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- Translation -

**Information Memorandum on the Asset Acquisition (Additional)**

**The Valuation of Shares of KPN ACADEMY CO., LTD.**

For the determination of total value of consideration amounting Baht 460,182,417.60 for acquisition of 57.52 percent shares in KPN Academy Co., Ltd. (“**KPN Academy**”), the Company hired Orion Advisory Co., Ltd. (“**Advisor**”), which is not a financial advisor on the list of the SEC, as the financial advisor for fair value appraisal of KPN Academy. The Board of Directors consider hiring the Advisor since the Advisor used to be a financial advisor to the Company in relation to capital increase on a general mandate basis in the fourth Quarter of 2017, and the Advisor has experiences and competency to provide advice in relation to the evaluation of the business for the entering into acquisition and disposal of assets to public companies listed on the SET.

As such, the Advisor had evaluated fair value by Discounted Cash Flow Approach because it reflects business plan, profit generating ability and growth tendency. The valuation is calculated by Sum of the Part method in which consists of fair value of KPN Academy, KPN Music and KPN Chinese.

To conduct the valuation under the Discounted Cash Flow approach, the Advisor evaluated on free cash flow received from future operation (Free Cash Flow to Firm) (“**FCFF**”) of KPN Academy, KPN Music, and KPN Chinese for the operating period of 6 years during 2019 – 2024 with terminal value based on the assumption that KPN Academy, KPN Music, and KPN Chinese will still operate business continuously (Going Concern Basis) and have no significant changes. Then, the Advisor discounted FCFF with the Weighted Average Cost of Capital (“**WACC**”) in order to calculate net present value of free cash flow to firm. Subsequently, the net present value of free cash flow to firm is deducted by interest bearing debts and added back by cash and/or cash equivalent, which results in shareholder’s equity value. The assumption details are as follows:

**Valuation Assumption of KPN Academy**

**1. Revenue**

1.1 **Educational online course business** under the name “U-Sierra” is a sale of online educational course and examination which its scope of services include mock exams and solutions, online exam system, exam result analysis, system to help examiners find faculties in each university, system to recommend the appropriate faculty for the score results, exam results analysis system based on examiner’s ability, recommending online

courses, and system for simulating the submission of scores with other examiners. In addition, the tutoring system is also flexible, i.e., users can design the curriculum that they want to study without having to enroll in every lesson like a normal tutoring school.

To consider the appropriateness of the price, the Advisor referred to the business plan of KPN Academy's management and compared with the information of comparable company. Since, U-Sierra is currently in trial stage, the Advisor estimated that U-Sierra will start generating its revenue from 2020 onwards.

1. Sale of online education course and examination	2016A	2017A	2018A	2019F	2020F	2021F	2022F	2023F	2024F
Number of secondary student (Million people)	-	-	-	-	1.40	1.40	1.40	1.40	1.40
Penetration rate	-	-	-	-	1.00%	1.50%	1.50%	2.00%	2.50%
Sale price/person (Baht)	-	-	-	-	750.00	766.58	783.52	800.83	818.53
<b>Details:</b> A sale of online education course is a sale of online course which targets 1.40 Million secondary students with reference from the Office of the Education Council. Under the business plan of KPN Academy's management, it is estimated that the system will have users at 1.00 – 2.50 percent. Based on an information as of 6 October 2019, there are 29,054 Facebook Likes and 29,727 Facebook Followers on U-Sierra fan page. In addition, the Advisor estimated sale price per person at Baht 750 in which consists of 5 curriculums with growth rate at 2.21 percent per annum in accordance with 15-year average historical inflation rate from Bank of Thailand started on 20 August 2019. Furthermore, such growth rate and revenue projection are lower than the industry growth at 4.20 – 17.50 percent in which referred to an analysis of the educational industry overview by Kasikorn Bank Research Center (For further details are shown in page 16) under conservative basis, and comparable company's revenue.									
2. Examination platform service	2016A	2017A	2018A	2019F	2020F	2021F	2022F	2023F	2024F
Number of examiner (People)	-	-	-	-	1,600	3,600	4,800	4,800	4,800
Sale price/person (Baht)	-	-	-	-	1,500	1,533	1,567	1,602	1,637
<b>Details:</b> Examination platform service is the service that will apply U-Sierra's platform for companies and other organizations to arrange the examination for obtaining professional licenses. At the present, U-Sierra starts some of its services and has its own customer base which is account for approximately 20.00 percent of the projected number of examiners in 2020 with reference to the business plan of KPN Academy's management. In addition, the Advisor estimated sale price per person at Baht 1,500 based on the actual customer base with growth rate at 2.21 percent per annum in accordance with 15-year average historical inflation rate from Bank of Thailand started on 20 August 2019.									
3. Sponsor revenue	2016A	2017A	2018A	2019F	2020F	2021F	2022F	2023F	2024F
Sponsor Revenue (Baht Million)	-	-	-	-	5.00	30.00	30.66	31.34	32.03

**Details:** Sponsor revenue is received when the U-Sierra changes the appearance of platform and creates the campaign as required by the sponsor. In 2020, the Advisor estimated the sponsor revenue at Baht 5.00 Million with reference to the business plan of KPN Academy's management because the year 2020 is the first year of the operation and is during a process of gathering the community. In 2021, the Advisor estimated the sponsor revenue at Baht 30.00 Million since U-Sierra may gain high demands and attract more sponsors. From 2022 onwards, the Advisor estimated growth rate at 2.21 percent per annum in accordance with 15-year average historical inflation rate from Bank of Thailand started on 20 August 2019. Furthermore, such sponsor revenue projection is lower than comparable company's revenue.

4. Advertising Revenue	2016A	2017A	2018A	2019F	2020F	2021F	2022F	2023F	2016A
Advertising Revenue (Baht Million)	-	-	-	-	-	-	3.66	5.87	8.19

**Details:** Advertising revenue on U-Sierra is from the instream video and website's banner. The Advisor estimated the advertising revenue with reference to the business plan of KPN Academy's management. Furthermore, such advertising revenue projection is lower than the comparable company's revenue.

1.2 **Personnel training and development business** is a training and development course for human resources of organizations in which consists of 3 aspects, i.e. Leadership Effectiveness, Sales Effectiveness, and Individual Effectiveness. Previously, such business unit is operated under other KPN Academy's subsidiary that generate annual revenue around Baht 4.87 Million – Baht 10.16 Million, and it will be transferred to KPN Academy after completed Group Restructuring. Therefore, the Advisor estimated revenue from personnel training and development at THB 3.00 Million per annum under conservative basis and with reference to the business plan of KPN Academy's management.

