 2012 to 46.4% in 2013. The increase was mainly from the lifting ban of Thai frozen chicken meat since July 2012.

Chicken Export to Japan, the second largest market of Thai chicken export, was 211,061 tons in 2013, decreased 5% from 2012. Its share of overall chicken meat export was minimally decreased from 40.3% in 2012 to 40.2% in 2013. This decrease was primarily from the reluctant to lift its ban on Thai frozen chicken meat. Furthermore, the declining of export volume in 2013 was caused by the temporally stopped operation of one Thai integrated broiler company.

Besides these two major export markets, the export of Thai chicken meat products to other countries in 2013 was approximately 70,331 tons, declined 22.51% from previous year. The chicken meat export quickly recovered and grew favorably due to the lifting ban of Thai fresh chicken meat in many countries such as South Africa, Ghana, Bahrain, the United Arab Emirates, Egypt, Oman, Israel, Vietnam, Malaysia, Hong Kong, Lao PDR, Brunei, Nepal, Sri Lanka, and Singapore.

### **Prospects for 2014**

#### **Production**

The broiler production in Thailand is likely to expand consistently in 2014. The estimated broiler production is 1.160 million birds or 1.680 million tons of chicken meat, an increase of 7.69% from year 2013. The broiler production in 2014 is expected to increase due to the anticipated recovering economic and political situation that should help boosting the domestic consumption. Furthermore, the high standard of farm management and strict bio-security of Thai broiler producers help enhance the export demand from major import countries such as Japan and Singapore.



The broiler production tends to increase due to the declining in price of major feed materials, which will partially offset the increase in cost of production resulting from the rising of minimum wage.

#### **Market Situation**

Although the growth of economic and political situation in Thailand still unclear, the domestic market for chicken meat products is expected to grow in 2014 because chicken meat is a better choice for consumers who prefers rich nutrient diet at reasonable price. It is expected that demand for chicken meat in 2014 will increase around 3.96% to reach approximately 1.050 million tons.

In 2014, the export market of Thai chicken meat is expected to recover and grow. The export volume of Thai chicken meat is forecasted to increase by 22% from 2013 reach approximately 630,000 tons in 2014; primarily from the recovering of world economy and the opportunity of other countries will lift ban of Thai frozen chicken meat such as Japan.

Although the export of Thai chicken meat products is forecasted to increase, the real growth of export market depends on various positive and negative factors as follows:

#### **Positive Factors**

- The high standard of Thai production system and the ability of Thai exporter to develop processed chicken meat products in accordance with consumer demand in international market would attain acceptance of Thai chicken meat products in the international markets with high purchasing power such as Japan and the EU. Moreover, the superior standard also give Thai chicken products a high competitive potential to export to other international markets such as neighboring countries in the ASEAN, South Africa, South Korea, and Russia.
- The efficiency of Thai government and broiler producers to handle and control the Avian Flu outbreak has made many countries gradually lift their ban Thai frozen chicken meat. As a result, the opportunity to enhance Thai chicken meat export in the major export markets such as the EU, Japan, and the ASEAN is promising.
- Pressure on competition with China has been relaxed due to the inability of Chinese government to efficiently control the Avian Flu outbreak. Furthermore, Chinese producers have shifted their target to focus more on domestic market so that the export of chicken meat declines.
- Skill of Thai labors specialized in cutting-up chicken parts, together with short transportation time of only 10-14 days from Thailand to Japan compare with 8 weeks from Brazil, help Thai uncooked chicken meat export gain comparative advantage over Brazil. If Japan lifts ban on Thai uncooked chicken meat in 2013, it is likely that Thailand will be able to earn some of Brazil market shares.



- The declining prices of feed materials and the clear government policy on import of these raw materials help Thai producers efficiently plan and control their production cost.

#### Negative Factors

- The nationwide increase of minimum wage rate to 300 Baht per day at the beginning of 2013 in accordance with the government policy has raised the production cost of chicken meat products. As a result, the competitiveness of Thai export will be reduced when compare with other competing countries of which their minimum wage rates do not change.
- The rising of oil price may raise the cost of energy used in feed production. Moreover, some feed materials may be used in production of gasohol and bio-diesel, which may cause increasing in price of feed materials.
- The inability to reach the agreement with the EU concerning the increase quota of cooked chicken meat export may limit the export growth of Thai cooked chicken product. EU has fixed its import quota allocated to Thai cooked chicken meat products and the out-of-quota tariff is high.
- The instability of Thai political situation since the second half of 2013 may affect the growth of Thai economy as well as the Thai tourism industry and hence the growth of domestic chicken meat market.

**Export of Thai Chicken Meat Products to Important Markets**  
(2012 – 2014)

| Market | 2012            |                   | 2013*           |                   | 2014**          |                   |
|--------|-----------------|-------------------|-----------------|-------------------|-----------------|-------------------|
|        | Volume<br>(ton) | Proportion<br>(%) | Volume<br>(ton) | Proportion<br>(%) | Volume<br>(ton) | Proportion<br>(%) |
| Japan  | 222,358         | 40.3              | 211,061         | 40.2              | 310,000         | 49.2              |
| EU     | 239,241         | 43.3              | 243,825         | 46.4              | 250,000         | 39.7              |
| Others | 90,763          | 16.4              | 70,331          | 13.4              | 70,000          | 11.1              |
| Total  | 552,362         | 100.0             | 525,217         | 100.0             | 630,000         | 100.0             |

Source: Thai broiler processing exporters association and forecasting.

Remark: \* Estimated

\*\* Forecasted



## Volume and Value of Thai Chicken Meat Export

Volume: ton

Value: million baht

| Year     | Frozen  |        | Processed Product |        | Total   |        |
|----------|---------|--------|-------------------|--------|---------|--------|
|          | Volume  | Value  | Volume            | Value  | Volume  | Value  |
| 1997     | 151,120 | 10,951 | 41,114            | 4,951  | 192,234 | 15,902 |
| 1998     | 220,776 | 17,221 | 60,943            | 9,020  | 281,719 | 26,241 |
| 1999     | 211,675 | 14,817 | 61,924            | 8,669  | 273,599 | 23,486 |
| 2000     | 245,994 | 15,990 | 86,800            | 11,284 | 332,794 | 27,274 |
| 2001     | 320,779 | 23,096 | 117,018           | 15,212 | 437,797 | 38,308 |
| 2002     | 336,837 | 24,589 | 127,406           | 16,244 | 464,243 | 40,833 |
| 2003     | 388,913 | 28,105 | 157,074           | 19,763 | 545,987 | 47,868 |
| 2004     | 26,137  | 1,725  | 191,739           | 22,408 | 217,876 | 24,133 |
| 2005     | 96      | 6      | 265,023           | 30,478 | 265,119 | 30,484 |
| 2006     | 2,662   | 97     | 294,295           | 35,742 | 296,957 | 35,839 |
| 2007     | 11,052  | 522    | 322,471           | 36,791 | 333,523 | 37,313 |
| 2008     | 14,367  | 862    | 387,127           | 54,567 | 401,494 | 55,429 |
| 2009     | 18,260  | 1,242  | 378,809           | 51,492 | 397,069 | 52,734 |
| 2010     | 17,054  | 1,147  | 418,005           | 53,805 | 435,059 | 54,952 |
| 2011     | 27,258  | 1,881  | 435,267           | 60,290 | 462,525 | 62,171 |
| 2012     | 89,411  | 6,491  | 462,951           | 64,394 | 552,362 | 70,885 |
| 2013 (E) | 95,000  | 7,885  | 435,000           | 61,495 | 530,000 | 69,380 |
| 2014 (F) | 180,000 | 14,620 | 450,000           | 68,489 | 630,000 | 83,109 |

Source: Thai broiler processing exporters association and forecasting.