## 2. Expense

### 2.1 Educational online course business

2.1.1 **Online education course and examination revenue sharing expense** The Advisor estimated the revenue sharing to co-examination maker at 30.00 percent of online education course and examination revenue with reference to the business plan of KPN Academy's management.

2.1.2 **Examination platform service revenue sharing expense** The Advisor estimated the revenue sharing to examination maker at 70.00 percent of examination platform service revenue with reference to the business plan of KPN Academy's management.

2.1.3 **Personnel expense** In 2020, The Advisor estimated the personnel expense at THB 4.68 Million with reference to the business plan of KPN Academy's management. From 2021 onwards, the Advisor estimated growth rate at 5.00 percent per annum in accordance with the salary increase policy and reference to the historical information.

2.1.4 **Other expenses and rental expense** In 2020, The Advisor estimated the other expenses at THB 3.98 Million with reference to the business plan of KPN Academy's management. From 2021 onwards, the Advisor estimated growth rate at 2.21 percent per annum in accordance with 15-year average historical inflation rate from Bank of Thailand started on 20 August 2019, and growth rate for rental expense at 5.00 percent per annum in accordance with the historical information.

2.1.5 **Selling and commission expense** The Advisor estimated selling and commission expense at 11.00 percent of total revenue and 5.00 percent of a sale of online education course and examination revenue and examination platform service revenue with reference to the business plan of KPN Academy's management.

## 2.2 Personnel training and development business

The Advisor estimated Cost of personnel training and development business at 65.00 percent of personnel training and development revenue with reference to the business plan of KPN Academy's management and in accordance with the historical cost margin.

## 2.3 Administrative expenses

KPN Academy is responsible for all operating expense of subsidiaries which mainly consists of headquarter personnel expense, headquarter rental expense, audit expense, consultant expense and other expenses. In 2019, the Advisor estimated such expense based on the annualization of actual expenses in January - June 2019 which are expenses after KPN Academy restructured its cost structure and administrative expenses.

From 2020 onwards, the Advisor estimated growth rate for ordinary expenses at 2.21 percent per annum in accordance with 15-year average historical inflation rate from Bank of Thailand started on 20 August 2019 under conservative basis, growth rate for personnel expense at 5.00 percent per annum in accordance with the salary increase policy, and growth rate for rental expense at 5.00 percent per annum in accordance with the historical information.

**3. Working Capital**

Type	Assumption
Collection period (Day)	30 days with reference to the business plan of KPN Academy's management
Repayment period (Day)	30 days with reference to the business plan of KPN Academy's management

From the above assumptions, it can be concluded as total sales, costs, expenses and EBITDA as follows:

	2016A	2017A	2018A	2019F	2020F	2021F	2022F	2023F	2024F
Educational online course revenue	-	-	-	-	17.90	51.62	58.30	67.32	76.73
Personnel training and development revenue	-	-	-	-	3.00	3.00	3.00	3.00	3.00
Other revenue	13.20	40.14	8.27	4.67	1.42	1.46	1.49	1.52	1.55
<b>Total Revenue</b>	<b>13.20</b>	<b>40.14</b>	<b>8.27</b>	<b>4.67</b>	<b>22.32</b>	<b>56.07</b>	<b>62.78</b>	<b>71.85</b>	<b>81.28</b>
Educational online course expense	(0.13)	(1.04)	(2.89)	(3.24)	(16.11)	(24.47)	(27.19)	(30.78)	(34.52)
Personnel training and development expense	-	-	-	-	(1.95)	(1.95)	(1.95)	(1.95)	(1.95)
Personnel expense	(11.53)	(18.52)	(50.52)	(32.83)	(34.93)	(36.67)	(38.50)	(40.43)	(42.45)
Utilities expense	(0.71)	(1.30)	(3.23)	(2.72)	(2.78)	(2.85)	(2.91)	(2.97)	(3.04)
Other expenses	(6.32)	(8.71)	(535.15)	(11.32)	(10.88)	(10.22)	(7.60)	(7.43)	(7.74)
<b>Total expenses</b>	<b>(18.70)</b>	<b>(29.56)</b>	<b>(591.79)</b>	<b>(50.11)</b>	<b>(66.65)</b>	<b>(76.15)</b>	<b>(78.16)</b>	<b>(83.56)</b>	<b>(89.70)</b>
<b>EBITDA</b>	<b>(16.39)</b>	<b>0.66</b>	<b>(58.01)</b>	<b>(38.05)</b>	<b>(37.61)</b>	<b>(14.18)</b>	<b>(12.26)</b>	<b>(8.95)</b>	<b>(5.52)</b>

The reason of KPN Academy's negative projected EBITDA is that KPN Academy is responsible for all administrative expenses of subsidiaries including KPN Music and KPN Chinese. In addition, KPN Academy's revenue projection is lower than the comparable company's revenue and growth rate is lower than the industry growth under conservative basis.

The Advisor has estimated the cash flow in the future in the period of 6 years (2019 – 2024) based on the assumption that KPN Academy will operate business continuously (Going Concern Basis) since KPN Academy runs the business which has no time limit and set the terminal growth at 1.00 percent.

	2019F	2020F	2021F	2022F	2023F	2024F
Free cash flow	(12.97)	(38.16)	(16.59)	(12.64)	(9.49)	(6.07)
Terminal value	-	-	-	-	-	(98.79)
<b>Total free cash flow</b>	<b>(12.97)</b>	<b>(38.16)</b>	<b>(16.59)</b>	<b>(12.64)</b>	<b>(9.49)</b>	<b>(104.86)</b>
<b>Net present value of free cash flow</b>	<b>(12.10)</b>	<b>(33.20)</b>	<b>(13.47)</b>	<b>(9.57)</b>	<b>(6.70)</b>	<b>(69.07)</b>

**Valuation Assumption of KPN Music****1. Revenue****1.1 Assumption of Branches Expansion**

	2016A	2017A	2018A	2019F	2020F	2021F	2022F	2023F	2024F
Branches under management of KPN Music	4	5	6	6	23	26	30	32	32
Franchise Branches	45	39	43	42	47	50	58	66	66

1.2 **Revenue from Sales** consists of musical instruments and books. The Advisor estimated based on the annualization of actual revenue from sales in January – June 2019 due to the current circumstances, and the Advisor estimated growth rate at 10.00 percent per year with reference to the business plan of KPN Academy's management which is in accordance with the average growth of revenue from sales in the past. In addition, the expansion of branch under management of KPN Music together with the new policy, which will focus on sales of some specific musical instruments, will lead to higher revenue from sales in accordance with the increasing number of branches under management of KPN Music.

**1.3 Revenue from service from branches under management of KPN Music**

- According to the information as of 30 June 2019, KPN Music has 6 branches under management of KPN Music. In 2019, the Advisor estimated such revenue based on the actual revenue in 2018, because there was no significant change in revenue in January - June 2019. The Advisor estimated growth rate at 10.00 percent per 2 years in accordance with the course fee policy of KPN Music. Furthermore, such growth rate is lower than the industry growth at 4.20 – 17.50 percent in which referred to an analysis of the educational industry overview by Kasikorn Bank Research Center (For further details are shown in page 16).
- For the revenue from new branches, the Advisor estimated maximum capacity at 77 courses per month per branch which considered by the size and number of study room, with reference to the business plan of KPN Academy's management. The utilization per branch is 31 – 39 courses in the first year of services, 37 – 50 courses in the second year of services and remains at 54 – 64 courses throughout the forecast. Moreover, during the period of school holiday which students are the target

customers, the utilization will be slightly higher for 2 months per year. In addition, the Advisor estimated average course fee at Baht 6,500 per course with growth rate at 10.00 percent per 2 years in accordance with the course fee policy of KPN Music. Furthermore, such growth rate is lower than the industry growth at 4.20 – 17.50 percent in which reference to an analysis of the educational industry overview by Kasikorn Bank Research Center (For further details are shown in page 16). As such, the average population density for new branches area is greater than in existing branches area which enhance the opportunity to sale more courses in the new branch.

Moreover, under the business plan of KPN Academy's management, the Advisor considered the revenue per branch at the period of the highest utilization at 64 courses per branch and found that such performance is close to the average revenue per branch in the past.

#### 1.4 Revenue from service from franchise branches

- Revenue from existing branches. The Advisor estimated up-front fee at Baht 0.15 Million – Baht 1.16 Million and monthly royalty fee at Baht 0.02 Million – Baht 0.05 Million or 7.00 – 10.00 percent of monthly course revenue with reference to the existing franchise contract.
- Revenue from new branches. The Advisor estimated up-front fee at Baht 0.60 Million and monthly royalty fee at Baht 0.02 Million – Baht 0.03 Million with reference to the existing franchise contract and adjust to be more conservative.

## 2 Costs and Expenses

2.1 **Cost of goods sold** consists of cost of musical instruments which vary based on the revenue from sales of musical instruments. The Advisor estimated cost of goods sold for the current branches at 73.96 percent of revenue from sales based on the average cost of 2016 – 2018. However, cost of goods sold for the new branches under management of KPN Music will have slightly different cost structure due to the new policy of KPN Academy's management which will focus more on some musical instrument with higher margin. As a result, cost of goods sold for new branches is 67.50 percent of revenue from sales with reference to the business plan of KPN Academy's management.

	2016A	2017A	2018A	2019F	2020F	2021F	2022F	2023F	2024F
Existing branches	73.89%	72.17%	75.81%	73.96%	73.96%	73.96%	73.96%	73.96%	73.96%
New branches	-	-	-	-	67.50%	67.50%	67.50%	67.50%	67.50%

2.2 **Variable cost** consists of teacher cost. The Advisor estimated the teacher cost for existing branches at 40.30 percent of course revenue from branches in accordance with the average of teacher cost in 2016 – 2018 and apply to both existing branches and new branches in the business plan of KPN Academy's management.

	2016A	2017A	2018A	2019F	2020F	2021F	2022F	2023F	2024F
Existing branches	44.54%	37.80%	38.56%	40.30%	40.30%	40.30%	40.30%	40.30%	40.30%
New branches	-	-	-	-	40.30%	40.30%	40.30%	40.30%	40.30%

2.3 **Fixed cost** consists of branch personnel cost, branch rental cost and other branch related cost. In 2019, The Advisor estimated such costs based on the actual cost in 2018, because there was no significant change in fixed cost in January - June 2019. From 2020 onwards, the Advisor estimated growth rate for other branch related cost at 2.21 percent per annum in accordance with 15-year average historical inflation rate from Bank of Thailand started on 20 August 2019, growth rate for branch personnel cost at 5.00 percent per annum in accordance with the salary increase policy, and growth rate for branch rental cost at 10.00 percent per 2 years in accordance with the historical information.

2.4 **Administrative expense** consists of personnel expense, warehouse rental expense, and other expenses. In 2019, The Advisor estimated such expense based on the annualization of actual expenses in January - June 2019 which are expenses after KPN Academy completed part of the restructure of cost management. From 2020 onwards, the Advisor estimated growth rate for other expense at 2.21 percent per annum in accordance with 15-year average historical inflation rate from Bank of Thailand started on 20 August 2019, growth rate for personnel expense at 5.00 percent per annum in accordance with the salary increase policy, and growth rate for warehouse rental expense at 10.00 percent per 2 years in accordance with the historical information.



### 3 Working Capital

Type	Assumption
Collection period (Day)	116 days
Inventory period (Day)	191 days
Repayment period (Day)	79 days
Unearned revenue period (Day)	135 days

### 4. Capital Expenditure

- Capital expenditure for branch renovation, the Advisor estimate renovation cost for both existing branches under management of KPN Music and new branches under management of KPN Music at Bath 0.28 Million per branch per year with reference to the KPN Academy's management which is in accordance to the historical information.
- Capital expenditure for opening new branches under management of KPN Music, the Advisor estimated the set-up cost at Bath 2.96 Million per branch with reference to the business plan of KPN Academy's management.

From the above assumptions, it can be summarized as total revenues, costs, expenses and EBITDA as follows:

	2016A	2017A	2018A	2019F	2020F	2021F	2022F	2023F	2024F
Revenue from sales	17.77	22.11	19.59	14.61	36.93	61.59	75.50	89.33	79.86
Revenue from service	114.61	58.78	56.67	53.72	87.66	121.46	160.13	189.00	195.07
Other revenue	11.29	16.61	1.76	1.50	1.62	1.62	1.84	1.92	2.18
<b>Total revenue</b>	<b>132.38</b>	<b>80.89</b>	<b>76.25</b>	<b>68.33</b>	<b>124.59</b>	<b>183.05</b>	<b>235.63</b>	<b>278.33</b>	<b>274.93</b>
Cost of goods sold	(14.18)	(16.19)	(15.59)	(10.98)	(26.31)	(41.47)	(50.79)	(59.98)	(53.69)
Teacher Cost	(10.73)	(13.66)	(13.82)	(13.69)	(15.06)	(15.06)	(16.57)	(16.57)	(18.22)
Fixed cost	(48.65)	(24.60)	(33.08)	(30.99)	(58.92)	(85.27)	(106.28)	(124.51)	(128.76)
<b>Total Costs</b>	<b>(59.38)</b>	<b>(38.26)</b>	<b>(46.90)</b>	<b>(44.68)</b>	<b>(73.98)</b>	<b>(100.33)</b>	<b>(122.85)</b>	<b>(141.08)</b>	<b>(146.98)</b>
Expenses	(66.27)	(69.81)	(18.26)	(9.09)	(10.14)	(11.05)	(11.85)	(12.28)	(12.46)
<b>EBITDA</b>	<b>1.90</b>	<b>(28.83)</b>	<b>(2.71)</b>	<b>11.98</b>	<b>25.59</b>	<b>43.93</b>	<b>62.98</b>	<b>76.61</b>	<b>74.56</b>

The Advisor has estimated the cash flow in the future in the period of 6 years (2019 – 2024) based on the assumption that KPN Music will operate business continuously (Going Concern Basis) since KPN Music runs the business which has no time limit and set the terminal growth at 1.00 percent based on 15-year average historical inflation rate from Bank of Thailand started on 20 August 2019 at 2.21 percent under conservative basis.