Remark: 2013 (E) is Estimated, 2014 (F) is Forecasted



Feed mill

**(a) Marketing characteristic of the product**

Significant competitive strategy

In marketing its products, the Company realized the importance of the quality. The Company had advantage over its competitors because of its 10 years extensive experience on the live stock sector. As a result, the customers accepted the quality of products. In addition, the Company has developed various products in accordance to the need of customers. The Company also emphasises on having production process to meet international standards and able to effectively trace the system back for error detection. Therefore, the Company has quality assurance in every production process to ensure product safety. A division has been set up to coordinate and monitor the shipping and storage to meet standard so that consumers and customers are confident of the quality of our products.

Nature of customers

Customers can be categorized into 2 groups as follow:

Group 1 Customers that are affiliated companies such as M.K.S. Farm Company Limited, Krungthai Farm Company Limited and GP Breeding Company Limited those buy only chicken feed.

Group 2 General customers who are animal raisers, both land and aquatic animals.

Target customers

The Company's target customers who are affiliated companies that accounted for 53% and general animal raisers both domestic and export market that accounted for 47%.

Distribution and distribution channel

Feedmill distributes under the Company's brand. The distribution channels include sells directly to animal raisers and sells to wholesalers/retailers for resale.

**(b) Competitive conditions within the industry**

There are more than 50 feedmill operators in Thailand, therefore, the market is highly competitive. However, the market competition is not intense for Krungthai Feedmill Public Company Limited because 53% of sales revenue came from affiliated companies that operates as a fully integrated business that covers feed mill, parent chicken farm, broiler farm, selling day-old-chicks (broiler), chicken evisceration and processed food production. Owning chicken farm is one of the advantages over other competitors. In addition, the Company operates business for more than 20 years and considered to be one of the top feed mill operators.

**(c) The overview of feed industry and future outlook****Situation in 2013****Overview**

Prices of animal feed raw materials that are relatively stable along with the favorable export price of broilers and the rising of chicken meat export at the end of 2013 helped raised demand for animal feeds and kept the animal feed business grow moderately. However, there were some obstacles against the growth of animal feed industry in 2013 especially the loss of investor's confidence on Thai economy due to the political instability and the lower than expected economic growth. Furthermore, the drop in domestic purchasing power as well as the rather slow economic recovery in the major exporting countries such as the EU and Japan were altogether adversely affected the growth of Thai animal feed business.

Total demand for animal feed in Thailand was approximately 16,474,501 tons in 2013, an increase of 8.21% from 2012. Demand for animal feed of broiler-raising business had the highest share of about 32.95% of total feed products. Next to the broiler-raising, swine and layer hen raising business demanded about 26.32% and 11.17% of total animal feed produced in 2013, respectively. Since demand for animal feed of these three businesses altogether shared about 70% of the yearly total demand, their business growth would be an important stimulus for the development of animal feed industry. On the other hand, if these businesses encounter any critical problem, animal feed production would inevitably face serious difficulty.

About 5,428,566 tons of animal feed were used for broiler raising in 2013, an increase of 18.08% from the previous year. Swine raising business used approximately 4,336,500 tons of animal feed which increased by 13.07% from 2012 while layer hen raising which shared the third largest demand used about 1,830,000 tons of animal feed, up 4.24% from the previous year.

**Demand for main feed ingredients**

The growth of animal feed business as a result of the expansion of livestock farming had caused demand for its raw materials to increase, especially demand for main ingredients of most animal feed products such as maize, soybean meal and fishmeal. Although these raw materials could be produced domestically, they had to be imported in large amount due to excessive demand. Moreover, productive potential of some raw material is insufficient especially soybean which is used to produce soybean meal. In addition, most fishmeal product uses local raw material that has protein content less than what should be appropriate for animal feed production. As a result, growth of domestic supplies are not sufficient to meet demand for animal feed raw materials and considerable amount of them have to be imported each year. However, the government policy that has been rarely changed and likely to relax the control on import of raw materials helps the animal feed producers plan their production and import correctly and lessen the adversely effects arose from the volatility of raw material prices.



## 1. Maize

Animal feed business needed approximately 6,712,116.0 tons of maize in 2013, an increase of 11.05% from 2012. This demand level was higher than domestic supply which was only 4 – 4.5 million tons so that at least 100,000 tons of maize had to be imported in 2013.

In order to protect maize farmers, the import of maize must be in accordance with the following criteria set by the government.

- Import quota on maize from the WTO member countries is at 54,700 tons and the state-run Public Warehouse Organization was the sole authorized importer. In-quota import is subjected to 20% tariff. The non-quota import has to pay 73% tariff duty plus surcharge of 180 Baht per ton.
- Import from members of ASEAN Free Trade Area (AFTA) pay 0% tariff duty but time of import is limited to during March 1 to July 31 of 2013.
- Import under the contract farming scheme with neighboring countries and under the Ayeyawady – ChaoPhraya - Mekhong economic cooperation strategy (ACMECS) were subjected to 0% import tariff but time of import is limited to during March 1 to July 31 of 2013.
- Import in accordance with the Free Trade Agreement between Thai-New Zealand and Japan -Thailand Economic Partnership Agreement (JTEPA) is subjected to 0% import tariff.
- Import in accordance with the Free Trade Agreement between Thai-Australia within the quota of 7,696.84 tons was subjected to 10.67% import tariff. Only Public Warehouse Organization was the sole authorized importer. As for the out-of-quota import, time duration and amount was not limited but it will be subjected to 65.70% import tariff.
- Import in accordance with the Free Trade Agreement between ASEAN - Japan (AJCEP) is subjected to 12.7 % tariff if import during January 1 to March 31 of 2013. However, the import during April 1 to December 31 of 2013 is subjected to only 10.9% import tariff.
- Import in accordance with the Free Trade Agreement between ASEAN – Korea (AKFTA) is subjected to 8.89% import tariff.
- Import other than as stated above pay 2.75 Baht per kilogram of import tariff plus surcharge of 1,000 Baht per ton, with no limitation on import quantity and no specific time period.



## 2. Soybean Meal

Animal feed business demanded approximately 3,973,306.2 tons of soybean meal in 2013, an increase of 9.08% from the previous year. This demand was too high to be sufficiently supplied by domestic soybean meal which was a by-product of the soybean extracting industry. As a result, large amount of soybean meal had to be imported. The major sources of these imports were Argentina, Brazil, the United States, and India.

In 2013, the government policy on import of soybean meal was as follow:

- Import from WTO member countries within the arranged quota is restricted to be made only by specified association and organization such as Thai Broiler Processing Exporters Association, Animal Feed Producers Association of Thailand, etc. These associations are authorized to import soybean meal from WTO members under the minimum allowance condition with no limit on quantity and duration of import. These authorized importers pay only 2% tariff duty while others who import beyond quota limit or unauthorized importers had to pay high tariff duty of 119%. However, these authorized importers have to sign contract with the Ministry of Agricultural and Cooperative to buy from vegetable oil extracting industry all domestic soybean meal produced from Thai soybean at the guaranteed price.
- Import from members of ASEAN Free Trade Area (AFTA) pay tariff duty of 0% with no quota and time limit.
- Import from Australia and New Zealand in accordance with the Free Trade Agreement and import in accordance with Japan -Thailand Economic Partnership Agreement (JTEPA) is subjected to 0% tariff duty.
- In-quota import from Korea in accordance with ASEAN-Korea Free Trade Agreement (AKFTA) is subjected to 3.33% tariff duty and will be reduced to 2.22% in 2014.
- Import from countries other than those specified above was not subjected to quota and time limit but the tariff rate was high at 6% plus the surcharge of 2,519 Baht per ton.