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	2019F	2020F	2021F	2022F	2023F	2024F
Free cash flow	18.33	(31.55)	28.30	52.22	64.36	64.05
Terminal value						1,042.35
<b>Total free cash flow</b>	<b>18.33</b>	<b>(31.55)</b>	<b>28.30</b>	<b>52.22</b>	<b>64.36</b>	<b>1,106.40</b>
<b>Net present value of free cash flow</b>	<b>17.10</b>	<b>(27.45)</b>	<b>22.96</b>	<b>39.53</b>	<b>45.45</b>	<b>728.77</b>

In addition, KPN Music have the opportunity to bid for government projects relating to sale of musical instruments and musical skill development, as KPN Music had won the bidding during 2008 – 2017, which is a project of selling musical instruments to participating schools, and the development of musical skills, which includes creating a music teaching curriculum and a music teacher workshop in participating government schools. There are also training camps and teaching personnel sent to the participating schools during the project period, as well as organizing musical activities for participating schools such as organizing full concerts. However, due to the recent lack of political certainty, the said projects were postponed. Therefore, in the event that the government projects are open for bidding again in the future, it will provide the company with an opportunity to recognize the additional value from the government projects. However, the additional value has not been included in the fair value evaluation of KPN Music in this transaction under conservative basis.

**Valuation Assumption of KPN Chinese****1. Revenue****1.1 Assumption of Branches Expansion**

	2016A	2017A	2018A	2019F	2020F	2021F	2022F	2023F	2024F
Branches under management of KPN Chinese	4	4	4	4	14	14	14	14	14
Franchise Branches	-	1	2	3	5	7	9	11	11

**1.2 Revenue from service from branches under management of KPN Chinese**

- Revenue from existing branches

According to the information as of 30 June 2019, KPN Chinese has 4 branches under management of KPN Chinese. In 2019, the Advisor estimated such revenue based on the annualization of actual revenue in January - June 2019 because there was an effect from renovation of Central Pinklao branch in 2018. From 2020 onwards, the Advisor estimated growth rate at 5.00 percent per 2 years in accordance with the course fee policy of KPN Chinese. Furthermore, such growth rate is lower than the industry growth at 4.20 – 17.50 percent in which referred to an analysis of the educational industry overview by Kasikorn Bank Research Center (For further details are shown in page 16)

- Revenue from new branches

For the projection of revenue from new branches, the Advisor estimated maximum capacity at 180 courses per month per branch which considered by the size and number of study room, with reference to the business plan of KPN Academy's management. The utilization per branch is 15 – 50 courses in the first year of services, 64 – 80 courses in the second year of services and remains at 80 courses throughout the forecast. In addition, the Advisor estimated average course fee at Baht 5,000 per course with growth rate at 5.00 percent per 2 years in accordance with the course fee policy of KPN Chinese. Furthermore, such growth rate is lower than the industry growth at 4.20 – 17.50 percent in which referred to an analysis of the educational industry overview by Kasikorn Bank Research Center (For further details are shown in page 16). As such, the average population density for new branches

area is greater than in existing branches area which enhance the opportunity to sale more courses in the new branch.

Moreover, under the business plan of KPN Academy's management, the Advisor considered the revenue per branch at the period of the highest utilization at 80 courses per branch and found that such performance is close to the average revenue per branch in the past.

### 1.3 Revenue from service from franchise branches

- Revenue from existing branches

The Advisor estimated up-front fee at Baht 0.30 Million – Baht 0.50 Million and monthly royalty fee at Baht 0.015 Million – Baht 0.02 Million with reference to the existing franchise contract.

- Revenue from new branches

The Advisor estimated up-front fee at Baht 0.40 Million and monthly royalty fee at Baht 0.015 Million – Baht 0.02 Million with reference to the existing franchise contract.

## 2. Costs and Expenses

2.1 **Variable cost** consists of teacher cost. the Advisor estimated the teacher cost for existing branches at 48.88 percent of course revenue from existing branches under management of KPN Chinese based on historical performance during 2016 – 2018 and 38.00 percent of course revenue from new branches under management of KPN Chinese due to the change in proportion of teacher between Thai nationality and Chinese nationality with reference to the business plan of KPN Academy's management. However, for the existing branches, the proportion of teacher remains the same as done in the past due to the difficult of an immediate adjustment.

	2559A	2560A	2561A	2562F	2563F	2564F	2565F	2566F	2567F
Existing branches	46.14%	52.30%	48.21%	48.88%	48.88%	48.88%	48.88%	48.88%	48.88%
New branches	-	-	-	-	38.00%	38.00%	38.00%	38.00%	38.00%

2.2 **Fixed cost** consists of branch personnel cost, branch rental cost and other branch related cost. In 2019, the Advisor estimated such costs based on the annualization of actual costs in January - June 2019 due to the current circumstances. From 2020 onwards, the Advisor estimated growth rate for other branch related cost at 2.21 percent per annum in

accordance with 15-year average historical inflation rate from Bank of Thailand started on 20 August 2019, growth rate for branch personnel cost at 5.00 percent per annum in accordance with the salary increase policy and the historical information, and growth rate for branch rental cost at 5.00 percent per annum in accordance with the historical information.

2.3 **Administrative expense** consists of personnel expense and other expense. In 2019, the Advisor estimated such expense based on the annualization of actual expenses in January - June 2019 which are expenses after KPN Academy completed part of the restructure of cost management. From 2020 onwards, the Advisor estimated growth rate for other expense at 2.21 percent per annum in accordance with 15-year average historical inflation rate from Bank of Thailand started on 20 August 2019, and growth rate for personnel expense at 5.00 percent per annum in accordance with the salary increase policy and the historical information.

### 3. Working Capital

Type	Assumption
Collection period (Day)	105 days
Repayment period (Day)	6 days
Unearned revenue period (Day)	158 days

### 4. Capital Expenditure

- Capital expenditure for branch renovation, the Advisor estimate renovation cost for both existing branches under management of KPN Chinese and new branches under management of KPN Chinese at Bath 0.23 Million per branch per year with reference to the KPN Academy's management which is in accordance to the historical information.
- Capital expenditure for opening new branches under management of KPN Chinese, the Advisor estimated the set-up cost at Bath 1.44 Million per branch with reference to the business plan of KPN Academy's management.

From the above assumptions, it can be summarized as total revenues, costs, expenses and EBITDA as follows:

	2016A	2017A	2018A	2019F	2020F	2021F	2022F	2023F	2024F
Revenue from service	16.82	20.02	14.08	16.13	28.07	53.81	69.20	70.85	74.13
Other revenue	0.04	0.02	0.18	0.01	-	-	-	-	-
<b>Total revenue</b>	<b>16.86</b>	<b>20.04</b>	<b>14.27</b>	<b>16.14</b>	<b>28.07</b>	<b>53.81</b>	<b>69.20</b>	<b>70.85</b>	<b>74.13</b>
Teacher Cost	(7.67)	(7.86)	(9.08)	(7.44)	(11.75)	(21.29)	(26.97)	(27.36)	(28.72)
Fixed cost	(9.69)	(9.82)	(9.13)	(8.12)	(16.55)	(22.10)	(22.96)	(24.19)	(25.21)
<b>Total Costs</b>	<b>(17.36)</b>	<b>(17.68)</b>	<b>(18.21)</b>	<b>(15.56)</b>	<b>(28.30)</b>	<b>(43.38)</b>	<b>(49.93)</b>	<b>(51.55)</b>	<b>(53.93)</b>
Administrative expense	(3.97)	(5.82)	(1.99)	(0.46)	(0.82)	(1.64)	(2.14)	(2.23)	(2.32)
<b>EBITDA</b>	<b>(3.71)</b>	<b>(2.53)</b>	<b>(5.14)</b>	<b>0.99</b>	<b>0.75</b>	<b>11.25</b>	<b>19.92</b>	<b>20.10</b>	<b>21.23</b>

The Advisor has estimated the cash flow in the future in the period of 6 years (2019 – 2024) based on the assumption that KPN Chinese will operate business continuously (Going Concern Basis) since KPN Chinese runs the business which has no time limit and set the terminal growth at 1.00 percent based on 15-year average historical inflation rate from Bank of Thailand started on 20 August 2019 at 2.21 percent under conservative basis.

	2019F	2020F	2021F	2022F	2023F	2024F
Free cash flow	(3.20)	(9.49)	19.23	23.03	16.75	18.29
Terminal value	-	-	-	-	-	297.66
<b>Total free cash flow</b>	<b>(3.20)</b>	<b>(9.49)</b>	<b>19.23</b>	<b>23.03</b>	<b>16.75</b>	<b>315.95</b>
<b>Net present value of free cash flow</b>	<b>(2.98)</b>	<b>(8.26)</b>	<b>15.60</b>	<b>17.43</b>	<b>11.83</b>	<b>208.11</b>

**Discount Rate Assumption for KPN Academy, KPN Music, and KPN Chinese**

Assumptions	Details	Remarks
Wd (Weight of debt)	28.64%	Proportion of interest-bearing debt to total asset
We (Weight of equity)	71.36%	Proportion of equity of shareholders to total asset
Kd (Cost of debt)	6.50%	MOR interest rate of KPN Academy, KPN Music, and KPN Chinese
Ke (Cost of equity)	8.01%	Return rate of shareholders from CAPM
Rf (Risk free rate)	2.16%	Interest rate from long-term government bond aging 10 years
Rm (Market return)	9.60%	SET Total Return Index: TRI Index, in average in the previous 15 years.
$\beta$ (Beta)	0.79	Leveraged Beta based on Unleveraged Beta of companies operating in the same or similar business in average in the previous 5 years

Based on the table of discount rate above, the Advisor conducted a sensitivity by changing discount rate assumption of +/-1.00 percent because such period could cover volatility of discount rate assumption. By valuation using Sum of the Part method in which consists of fair value of KPN Academy, KPN Music and KPN Chinese. Therefore, the fair value of each company is shown in the

table below. In this regard, the purchasing price of the investment in the ordinary shares of KPN Academy with total value at Baht 460.18 Million is between the calculated total fair value of KPN Academy, KPN Music and KPN Chinese, which is between Baht 438.75 Million - Baht 556.13 Million.

<b>Discounted Cash Flow Approach</b>	<b>Value (Baht Million)</b>	<b>Value of shareholding percentage 57.52 (Baht Million)</b>
Shareholding value of KPN Academy	(155.43) - (139.20)	(89.41) - (80.07)
Shareholding value of KPN Music	764.62 - 920.95	439.83 - 529.76
Shareholding value of KPN Chinese	153.56 - 185.05	88.33 - 106.45
<b>Total Value</b>	<b>762.75 - 966.80</b>	<b>438.75 - 556.13</b>
Number of sold shares in KPN Academy (million shares)	25.9850	14.9473
<b>Total Value of KPN Academy per share (Baht/share)</b>	<b>29.35 - 37.21</b>	<b>29.35 - 37.21</b>

Due to the entering into this transaction, the Company enters into a new business, namely education business, therefore, the Company considers the possibility of entering into the education business, and the feasibility of the business plan of KPN Academy and its subsidiaries by taking into consideration the conditions and trends of the industry as follows:

According to an analysis of the educational industry overview by Kasikorn Bank Research Center, it is found that the educational investment of parents in Bangkok in the year 2018 is approximately Baht 27,500.00 Million and the growth rate is 1.90 percent compared to the previous year. The said amount is divided into the investment budget for tutoring and skill learning, approximately Baht 1,720.00 Million and the growth rate is approximately 4.20 - 17.50 percent compared to the previous year. This is considered as the group with the highest growth rate when compared to other investment funds in education such as tuition fees, maintenance of education equipment fees, and other expenses which have the growth rate (shrinking) at only around -3.80 - 2.50 percent

As regards, tutoring school, due to the values of most parents who want their children to study in schools with strong academic concentration and curriculum, parents are paying more attention to tutoring. However, the change in technology has made the trend of tutoring to change to teaching through new media such as E-Learning and online media. The trend is in line with the U-Sierra business of KPN Academy, which began to enter the online teaching media business, together with the provision of a full range of services, namely selling course and exam, which has a system for analyzing results and guidelines for admission to higher education In order to increase the chances of success for users even more.