### 3. Fish Meal

In 2013, animal feed industry had to use approximately 645,806.7 tons of fish meal as its raw material, a decrease of 5.39% from the previous year. Because of the insufficient local product, it is necessary that fish meal had to be imported. Import of fishmeal with protein content less than 60% had to get import permission from the government. Quantity and duration of import of fishmeal with protein content more than 60% was not restricted but import tariff was set in accordance with importing sources as follow:

- Import from members of ASEAN Free Trade Area (AFTA) and import in accordance with the Free Trade Agreement between Thai-Australia and Thai-New Zealand was subjected to 0% tariff duty.
- Import in accordance with the Free Trade Agreement between ASEAN-China and ASEAN-Australia-New Zealand is subjected to 0% tariff duty.
- In-quota import from Korea in accordance with ASEAN-Korea Free Trade Agreement (AKFTA) is subjected to 10% tariff duty.
- Import in accordance with the Japan-Thailand Economic Partnership Agreement (JTEPA) is subjected to 1.67% import tariff if import during January 1 to March 31 of 2013. However, the import during April 1 to December 31 of 2013 is subjected to only 0% import tariff.
- Import from sources other than specified above is subjected to 15% import tariff for the fishmeal with protein content more than 60%. Fishmeal with protein content less than 60% is subjected to 6% import tariff.

#### Trend for 2014

It is forecasted that more political stability in the late 2014 would moderately raise Thai economic growth in 2014. Moreover, the lift of import ban on Thai frozen chicken meat by Japan as well as the recovery from prolonged economic recession of important export markets for Thai products would support the growth of livestock production business and hence the animal feed industry. Total demand for animal feed in 2014 is forecasted to be approximately 16,455,024 tons, a decrease of merely 0.12% from 2013. This total demand may be classified in accordance with the main feed raw materials that there will be 620,104.3 tons of demand for fishmeal, 3,954,352.3 tons of demand for soybean meal, 6,743,982.5 tons of demand for maize and 1,512,132.8 tons of demand for broken-milled rice.



Broiler-raising business will use highest proportion of animal feed produced in 2014. It is forecasted that this business will use about 5,328,037 tons of animal feed or 32.38% of total feed demand. Next to the broiler-raising, demand for animal feed of swine and layer hen raising business will be approximately 4,720,000 tons and 1,840,000 tons, which will respectively be 28.68% and 11.18% of the total animal feed produced in 2014.

At this forecasted level of demand, feed raw materials especially maize, soybean meal, and fish meal may have to be imported at amount not less than in 2013. It is also expected that the measures imposed on the import of animal feed raw materials in 2014 would not be different from those in the previous year.

In conclusion, the expansion and growth potential of Thai animal feed industry in 2014 will depend on factors that may cause positive effects as well as negative effects on the industry as follow.

**Positive factors**

- Free trade agreement between Thailand and other ASEAN members as well as non-ASEAN countries such as Japan has considerably reduced import tariffs on the necessary animal feed raw materials. Not only the agreement helps relieve the shortage of raw materials, it also helps neutralize some negative effects caused by the rising of these raw material prices.
- Thai economics is anticipated to improve in 2014 as the demand in livestock products. Particularly, the chicken meat market is growing both domestic market and international markets which can boost the growth of feed business industry.
- Government policy concerning the import of animal feed raw materials which is likely to provide more support on livestock raising business would also be helpful for animal feed industry.

**Negative factors**

- The nationwide increase of minimum wage rate to 300 Baht per day in accordance with the government policy directly raises the production cost in the animal feed industry. Furthermore, the minimum wage increased also raises the transportation cost as well as cost of producing animal feed raw materials such as maize, soybean meal and fishmeal so that it will indirectly raise the production cost of animal feed products.



- Although the import of main feed raw materials is more liberated, many import restriction measures imposed by the government still exist. These measures may raise the cost of animal feed production so high that the competitive potential of Thai livestock products would be worsen.
- World demands for maize and soybean which are main feed raw materials have been increasing consistently. Not only they are used to in the animal feed production, maize and soybean are also important raw materials for the manufacturing of alternative energy which will be used as substitute for the expensive petroleum products. Because demands for maize and soybean have increased at rapid rate while their supplies cannot be sufficiently produced and may be affected by the unfavorable weather, prices of these raw materials may rise markedly and harmfully affect the animal feed industry. Purchasing power of domestic consumers is reduced as a result of high inflation while the economies of some main export markets of Thai product are still not fully recovered. The slow growth of demand would critically affect the growth of livestock production and hence the animal feed industry.
- Purchasing power of domestic consumers is reduced as a result of high inflation while the economies of some main export markets of Thai product are still not fully recovered. The slow growth of demand would critically affect the growth of livestock production and hence the animal feed industry.



Estimated Demand for Animal Feed

(2012-2014)

Volume: ton

| Animal Populations     | 2012           |           | 2013           |           | 2014           |           |
|------------------------|----------------|-----------|----------------|-----------|----------------|-----------|
|                        | Volume of feed | Share (%) | Volume of feed | Share (%) | Volume of feed | Share (%) |
| Broiler                | 4,597,164      | 30.20     | 5,428,566      | 32.95     | 5,328,037      | 32.38     |
| Broiler parent stock   | 716,184        | 4.70      | 747,432        | 4.54      | 733,824        | 4.46      |
| Young layer hen        | 841,967        | 5.53      | 794,950        | 4.83      | 794,950        | 4.83      |
| Layer hen              | 1,765,200      | 11.59     | 1,840,000      | 11.17     | 1,840,000      | 11.18     |
| Layer hen parent stock | 24,000         | 0.16      | 26,800         | 0.16      | 26,800         | 0.16      |
| Swine                  | 3,835,000      | 25.19     | 4,336,500      | 26.32     | 4,720,000      | 28.68     |
| Swine breeder          | 837,000        | 5.50      | 855,600        | 5.19      | 883,500        | 5.37      |
| Duck                   | 252,000        | 1.66      | 252,000        | 1.53      | 264,600        | 1.61      |
| Duck breeder           | 21,900         | 0.14      | 21,900         | 0.13      | 22,995         | 0.14      |
| Layer duck             | 169,000        | 1.11      | 169,000        | 1.03      | 169,000        | 1.03      |
| Dairy cow              | 574,875        | 3.78      | 591,300        | 3.59      | 620,865        | 3.77      |
| Prawn                  | 960,000        | 6.31      | 810,000        | 4.92      | 450,000        | 2.73      |
| Fish                   | 630,476        | 4.14      | 600,453        | 3.64      | 600,453        | 3.65      |
| Total                  | 15,224,766     | 100.00    | 16,474,501     | 100.00    | 16,455,024     | 100.00    |

Source: Animal Feed Producers Association of Thailand

Estimated Demand for Animal Feed Raw Materials

(2012-2014)

Unit: ton

| Raw Materials      | 2012        | 2013        | 2014        |
|--------------------|-------------|-------------|-------------|
| Fish Meal          | 682,588.6   | 645,806.7   | 620,104.3   |
| Soybean Meal       | 3,642,593.3 | 3,973,306.2 | 3,964,352.3 |
| Maize              | 6,044,506.0 | 6,712,166.0 | 6,743,982.5 |
| Broken-milled Rice | 1,309,305.0 | 1,417,975.0 | 1,512,132.8 |

Source: Animal Feed Producers Association of Thailand



**Grandparent Chicken Farm**

**(a) Marketing characteristic of the product**

**Significant competitive strategy**

The Company sells parent chicks to related companies i.e. Krungthai Feedmill Public Company Limited and Krungthai Farm Company Limited and general animal raisers that operate parent chicks farming both domestic and foreign market. The Company emphasises on quality of products to meet international standards and control of cost of production in order to gain competitive advantage.

**Nature of customers**

Customers of the Company are related companies and general customers both in the domestic and foreign market.

**Target customers**

Customers of the Company are related companies and general customers both domestic and foreign market.

**Distribution and distribution channel**

The Company distributes parent chicks to Krungthai Farm Company Limited and Krungthai Feedmill Public Company Limited and to general customers both in the domestic and foreign market.

**(b) Competitive conditions within the industry**

This industry is highly competitive, the competitors are the same group that export chicken. However, since GFPT group operates fully integrated business, the competition is not intense. The Company mostly sells chicks to related companies.

**Parent Chicken Farm**

**(a) Marketing characteristic of the product**

**Significant competitive strategy**

The Company sells broiler chicks to related companies i.e. M.K.S. Farm Company Limited and sells egg laying chicks to Krungthai Feedmill Public Company Limited and to general animal raisers that operates egg laying chicken farm. The Company emphasises on quality of products to meet international standards and control of cost of production in order to gain competitive advantage.



Nature of customers

The Company sells broiler chicks to only 1 customer, M.K.S. Farm Company Limited, a related company with the same group of major shareholder. For egg laying chicks, the Company sells to Krungthai Feedmill Public Company Limited, a related company, and to the general customers that operates egg laying chicken farm business.

Target customers

Customers of the Company are related companies and general customers that operate egg laying chicken farm business.

Distribution and distribution channel

The Company distributes to customer including M.K.S. Farm Company Limited and Krungthai Feedmill Public Company Limited and to general customers that operate egg laying chicken farm business.

**(b) Competitive conditions within the industry**

This industry is highly competitive, the competitors are the same groups that export chicken. However, since GFPT group operates fully integrated business, the competition is not intense. The Company mostly sells chicks to related companies.

Broiler Farm

**(a) Marketing characteristic of the product**

Significant competitive strategy

The Company sells all broilers to GFPT Public Company Limited (parent company) and GFPT Nichirei (Thailand) Company Limited (joint venture company of GFPT). The Company distributes boilers to only 2 companies, which both are related companies, consequently, there is no competition in this business. The main strategy is the Company's extensive experience in this business for many decades, therefore, gained customers' confident on the quality of products. Nonetheless, the Company emphasises on quality of products to meet international standards and control of cost of production in order to gain competitive advantage.

Nature of customers

Customers of the Company are GFPT Public Company Limited, a parent company, and GFPT Nichirei (Thailand) Company Limited, a joint venture company with the parent company.



Target customers

Customers of the Company are the parent company and a joint venture company with the parent company. All broilers produced by the Company are purchased by both companies to eviscerate and process as processed food and sell it in both domestic and foreign markets.

Distribution and distribution channel

The Company distributes goods in the domestic market through GFPT Public Company Limited and GFPT Nichirei (Thailand) Company Limited.

**(b) Competitive conditions within the industry**

The Company does not face any competition in this industry because the Company sells all broilers to the parent company and a related company (joint venture company with the parent).

Processed Food

**(a) Marketing characteristic of the product**

Significant competitive strategy

The marketing strategy on determining the selling price depends on the commodity price of chicken in the domestic market. However, since the Company only buys chicken meat from the parent company, the Company is able to estimate cost and control quality of raw material. The Company also focuses on meeting the international standards to ensure quality and safety of the products. The Company emphasizes on responding to the customers need and develop new product to meet the behavioral changes of the consumers, as well as, expanding the distribution channel to reach even more to consumers. As a result, the Company gained competitive advantage over the competitors in the same industry.

Nature of customers

Customers can be categorized into 2 groups as follow:

Group 1 Customers in the fresh market

Group 2 Customers in provincial areas

Target customers

General consumers who favor sausages and other processed food and wholesaler/retailers.

Distribution and distribution channel

Products of GF Foods Company Limited distributes in Bangkok and other provinces by having distribution centers or branches in provinces such as Nakornpathom, Ubolratchathani, Bureerum, Nakornsawan,



Lampang, Tak, Chiangmai, Petchaburi, Phuket, Surathani and Hat-Yai, etc. under the brand “GF Foods”. The customers are wholesales/retailers or general consumers.

**(b) Competitive conditions within the industry**

Processed food made from chicken such as sausages are popular because of its high in protein, convenient and fast to consume. The general market is the domestic market. The demand of sausages consumption is in an upward trend due to the consumers' behavioral and life style changes. Therefore, operators in the processed food industry expand its manufacturing capacity to produce ready to eat food, consequently, higher competition within the industry.

**2.3 Sourcing of products**

**Chicken Evisceration and Processed Chicken**

The Company buys raw material (chicken) only from M.K.S. Farm Company Limited, a subsidiary company. The Company has 1 slaughterhouse located in Samutprakarn with the production capacity of 148,600 ton in 2013.

**Environmental impact**

There is minimum environmental impact occurs from chicken evisceration, however, there will be remains left over from the production. The Company manages the chicken remains by having wastewater treatment to control the water quality before flow into the public water supply. The Company is aware and conscious of being a part of the society by having socially responsible activities with the locals, policies to manufacture environmentally friendly products and services, comply with environmental laws, promote activities that protect the environment and conserve energy, as well as, policies to promote the use of environmentally friendly products. In the past 3 years, the Company has never received a complaint or a lawsuit or a dispute about environmental issue.

**Feed mill**

The Company buys raw material such as corn, soybean residue, protein from plants and other ingredients of animal feed from both inside Thailand and import from other countries depending on the domestic supply and commodity price. The Company faced shortage of raw materials used in the manufacture of animal feed due to insufficient supply of corn and soybean residue in the domestic market, thus, the Company will have to rely on import of raw materials from other countries. Furthermore, there is other limitation in raw material sourcing including import quota measures, price measures, and tax measures.

At present, the Company has 4 factories that manufacture animal feed, which consisted of 1 factory producing land animal feed and 2 factories producing aquatic animal feed. All 3 factories are located in the same area in Samutprakarn province with total capacity in the year 2013 of 599,000 tons. The other factory



producing land animal feed located in Ban Bueng, Chonburi has capacity of 512,000 tons. In addition, the Company also have parent chicken farm to produce seed eggs to Krungthai Farm Company Limited. In the year 2013, the Company has capacity to produce 21 million seed eggs from 3 farms in Chonburi.

**Environmental impact**

The manufacturing of animal feeds may cause dust and smell in the surrounding areas. The Company is aware of this impact and implemented preventive measures, as a result, in the past years, the Company has not faced any complaints from the surrounding areas. The water use to produce animal feeds and parent chicken farm do not have any environmental impact because of the implementation of an evaporative cooling system. Husks are used as foundation in the animal house, thus, great effect on the growth of animals and eliminate the smell. Trees are planted in some part of area to provide natural shade. Also, there is wastewater treatment to control the quality of water and convert it to clean water before flowing into the public water supply. The Company is aware and conscious of being a part of the society by having socially responsible activities with the locals, policies to manufacture environmentally friendly products and services, comply with environmental laws, promote activities that protect the environment and conserve energy, as well as, policies to promote the use of environmentally friendly products. In the past 3 years, the Company has never received a complaint or a lawsuit or a dispute about environmental issue.

**Grandparent chicken farm**

The Company imported grandparent chicken from abroad to produce parent broiler stock and sells it to Krungthai Farm Company Limited and Krungthai Feedmill Public Company Limited, which are related companies. In the year 2013, the Company's capacity to produce parent chicks is 1,100,000 chicks by having 1 farms located in Chonburi.

**Environmental impact**

Grandparent farming needs to be certified by the Department of Livestock Development, Ministry of Agriculture and Cooperatives in regards to the best practice of chicken farming and hatchery, this business does not have any environmental impact because of the implementation of an evaporative cooling system. Husks are used as foundation in the animal house, thus, great effect on the growth of animals and eliminate the smell. Trees are planted in some part of area to provide natural shade. Also, there is wastewater treatment to control the quality of water and convert it to clean water before flowing into the public water supply. The Company is aware and conscious of being a part of the society by having socially responsible activities with the locals, policies to manufacture environmentally friendly products and services, comply with environmental laws, promote activities that protect the environment and conserve energy, as well as, policies to promote the use of environmentally friendly products.