As for the skills development institutes such as foreign languages and music, the institutes have gained advantages from the fact that parents pay more attention to the development of their children's skills since



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childhood. Therefore, with the said situation The Kasikorn Research Center therefore sees the opportunity as an educational service business in expanding branches or offering new services. In this regard, considering the said business opportunity together with the business plan and strength of KPN Music and KPN Chinese brands, it is expected to be a supporting factor for the operation of KPN Music and KPN Chinese to achieve the business plan. However, the analysis of such opportunities by Kasikorn Bank Research Center is still limited to the parents in Bangkok. Currently, the prosperity has spread to all major cities in each region. Therefore, the education market has the opportunity to expand as well





- Translation -

**Analysis of Operating Performance of KPN Academy, KPN Music and KPN Chinese**

**Financial Information**

Since KPN Academy does not have consolidated financial statements of KPN Academy and its subsidiaries. Therefore, the separate financial statements of KPN Academy, KPN Music, and KPN Chinese are as follow:

**1.1 KPN Academy's financial statements**

Unit: Baht Million

Descriptions	Year 2016	Year 2017	Year 2018
Revenue from Sale of Goods	-	-	0.41
Revenue from Provision of Services	-	21.29	3.60
Interest Income	12.29	16.66	3.22
Other Income	0.91	2.18	1.04
<b>Total Revenue</b>	<b>13.20</b>	<b>40.14</b>	<b>8.27</b>
Cost of Sale	-	-	(0.12)
Cost of Services	-	-	(2.53)
Administrative Expenses	(18.70)	(26.16)	(74.16)
Losses from investment in Subsidiaries	-	(3.40)	(195.45)
Doubtful Debts	-	-	(319.54)
<b>Total Expense</b>	<b>(18.70)</b>	<b>(29.56)</b>	<b>(591.79)</b>
Profit (Loss) before financial cost and income tax	(5.50)	10.58	(583.52)
Financial Cost	(10.62)	(16.69)	(21.81)
Income Tax	-	-	-
<b>Net Profit (Loss)</b>	<b>(16.13)</b>	<b>(6.11)</b>	<b>(605.34)</b>

Unit: Baht Million

Descriptions	Year 2016	Year 2017	Year 2018
Assets			
Cash and cash equivalent	0.52	0.80	0.67
Account receivables and other receivables	13.72	54.75	25.71
Short-term loans to related parties	220.96	294.74	37.70
Other current assets	1.20	1.54	1.93
<b>Total Current Assets</b>	<b>236.39</b>	<b>351.84</b>	<b>66.02</b>
Investment in Subsidiaries	198.85	195.45	-
Leasehold improvement and equipment	3.01	7.34	8.73
Intangible Assets	1.16	5.93	8.14
Other non-current assets	-	0.16	0.01
<b>Total Non-Current Assets</b>	<b>203.02</b>	<b>208.89</b>	<b>16.87</b>
<b>Total Assets</b>	<b>439.42</b>	<b>560.72</b>	<b>82.88</b>



Descriptions	Year 2016	Year 2017	Year 2018
Liabilities and Shareholders' Equity			
Bank Overdraft	1.99	1.86	1.78
Account payable and other payable	13.22	29.34	50.19
Current Portion of long-term debts under financial lease	0.75	1.31	0.77
Short-term loans from related parties	232.93	339.70	438.73
Other Current Liabilities	0.18	1.83	2.10
<b>Total Current Liabilities</b>	<b>249.06</b>	<b>374.04</b>	<b>493.58</b>
Current Portion of long-term debts under financial lease	1.00	2.07	1.29
Employee Benefit obligations	1.26	2.63	11.25
Provision for the cost of demolition and transfer	0.03	0.03	0.15
<b>Total Non-Current Liabilities</b>	<b>2.30</b>	<b>4.73</b>	<b>12.69</b>
<b>Total Liabilities</b>	<b>251.35</b>	<b>378.77</b>	<b>506.27</b>
Paid-up Capital	259.85	259.85	259.85
Retained Earnings (Deficits)	(71.79)	(77.90)	(683.23)
<b>Total Shareholders' Equity</b>	<b>188.06</b>	<b>181.95</b>	<b>(423.38)</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>439.42</b>	<b>560.72</b>	<b>82.88</b>

- Remark**
1. Audited financial statement for the year 2016 – 2018 was audited by Ms. Thanawan Anuratbordee, a certified auditor number 3440 and approved by the SEC, from Deloitte Touche Tohmatsu Jaiyos Co., Ltd.
  2. The KPN Academy group's accumulated loss and/or shareholders equity which is less than zero, as appeared on financial statement for the year 2018, resulting from loan and debt restructuring between related parties shall not negatively affect the Company's financial statement after entering into the transaction because, according to accounting principles, the preparation of the Company's financial statement shall not recognize the past accumulated losses of KPN Academy but shall recognize KPN Academy's total assets and liabilities in which they shall be taken and included in the Company's financial statement. This may result in a higher goodwill (The goodwill comes from the difference between the purchase price and the fair value of assets and liabilities of KPN Academy in accordance with Purchase Price Allocation: PPA as at transfer date) due to the purchase of businesses and give rise to a risk relating to goodwill depreciation appraisal. As a protection from such occurrence, the management had set conditions in prior to entering into the transaction that 1) the accumulated shareholders' equity in audited or reviewed financial statement of KPN Academy, KPN Music and KPN Chinese shall not be less than zero or minus prior to entering into the transaction and 2) KPN Academy group shall proceed and complete the loan and debt restructuring with the business and/or related parties prior to entering into the transaction in which shall results in KPN Academy group's recognition of profit from the loan and debt restructuring and shall increase the shareholders' equity. Therefore, after the restructuring, it is foreseen that the KPN Academy group's shareholders equity shall not be less than zero.

### **Analysis of KPN Academy's operating performance**

Considering the past 3 year's operating performance, revenue of KPN Academy was mainly driven by provision of services income and interest income from related parties. In 2018, total revenue decreased by 79.40 percent compared to 2017, due to the decrease of revenue from provision of services by 83.09 percent because KPN Academy did not charge management fees from its subsidiaries which encountered losses. In terms of expenses, in 2018, KPN Academy recognized impairment losses from investment in subsidiaries and bad debts which are non-cash items in the total amount of Baht 514.99 Million. Moreover, in April 2018, KPN Academy has restructured its cost structure and administrative expenses by combining and transferring

employees in all subsidiaries into KPN Academy. As a result, KPN Academy is responsible for higher personnel costs resulting in higher administrative expenses from Baht 26.16 Million in 2017 to Baht 74.16 Million in 2018 which directly contributed to a net loss at the end of 2018 of Baht 605.34 Million. However, considering only operating profit and excluding the impact of non-cash items, it was found that KPN Academy had negative EBITDA of Baht 58.01 Million in 2018.