**Parent chicken farm**

The Company buys broiler parent chicks from GP Breeding Company Limited, a related company, to produce broiler chicks. Egg laying parent chicks are imported from abroad to produce egg laying chicks. The Company has total 5 broiler farms and 1 egg laying farm, all farms are located in Chonburi province. In the year 2013, the Company has capacity to produce 92 million broiler chicks and 3 million egg laying chicks.

**Environmental impact**

The hatchery business has been certified by the Department of Livestock Development, Ministry of Agriculture and Cooperatives in regards to the best practice of chicken farming and hatchery, this business does not have any environmental impact because of the implementation of an evaporative cooling system. Husks are used as foundation in the animal house, thus, great effect on the growth of animals and eliminate the smell. Trees are planted in some part of area to provide natural shade. Also, there is wastewater treatment to control the quality of water and convert it to clean water before flowing into the public water supply. The Company is aware and conscious of being a part of the society by having socially responsible activities with the locals, policies to manufacture environmentally friendly products and services, comply with environmental laws, promote activities that protect the environment and conserve energy, as well as, policies to promote the use of environmentally friendly products.

**Broiler farm**

The Company buys broiler chicks, a major raw material, from Krungthai Farm Company Limited, a related company. The chicken feed also buys from a related company - Krungthai Feedmill Public Company Limited. At present, the Company has 12 farms located in Chonburi and total capacity of 73 million chicken in 2013.

**Environmental impact**

The broiler farm business has been certified by the Department of Livestock Development, Ministry of Agriculture and Cooperatives in regards to the best practice of chicken farming and hatchery, this business does not have any environmental impact because of the implementation of an evaporative cooling system. Husks are used as foundation in the animal house, thus, great effect on the growth of animals and eliminate the smell. Trees are planted in some part of area to provide natural shade. Also, there is wastewater treatment to control the quality of water and convert it to clean water before flowing into the public water supply. The Company is aware and conscious of being a part of the society by having socially responsible activities with the locals, policies to manufacture environmentally friendly products and services, comply with environmental laws, promote activities that protect the environment and conserve energy, as well as, policies to promote the use of environmentally friendly products.



**Processed Food**

Chicken meats (raw material) are purchased only from GFPT Public Company Limited, a parent company. Therefore, there is no problem in sourcing raw material to feed the processed food business. The factory is located in Samutprakarn with total capacity of 9,000 tons in 2013.

**Environmental impact**

Process food business has no environmental impact, however, there will be remains left over from the production, therefore, the Company has wastewater treatment to control the water quality before flows into the public water supply. The Company is aware and conscious of being a part of the society by having socially responsible activities with the locals, policies to manufacture environmentally friendly products and services, comply with environmental laws, promote activities that protect the environment and conserve energy, as well as, policies to promote the use of environmentally friendly products. In the past 3 years, the Company has never received a complaint or a lawsuit or a dispute about environmental issue.

**2.4 Undelivered Work**

-None-



### **3. Risk Factors**

Nowadays, business trend have changed dramatically and rapidly in both domestic and international market. Risk management is essential for the Company and its subsidiaries to survive and persist when unexpected situation occur.

The Company has been continuously monitoring the business situation and risk factors closely as well as assessing any potential impact to the Company both short term and long term in order to use them as a guide in the risk management. Thus, it is deem necessary for the Company to have a mechanism to effectively manage and control standards and quality, as well as, prepare to handle risks in advance in order to strengthen the Company's business.

The Company applies the COSO ERM Framework in risk management. The Company has established the Audit and Risk Management Committee to identify risk factors and determined ways to mitigate these risks to the acceptable levels. All departments in the Company are the risk owners and responsible for monitoring and managing the risk. Nonetheless if the risks factors incur, it may impact the performance and / or the financial position of the Company. The Company may not perform as expected and/or impact the ability to achieve its objectives and goals. There may be other unknown risks or risks that may not materially affect the Company at this moment. The main risks factors that may affect the Company consist of two types of risks, the internal risk factors and external risk factors. For the internal risk factors, which is the risk that the Company's Board and management try to diminish or eliminate as much as possible, while the external risk factors is the risk that the Company's Board and management have tried to impose management policies to reduce the negative impact as much as possible, as will be discussed in each of the following risk factors;

#### **1. Internal Risk factors**

##### **1.1 Financial Liquidity**

This industry requires high investment. If unexpected event occurs, it may cause liquidity problems.

##### **Risk Management**

The Company has policy to continually maintain liquidity position by focusing on investment projects with acceptable risk and high feasibility level. In addition, the Company also arranges the revolving credit facility to manage liquidity problem, therefore, the Company is confident that there will be adequate funding when unexpected situation happens.

##### **1.2 Marketing and Sales**

Marketing and sales is considered to be the important success factor for business, therefore, the Company is committed to build long lasting brand that is continuously acceptable by consumers.



**Risk Management**

We build the management team to support customer from before sale service, during sale service, and after-sales service. This will bring the confidence to consumers. In addition, the Company use new distribution channels for market expansion such as E – Marketing and Social media etc.

**1.3 Human Resources**

Recruiting good and talented people is difficult but keeping the good people is more difficult. The Company highly focused on retaining human resources that will drive the business to grow.

**Risk Management**

The Company has provided both opportunities and channels for employees to express their talents which are the main idea to make employees aware of their own value and commitment to develop the Company to steadily and sustainably grow, embed responsibilities to all stakeholders, as well as entrepreneurial spirit.

**1.4 The Confidence of Consumer in Food Safety.**

The consumer behavior trend is more focuses on fresh, clean, and safety of chicken meat products and cooked products. Therefore, the Company's operations may be affected if the consumers have lower confidence on food safety due to the risk of contaminated products or perishable products; which may occur during any production process and from other raw materials in the production, transportation and storage. Thus, the Company shall implement process that will ensure freshness, cleanliness, and safe product for consumption.

**Risk Management**

The Company pays high attention on the food safety. In order to reduce the risk, the Company implemented new technology in the production process to meet international standards and able to effectively trace the system back for error detection. Therefore, the Company has quality assurance in every production process. The quality control of raw material is done at all stages starting from the receiving of raw materials packaging design, packing, transportation, storage, and handling to ensure that the standard are met. In addition, the Company set out procedure for product compliant and product recall to ensure the safety of consumers and gain customers' confidence in the product quality. Thus, it is evident that the Company has been awarded on the quality assessment of various products such as GMP, HACCP, ISO 9001:2000, etc. which is a verification for quality products

**1.5 Risk on Administrative Management**

As of October 31, 2013, the major shareholders, the Sirimongkolkasem family, hold 704,023,240 shares or 56.15% of total shares of the Company which allow the Sirimongkolkasem family can control the votes in the shareholders' meeting such as the appointment of the Company's directors or other matters that required majority votes except the matters need to be approved by 3/4 of the shareholders who attends the Meeting. Thus, the minority shareholders do not have the power to check and balance the vote of the majority shareholders.

**Risk Management**

The Company has provided explanation to the major shareholders related to the conditions, guidelines including the conservative judgment to obtain the benefits to the Company. The business activities are based on fair, equitability and transparency. The authorized directors and executives are responsible for their duties and the results of their actions to all stakeholders of the Company including shareholders, creditors, employees, customers, suppliers and the public.

**4. External Risk Factors****4.1 Disease Outbreaks**

The disease outbreaks in animals would affect confidence of the consumer. Although, most animal disease may not be able to contact with people directly, it may impact directly to the Company's performance due to the declining in meat consumption. In particular, the avian influenza (AI) outbreak, though has no direct impact on the Company's operation, it significantly impacts the confidence of consumers to avoid the consumption of chicken meat. If the outbreak magnifies, it will impact the export market that has trade limit, as a result, the Company cannot operate effectively.

**Risk Management**

The Company has been monitoring and surveillance of the disease in animals both domestic and other countries. The Company mitigates the risk of disease outbreak by improving its chicken farm management system and technologies including using the closed chicken houses with Evaporative Cooling System (EVAP) to prevent air carried germs to enter the chicken house. The Company has animal welfare policy and practice that comply with the international standard. There are many measures to prevent disease outbreaks in poultry farms of the Company. The Company has been certified by the Department of Livestock, Ministry of Agriculture and Cooperatives for the good agricultural practices for its integrated chicken farms including breeder farms, hatchery facilities, and broiler farms. In addition, the Company provides up-to-date knowledge about animal diseases to its employee. The Company assures that its employees understand the risk factors, able to assess risks associated with the disease outbreaks, and can perform early warning to prevent the spreading of disease.



The Company can prevent the risk of disease outbreak at its farm facilities; however, the disease outbreak still have indirect impact to the Thai chicken industry as a whole and also have impact on its ability to generate revenue. For the previous bird flu outbreak, the Company cannot export frozen chicken and processed chicken. But today the situation has returned to normal. The Company can export the frozen chicken. In addition, Japan allows imports of poultry from Thailand for both frozen chicken and processed chicken. However, diseases outbreak is a factor that cannot be controlled.

## **2.2 Fluctuations in the Prices of Feed Materials**

The price volatility of feed commodities such as corn, soybean meal, and fish meal has an impact on the product cost of the feed. The commodity price changes according to volume output in each period and crop season. In addition, the price is also determined by the demand and supply of the world markets as well as domestic market in Thailand. Not only animal feed production but also demand for renewable energy and speculation in commodity futures market also affect the demand of these commodities. These factors may affect the price volatility of raw material. As for the supply side, climate changes and natural disasters may contribute to lower crop production. These factors are uncontrollable and unexpected. Therefore, the price volatility of these commodities is the risk that has impact on the Company's performance. If commodities prices increase higher than estimated, the production costs of feed and chicken meat will be higher.

### **Risk Management**

The Company mitigated the risk of commodity price by assigning the specialized purchasing unit with high expertise and experience in procurement of these raw materials to follow up related news closely, to look for alternative sources in term of quality and availability to meet the demands of production. In addition, the Company builds more storage to store these raw materials and maintain higher stock level. The Company has the feed nutritionists to modify the feed formulation by using other equivalent feed materials. The Company sometime uses derivative financial instruments to manage its exposure from the price fluctuations of the imported feed materials. When the Company expects that the future commodity prices tend to increase, then, the Company can adjust the selling feed price to compensate with the increased cost of raw materials. However, the feed price increase must be approval by the Department of Internal Trade. Due to the fact that the government controls the feed price, the rise in feed price may not compensate the total increasing amount in commodity prices.

**2.3 Price Volatility of Livestock and Meat Products**

The main products of the Company are chicken day-old-chicks and chicken meat products that generate income to the Company. The prices of these products were determined by the market's demand and supply in each period. The factors that affected the demand consist of purchasing power, confidence, and seasonal demand. When the supply of these products exceeds the demand, the price of these products may be lower than expected and also impact on the revenue of the Company.

**Risk Management**

The Company mitigates the risk from the price volatility of the chicken meat products by launching new products and adds value in the products to fit the demand of consumers. Nonetheless, the price volatility of day-old-chicks, chicken meat, and chicken parts, may be beyond the control and expectation of the Company.

**2.4 Price Volatility on Fuel Price**

During the past few years, the fuel price in the world market had fluctuated dramatically, which were difficult to avoid the effect from the fluctuation of fuel price. According to this fluctuation, it has direct and indirect impacts on the Company's performance including higher production cost and transportation cost.

**Risk Management**

The Company mitigates the risk from the volatility of fuel price by managing the logistic system. A subsidiary company has 1 feed mill plant at Banbueng, Chonburi Province which is the close proximity from its broiler farm facilities, located in Chonburi Province. Due to the shorter distance of the new feed mill, which previously located on Bangplakod, Samutprakarn Province, the transportation cost of the chicken feed to the broiler farms of the group was reduced. Previously, the Company can reduce the production cost and transportation cost accordingly.

**2.5 Changes in Consumers' Behavior**

The lifestyle of consumer is changing rapidly, product development is important. We have to study and understand the consumers' behavior for both domestically and internationally in order to deliver the products that meet consumers' demand and satisfaction.

**Risk Management**

The Company has a team to study the trend and change of its consumers' behavior both domestic and international market by focusing on collecting consumer data in depth. The results of the study are used in product development and marketing planning in order to offer the suitable products to fit the need of the customers and also gain their satisfactions. Previously, the Company is able to achieve consumers' demand and satisfaction.



## **2.6 Competition and the liberalization of trade and the move towards becoming an ASEAN Economic Community (AEC).**

Business is more competitive because there are new companies entering the market, each company focus to increase sales and profit along with the ASEAN Economic Community (AEC) in 2015. The AEC will affect the flexibility to transfer resources, capital, labor and larger international trade, which results in higher competition by importing from countries which have lower production cost including relocation of production base to the countries which have lower wages. These facts will impact the revenues and operations of the Company.

### **Risk Management**

The Company is preparing for price competition, quality, and product differentiation by developing technologies to produce the products that meet the needs of consumers and sufficient for the market demand. Our staffs are studying and monitoring the needs of foreign markets and sources of raw materials used in the production from the member countries to find lower price of raw materials with high quality. Also, increase product distribution channels and develop an effective delivery model to reduce risks on time management and minimize damage in the products of Company.

## **2.7 The Volatility on Foreign Currency Exchange Rate**

The Company has foreign currencies transactions for both exports and imports. Therefore, the Company may be affected by the volatility of the foreign currencies exchange rates. In terms of exports, if Thai Baht appreciated, it would lower the revenue after converting to Baht. For the import of raw materials that used to produce feed mill, if Thai Baht depreciated, it would increase the cost of raw materials after converting to Baht. The Company also imports machinery, supply materials, and some equipment from overseas.

### **Risk Management**

The Company and subsidiaries use financial instruments to mitigate the foreign currency exchange risk by setting a policy to buy forward contracts with several financial institutions to manage the volatility of foreign currencies transactions. As a result, the Company is able to recognize accurate production cost and able to effectively set the selling price. Thus, the Company can ensure that the target profit can be reach as expected. However, the aforementioned forward contract does not guarantee that the Company shall be able to mitigate the exchange rates better than the market because the exchange rate cannot be accurately predicted on the date of purchase.

## **2.8 Volatility on Interest Rates**

Interest rate risk arises from changes in market interest rates against the future expectation, which affected the operation and cash flow of the Company.



#### **Risk Management**

The Company mitigates the interest rate risk by assigning a team to closely monitor the trend of interest rates. In addition, the Company set policy to manage the interest rate risk by using fixed interest rate for its long-term loan to ensure that the cost of funds is comparable to the market rate in the future.

#### **2.9 Risks on Rules and Regulations**

The Company exports its chicken meat products to several countries, which can be impacted by the international trade barriers. According to the free trade agreement, the tax barriers i.e. tariff had become less popular; however, the non-tax barriers are imposed for example, the quota system, the additional measures to improve hygiene standards, and setting higher importing standard. The new market expansion is also difficult and time consuming because each country has a policy to protect its livestock industry. The changes in these factors that may have an impact on production costs, sales and profitability of the Company in the future either directly or indirectly as well as the competitiveness of the Thai chicken export industry.

#### **Risk Management**

To reduce the risk of international trade barriers, the Company continuously concentrates on updating the law and regulations of the international trade in order to develop strategic business direction in accordance with the international regulations. However, the trade barrier is uncontrollable and unpredictable, thus, the risk cannot be fully managed to protect the business operation.