Considering statement of financial position for the year 2016 – 2018, as of 31 December 2018, total asset decreased significantly from Baht 560.72 Million to Baht 82.88 Million in 2018 which was caused by allowance for doubtful accounts between related parties, accrued interest and impairment of investments in subsidiaries which encountered losses. As a result, short-term loans to related parties were adjusted from Baht 294.74 Million to Baht 37.70 Million in 2018. Moreover, these factors also affected KPN Academy's retained earnings (deficits) and increased its accumulated loss from Baht 77.90 Million to Baht 683.23 Million in 2018. At the same time, liabilities increased from short-term loans from subsidiaries, directors and related parties which were used for liquidity management. However, the management had set the conditions precedent that KPN Academy group shall proceed and complete the loan and debt restructuring with the business and/or related parties prior to entering into the transaction in which shall results in KPN Academy's recognition of profit from the loan and debt restructuring and shall increase the shareholders' equity.

#### **KPN Academy's Commitments and Letters of Guarantee**

The Company has commitments and letters of guarantee as follows:

##### 1) Commitments on agreements

1.1) Lease and service agreements: KPN Academy has commitments under long-term operating lease agreements for office building and services. The minimum rental payments to be paid in the future as of 31 December 2018 are as follows:

Descriptions (Baht Million)	Year 2017	Year 2018
<b>Office building rental agreements</b>		
Not later than one year	0.43	0.60
Later than one year but not more than five years	0.57	1.00
<b>Total</b>	<b>1.00</b>	<b>1.60</b>
<b>Equipment rental agreements</b>		
Not later than one year	0.036	-
Later than one year but not more than five years	0.003	-
<b>Total</b>	<b>0.039</b>	<b>-</b>
<b>Service agreements</b>		
Not later than one year	0.29	0.60
Later than one year but not more than five years	0.38	1.00
<b>Total</b>	<b>0.67</b>	<b>1.60</b>

For the year ended December 2018 and 2017, KPN Academy recorded the rental and service expenses under long-term operating lease agreements as expense in the income statement of Baht 0.05 Million and Baht 0.70 Million respectively.

1.2) Management Agreements: On January 1, 2017, KPN Academy entered into the Management Agreements with 9 subsidiaries of 9 agreements to provide assistances in relation to some aspects of the operations, accounting and administration as specified in the agreement. In this regard, the Company receives management fees according to conditions specified in the agreement. This agreement was effective on 1 January 2017 and to be effective for 1 year. After the original term, the agreement shall be automatically extended for 1 year each time. This agreement may be terminated by either party, written notice to the other party is required.

1.3) As of 31 December 2018, KPN Academy has commitments on the facility agreements dated 31 March 2015 with a financial institution as follows:

Type (Baht Million)	Facility Amount	Collaterals/Guarantors
Bank Overdraft facility	2.00	1. Mortgage land of a related company 2. Guaranteed by KPN Music Company Limited, KPN Chinese Academy Company Limited, KPN Tutoring Co.,Ltd., KPN Music Academy Co.,Ltd., and Penta Systems Co.,Ltd

2) Letters of guarantee: As of 31 December 2018, KPN Academy has a letter of guarantee for bank overdraft for KPN Music Company Limited, KPN Chinese Academy Company Limited, KPN Tutoring Co.,Ltd. And KPN Music Academy Co., Ltd. which are subsidiaries for the total credit limit of Baht 23.00 Million.



## 1.2 KPN Music's financial statements

Unit: Baht Million

Descriptions	Year 2016	Year 2017	Year 2018
Revenue from Sale	17.77	22.11	19.59
Interest Income	114.61	58.78	56.67
Other Income	11.29	16.61	1.76
<b>Total Revenue</b>	<b>143.67</b>	<b>97.50</b>	<b>78.01</b>
Cost of Sale	(14.18)	(16.19)	(15.59)
Cost of Services	(59.38)	(38.26)	(46.90)
Sales Expenses	(7.94)	(6.27)	(4.44)
Administrative Expenses	(64.23)	(71.40)	(22.08)
Doubtful Debts	-	(1.69)	(67.56)
<b>Total Expense</b>	<b>(145.74)</b>	<b>(133.81)</b>	<b>(156.57)</b>
Profit (Loss) before financial cost and income tax	(2.07)	(36.31)	(78.56)
Financial Cost	(0.63)	(1.05)	(4.10)
Income Tax	0.05	0.08	(0.77)
<b>Net Profit (Loss)</b>	<b>(2.66)</b>	<b>(37.28)</b>	<b>(83.43)</b>

Unit: Baht Million

Descriptions	Year 2016	Year 2017	Year 2018
Assets			
Cash and cash equivalent	10.33	9.38	14.80
Short-term Investment	1.33	1.35	1.36
Account receivables and other receivables	101.59	97.89	10.01
Short-term loans to related parties	30.16	36.08	-
Inventories	10.78	8.71	10.64
Other current assets	2.89	4.28	3.50
<b>Total Current Assets</b>	<b>157.09</b>	<b>157.69</b>	<b>40.31</b>
Bank deposits as collateral	33.60	33.60	33.60
Investment in associated companies	0.04	0.04	-
Leasehold improvement and equipment	8.83	15.91	15.36
Intangible Assets	1.23	1.22	1.84
Deferred income tax assets	0.69	0.77	-
Leasehold	8.62	18.91	14.04
Other non-current assets	27.44	6.01	5.42
<b>Total Non-Current Assets</b>	<b>80.46</b>	<b>76.47</b>	<b>70.26</b>
<b>Total Assets</b>	<b>237.55</b>	<b>234.16</b>	<b>110.57</b>
Liabilities and Shareholders' Equity			
Bank Overdraft	4.83	4.84	4.79
Account payable and other payable	17.74	32.29	35.50
Current portion of long-term debts under financial lease	1.39	1.14	0.14
Short-term loans	42.98	63.03	25.00
Other Current Liabilities	3.81	4.91	2.15

Descriptions	Year 2016	Year 2017	Year 2018
<b>Total Current Liabilities</b>	<b>70.76</b>	<b>106.21</b>	<b>67.59</b>
Current portion of long-term debt under financial lease	1.28	0.14	-
Employee benefit obligation	3.46	3.85	-
Provision for the cost of demolition and transfer	1.38	1.61	2.11
Unearned revenue from franchise agreement	15.57	14.54	16.50
<b>Total Non-Current Liabilities</b>	<b>21.69</b>	<b>20.14</b>	<b>18.61</b>
<b>Total Liabilities</b>	<b>92.45</b>	<b>126.35</b>	<b>86.19</b>
Paid-up capital	25.00	25.00	25.00
Retained Earnings (Deficits)	120.10	82.81	(0.62)
<b>Total Shareholders' Equity</b>	<b>145.10</b>	<b>107.81</b>	<b>24.38</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>237.55</b>	<b>234.16</b>	<b>110.57</b>