#### 4. Assets for Business Operation

4.1 The characteristics of fixed assets of GFPT Public Company Limited (the “Company”) and its subsidiary company’s that are used in business operations are as follow:

| Type/Characteristic                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Ownership                                                                                                                                                                                                                                                                                  | Value<br>(MB.)                                                                  | Obligation                                                                                                                                                                                                                                                                                                                                     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1. Land</b><br><br>1.1 Land for factory:<br><br>- Chicken evisceration and processed food 4 plots at Samutprakarn, total area 46-1-85.25 Rai<br><br>- Feed mill 23 plots at Samutprakarn and Chonburi, total area 290-1-92.50 Rai<br><br>1.2 Land for chicken farm<br><br>- 13 plots at Chonburi, total area 736-1-11 Rai<br><br>- 54 plots at Chonburi, total area 3,596-1-36 Rai<br><br>- 28 plots at Chonburi, total area 2,269-0-79 Rai<br><br>- 4 plots at Chonburi, total area 1,824-0-76 Rai | <p>the Company</p> <p>Krungthai Feedmill Public Company Limited, a subsidiary company</p> <p>the Company</p> <p>M.K.S. Farm Company Limited, a subsidiary company</p> <p>Krungthai Farm Company Limited, a subsidiary company</p> <p>GP Breeding Company Limited, a subsidiary company</p> | <p>155.58</p> <p>87.55</p> <p>43.27</p> <p>137.72</p> <p>62.63</p> <p>60.00</p> | <p>mortgaged 4 plots with financial institution THB 327 M</p> <p>mortgaged 23 plots with financial institution THB 675 M</p> <p>mortgaged 12 plots with financial institution THB 560 M</p> <p>mortgaged 46 plots with financial institution THB 319 M</p> <p>mortgaged 28 plots with financial institution THB 80 M</p> <p>No obligations</p> |
| <b>2. Factory</b><br><br>2.1 Factory to manufacture<br><br>- Chicken evisceration and processed food 1 place at Samutprakarn<br><br>- Feed mill 2 places at Samutprakarn and Chonburi                                                                                                                                                                                                                                                                                                                  | <p>the Company</p> <p>Krungthai Feedmill Public Company Limited, a subsidiary company</p>                                                                                                                                                                                                  | <p>263.36</p> <p>760.01</p>                                                     | <p>mortgaged with financial institution THB 450 M</p> <p>mortgaged with land</p>                                                                                                                                                                                                                                                               |



| Type/Characteristic                                                                                                                                                                                                                                                             | Ownership                                                                                                                                                                                                                                                                                                           | Value<br>(million<br>Baht)                           | Obligation                                                                                                                 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| 2.2 Chicken and hatchery farm<br>- 188 houses, Chonburi<br>- 90 houses, Chonburi<br>- 7 houses, Chonburi<br>- 13 houses, Chonburi                                                                                                                                               | M.K.S. Farm Company Limited, a subsidiary company<br>Krungthai Farm Company Limited, a subsidiary company<br>GP Breeding Company Limited, a subsidiary company<br>Krungthai Feedmill Public Company Limited, a subsidiary company                                                                                   | 803.48<br>244.74<br>124.05<br>157.48                 | No obligations<br>mortgaged with land<br>No obligations<br>No obligations                                                  |
| <b>3. Machinery</b><br>3.1 Machinery to manufacture<br>- Chicken evisceration and processed food 69 sets<br>- 2 Feed mill factories 5 sets<br>3.2 Machinery in chicken farms<br>- Hatchery equipment<br>20 sets<br>202 sets<br>- Chicken raising equipment<br>1 set<br>188 sets | the Company<br>Krungthai Feedmill Public Company Limited, a subsidiary company<br>GP Breeding Company Limited, a subsidiary company<br>Krungthai Farm Company Limited, a subsidiary company<br>Krungthai Feedmill Public Company Limited, a subsidiary company<br>M.K.S. Farm Company Limited, a subsidiary company | 456.39<br>147.66<br>6.16<br>22.74<br>20.25<br>160.47 | No obligations<br>mortgaged 4 sets value THB 100 M<br>No obligations<br>No obligations<br>No obligations<br>No obligations |



In addition to the assets that legally owned by the Company and its subsidiary companies , as at 31 December 2013, the Company and its subsidiary companies also rent office building as its head office, rent land for farming business and rent housing for employees from related persons as follow:

| No. | Type              | Lessor                                   | Terms of lease |                |                   |
|-----|-------------------|------------------------------------------|----------------|----------------|-------------------|
|     |                   |                                          | No. of years   | Effective Date | End Date          |
| 1.  | office building   | P. Charoen Phan Feedmill Company Limited | 3              | 1 August 2012  | 31 July 2015      |
| 2.  | land              | P. Charoen Phan Produce                  | 20             | 1 August 2007  | 31 July 2027      |
| 3.  | land              | P. Charoen Phan G.P. Farm                | 20             | 1 October 2003 | 30 September 2023 |
| 4.  | land and building | P. Charoen Phan Produce                  | 3              | 1 August 2012  | 31 July 2015      |

- Note :
1. The term of the rental agreements of office building, land and buildings are 3 years and renewable under certain conditions specified in the agreements
  2. The term of the rental agreements of land for housing and farm business are 20 years and renewable under certain conditions specified in the agreements. In the case, the agreements are not renewed, the lessee agrees that the buildings, equipments and building improvements on the rental land belong to the lessor.

#### 4.2 Investment policy in subsidiary and associated companies

The Company's policy is to investment and becomes a fully integrated poultry business that covers feed mill, grandparent chicken farm, parent chicken farm, broiler farm, chicken evisceration and processed food production. This will enable the Company to control quality and costs more efficiently. As for the 2 associated companies, although the Company holds 49% shares but the Company is able to management significant business operation such as raw material sourcing. The Company is the distributor of fresh chicken to McKey Food Services (Thailand) Company Limited; and M.K.S. Farm Company Limited (subsidiary company) is the distributor of fresh chicken to GFPT Nichirei (Thailand) Company Limited.



#### **5. Legal dispute**

The Company and its subsidiaries have no legal dispute or litigation that is considered to be material affects on its normal businesses operations. There are several minor litigations from its normal business activities such as cheque litigation.

The litigations have no negative impact on the assets of the Company and its subsidiaries. The value of the litigation is less than 5% of its shareholders' equity.



**6. Corporate Information**

**6.1 General Information**

**Issuing Company**

|                                                                |                                                                                           |
|----------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| <b>Name:</b>                                                   | GFPT Public Company Limited                                                               |
| <b>Type of Business:</b>                                       | Chicken Evisceration, Processed Chicken Food, and By-Products                             |
| <b>Head Office:</b>                                            | 312 Rama 2 Road, Bangmod, Jomthong, Bangkok 10150                                         |
| <b>Company Certificate No:</b>                                 | 0107537001471                                                                             |
| <b>Telephone:</b>                                              | 0-2473-8000                                                                               |
| <b>Facsimile:</b>                                              | 0-2473-8398                                                                               |
| <b>Home Page:</b>                                              | <a href="http://www.gfpt.co.th">www.gfpt.co.th</a>                                        |
| <b>Company Secretary and<br/>Investor Relations Department</b> | 02-4738000 e-mail: <a href="mailto:ir@gfpt.co.th">ir@gfpt.co.th</a>                       |
| <b>Internal Audit Department</b>                               | 02-4738000 e-mail: <a href="mailto:internalaudit@gfpt.co.th">internalaudit@gfpt.co.th</a> |
| <b>Registered Capital:</b>                                     | 1,400,000,000 baht                                                                        |
| <b>Paid-up Capital:</b>                                        | 1,253,821,000 baht                                                                        |
| <b>No. of Shares:</b>                                          | 1,253,821,000 shares                                                                      |
| <b>Type of Share:</b>                                          | Common Stock                                                                              |

**Juristic Persons that the Company holds more than 10% of Share****Subsidiary Company**

|                                |                                                                       |
|--------------------------------|-----------------------------------------------------------------------|
| <b>Name:</b>                   | <b>Krungthai Feedmill Public Company Limited</b>                      |
| <b>Type of Business:</b>       | Feed Mill and Parent Chicken Farm for Egg Production and Distribution |
| <b>Head Office:</b>            | 312 Rama 2 Road, Bangmod, Jomthong, Bangkok 10150                     |
| <b>Company Certificate No:</b> | 0107537001463                                                         |
| <b>Telephone:</b>              | 0-2473-8000                                                           |
| <b>Facsimile:</b>              | 0-2473-8398                                                           |
| <b>Home Page</b>               | <a href="http://www.ktfeefmill.co.th">www.ktfeefmill.co.th</a>        |
| <b>Registered Capital:</b>     | 400,000,000 baht                                                      |
| <b>Paid-up Capital:</b>        | 400,000,000 baht                                                      |
| <b>No. of Shares:</b>          | 40,000,000 shares                                                     |
| <b>Type of Share:</b>          | Common Stock                                                          |
| <b>% of Shareholding</b>       | 97.87%                                                                |

|                                |                                                                              |
|--------------------------------|------------------------------------------------------------------------------|
| <b>Name:</b>                   | <b>GP Breeding Company Limited</b>                                           |
| <b>Type of Business:</b>       | Grandparent Chicken Farm for Parent Stock Chicks Production and Distribution |
| <b>Head Office:</b>            | 312 Rama 2 Road, Bangmod, Jomthong, Bangkok 10150                            |
| <b>Company Certificate No:</b> | 0105536132457                                                                |
| <b>Telephone:</b>              | 0-2473-8000                                                                  |
| <b>Facsimile:</b>              | 0-2473-8398                                                                  |
| <b>Registered Capital:</b>     | 200,000,000 baht                                                             |
| <b>Paid-up Capital:</b>        | 200,000,000 baht                                                             |
| <b>No. of Shares:</b>          | 20,000,000 shares                                                            |
| <b>Type of Share:</b>          | Common Stock                                                                 |
| <b>% of Shareholding</b>       | 99.99%                                                                       |

**Subsidiary Company**

|                         |                                                                         |
|-------------------------|-------------------------------------------------------------------------|
| <b>Name:</b>            | <b>Krungthai Farm Company Limited</b>                                   |
| Type of Business:       | Parent Chicken Farm and Hatchery for Chicks Production and Distribution |
| Head Office:            | 312 Rama 2 Road, Bangmod, Jomthong, Bangkok 10150                       |
| Company Certificate No: | 0105521016944                                                           |
| Telephone:              | 0-2473-8000                                                             |
| Facsimile:              | 0-2473-8398                                                             |
| Registered Capital:     | 350,000,000 baht                                                        |
| Paid-up Capital:        | 350,000,000 baht                                                        |
| No. of Shares:          | 35,000,000 shares                                                       |
| Type of Share:          | Common Stock                                                            |
| % of Shareholding       | 99.99%                                                                  |

|                         |                                                   |
|-------------------------|---------------------------------------------------|
| <b>Name:</b>            | <b>M.K.S. Farm Company Limited</b>                |
| Type of Business:       | Broiler Farm                                      |
| Head Office:            | 312 Rama 2 Road, Bangmod, Jomthong, Bangkok 10150 |
| Company Certificate No: | 0105524028536                                     |
| Telephone:              | 0-2473-8000                                       |
| Facsimile:              | 0-2473-8398                                       |
| Registered Capital:     | 550,000,000 baht                                  |
| Paid-up Capital:        | 550,000,000 baht                                  |
| No. of Shares:          | 55,000,000 shares                                 |
| Type of Share:          | Common Stock                                      |
| % of Shareholding       | 99.99%                                            |

**Subsidiary Company**

|                                |                                                   |
|--------------------------------|---------------------------------------------------|
| <b>Name:</b>                   | <b>GF Foods Company Limited</b>                   |
| <b>Type of Business:</b>       | Processed Chicken Food                            |
| <b>Head Office:</b>            | 312 Rama 2 Road, Bangmod, Jomthong, Bangkok 10150 |
| <b>Company Certificate No:</b> | 0105525001496                                     |
| <b>Telephone:</b>              | 0-2473-8000                                       |
| <b>Facsimile:</b>              | 0-2473-8398                                       |
| <b>Registered Capital:</b>     | 40,000,000 baht                                   |
| <b>Paid-up Capital:</b>        | 40,000,000 baht                                   |
| <b>No. of Shares:</b>          | 400,000 shares                                    |
| <b>Type of Share:</b>          | Common Stock                                      |
| <b>% of Shareholding</b>       | 99.99%                                            |

**Associated Company**

|                                |                                                                                                             |
|--------------------------------|-------------------------------------------------------------------------------------------------------------|
| <b>Name:</b>                   | <b>McKey Food Services (Thailand) Limited</b>                                                               |
| <b>Type of Business:</b>       | Frozen Processed Food                                                                                       |
| <b>Head Office:</b>            | 210 Moo 1, Teparak Road, K.M. 20.5 Bangsaothong District,<br>Bangsaothong Sub-District, Samuthprakarn 10540 |
| <b>Company Certificate No:</b> | 0115536003282                                                                                               |
| <b>Telephone:</b>              | 0-2315-4763-4, 0-2315-4766-7                                                                                |
| <b>Facsimile:</b>              | 0-2315-4765                                                                                                 |
| <b>Registered Capital:</b>     | 100,000,000 baht                                                                                            |
| <b>Paid-up Capital:</b>        | 100,000,000 baht                                                                                            |
| <b>No. of Shares:</b>          | 1,000,000 shares                                                                                            |
| <b>Type of Share:</b>          | Common Stock                                                                                                |
| <b>% of Shareholding</b>       | 49.00%                                                                                                      |



**Associated Company**

|                                |                                                 |
|--------------------------------|-------------------------------------------------|
| <b>Name:</b>                   | <b>GFPT Nichirei (Thailand) Limited</b>         |
| <b>Type of Business:</b>       | Chicken Evisceration and Processed Chicken Food |
| <b>Head Office:</b>            | 77 Moo 4, Hang Sung, Nong Yai, Chonburi 20190   |
| <b>Company Certificate No:</b> | 0105551130397                                   |
| <b>Telephone:</b>              | 038-932-900                                     |
| <b>Facsimile:</b>              | 038-932-999                                     |
| <b>Registered Capital:</b>     | 3,014,000,000 baht                              |
| <b>Paid-up Capital:</b>        | 3,014,000,000 baht                              |
| <b>No. of Shares:</b>          | 30,140,000 shares                               |
| <b>Type of Share:</b>          | Common Stock                                    |
| <b>% of Shareholding</b>       | 49.00%                                          |

**6.2 Other Important Information**

|                        |                                                                                                  |
|------------------------|--------------------------------------------------------------------------------------------------|
| <b>Registrar Name:</b> | <b>Thailand Securities Depository Co., Ltd.</b>                                                  |
| <b>Address:</b>        | 62 The Securities Exchange of Thailand Building,<br>Ratchadapisek Road, Klongtoey, Bangkok 10110 |
| <b>Telephone:</b>      | 0-2229-2800<br>0-2229-2888                                                                       |
| <b>Home Page:</b>      | <a href="http://www.tsd.co.th">www.tsd.co.th</a>                                                 |

|                   |                                                                               |
|-------------------|-------------------------------------------------------------------------------|
| <b>Auditor:</b>   | <b>SAM NAK-NGAN A.M.C Co., Ltd.</b>                                           |
| <b>Address:</b>   | 191 Silom Complex Building, 19th Floor,<br>Silom Road, Bangrak, Bangkok 10500 |
| <b>Telephone:</b> | 0-2231-3980-7                                                                 |
| <b>Facsimile:</b> | 0-2231-3988                                                                   |
| <b>E-mail:</b>    | <a href="http://www.amc-mri.com">www.amc-mri.com</a>                          |