- Remark**
1. Audited financial statement for the year 2016 – 2018 was audited by Ms. Thanawan Anuratbordee, a certified auditor number 3440 and approved by the SEC, from Deloitte Touche Tohmatsu Jaiyos Co., Ltd.
  2. The KPN Academy group's accumulated loss and/or shareholders equity which is less than zero, as appeared on financial statement for the year 2018, resulting from loan and debt restructuring between related parties shall not negatively affect the Company's financial statement after entering into the transaction because, according to accounting principles, the preparation of the Company's financial statement shall not recognize the past accumulated losses of KPN Academy but shall recognize KPN Academy's total assets and liabilities in which they shall be taken and included in the Company's financial statement. This may result in a higher goodwill (The goodwill comes from the difference between the purchase price and the fair value of assets and liabilities of KPN Academy in accordance with Purchase Price Allocation: PPA as at transfer date) due to the purchase of businesses and give rise to a risk relating to goodwill depreciation appraisal. As a protection from such occurrence, the management had set conditions in prior to entering into the transaction that 1) the accumulated shareholders' equity in audited or reviewed financial statement of KPN Academy, KPN Music and KPN Chinese shall not be less than zero or minus prior to entering into the transaction and 2) KPN Academy group shall proceed and complete the loan and debt restructuring with the business and/or related parties prior to entering into the transaction in which shall results in KPN Academy group's recognition of profit from the loan and debt restructuring and shall increase the shareholders' equity. Therefore, after the restructuring, it is foreseen that the KPN Academy group's shareholders equity shall not be less than zero.

### **Analysis of KPN Music's operating performance**

Considering the past 3 year's operating performance, revenue of KPN Music was mainly driven by sales of musical instruments, revenue from sales of music courses, revenue collected from franchisees and revenue from government projects. In 2018, total revenue decreased by 19.99 percent compared to 2017, due to the decrease of revenue from other incomes receiving from KPN-T joint venture which associated with government projects. In term of total expenses, in 2018, total expenses increased due to recognition of impairment losses from doubtful accounts between related parties and accrued interest and doubtful accounts of subsidiaries which are non-cash items. On the other hand, administrative expenses decreased by 69.07 percent compared to 2017 due to the restructuring its cost structure and administrative expenses by transferring employees in KPN Music to KPN Academy and the reduction in the number of employees associating with government projects. Although there was a decrease in administrative expenses, it was not

significant enough to offset the impact of non-cash items resulting in a net loss of Baht 83.43 Million at the end of 2018. However, considering only operating profit and excluding the impact of non-cash items, it was found that KPN Music had negative EBITDA of Baht 2.71 Million in 2018.

Considering statement of financial position for the year 2016 – 2018, as of 31 December 2018, total asset decreased significantly from Baht 234.16 Million to Baht 110.57 Million in 2018 which was caused by allowance for doubtful accounts between related parties and accrued interest. As a result, the entire short-term loans to related parties were adjusted from Baht 36.08 Million in 2017 to zero in 2018. Not only short-term loans to related parties, but account receivable and other receivables also decreased significantly due to the reduction of account receivable associating with government projects and reserve for bad debts. At the same time, liabilities decreased from a repayment of short-term loans. Based on operating loss of KPN Music, it resulted in accumulated loss of Baht 0.62 Million in 2018. However, the management had set conditions precedent that KPN Music shall proceed and complete the loan and debt restructuring with the business and/or related parties prior to entering into the transaction in which shall results in KPN Music's recognition of profit from the loan and debt restructuring and shall increase the shareholders' equity.

#### **KPN Music's Commitments and Letters of Guarantee**

The Company has commitments and letters of guarantee as follows:

##### 1) Commitments on agreements

1.1) Lease and service agreements: KPN Music has commitment under long-term operating lease agreements for office building and equipment rental and service agreements. The minimum rental payment to be paid in the future as of 31 December are as follows:

Descriptions (Baht Million)	Year 2017	Year 2018
<b>Office Building rental agreements</b>		
Not later than one year	5.09	4.23
Later than one year but not more than five years	7.69	1.47
<b>Total</b>	<b>13.60</b>	<b>5.70</b>
<b>Equipment rental agreements</b>		
Not later than one year	0.14	-
Later than one year but not more than five years	0.16	-
<b>Total</b>	<b>0.29</b>	<b>-</b>
<b>Service agreements</b>		
Not later than one year	9.19	5.30
Later than one year but not more than five years	11.68	0.86
<b>Total</b>	<b>20.87</b>	<b>6.17</b>

For the year ended 31 December 2018 and 2017, the Company recorded the office building and equipment rental and service expenses under long-term operating lease agreements as expense in the income statement of Baht 12.97 Million and Baht 16.11 Million respectively.

1.2) As of 31 December 2018, KPN Music has commitments on the facility agreements dated 31 March 2015 with a financial institution as follows:

Type (Baht Million)	Facility Amount	Collaterals/Guarantors
Bank Overdraft facility	5.00	1. Mortgage land of a related company 2. Guaranteed by KPN Music Company Limited, KPN Chinese Academy Company Limited, KPN Tutoring Co.,Ltd., KPN Music Academy Co.,Ltd., and Penta Systems Co.,Ltd

2) Letters of guarantee

2.1) As of 31 December 2018, KPN Music has bank guarantee for performance guarantee to KPN-T Joint Venture amount of Baht 33.60 Million

2.2) As of 31 December 2018 and 2017, KPN Music has issued a letter of guarantee for bank overdraft of KPN Academy Co.,Ltd, a major shareholder company, and KPN Tutoring Co.,Ltd., KPN Chinese Academy Company Limited and KPN Music Academy Co.,Ltd, which are related companies for the total credit limit of Baht 20.00 Million





### 1.3 KPN Chinese's financial statements

Unit: Baht Million

Descriptions	Year 2016	Year 2017	Year 2018
Revenue from Provision of Services	16.82	20.02	14.08
Interest Income	0.00	0.00	0.00
Other Income	0.04	0.02	0.18
<b>Total Revenue</b>	<b>16.86</b>	<b>20.04</b>	<b>14.27</b>
Cost of Services	(17.36)	(17.68)	(18.21)
Sales Expenses	(0.18)	(0.34)	(0.34)
Administrative Expenses	(3.79)	(5.48)	(1.65)
<b>Total Expense</b>	<b>(21.33)</b>	<b>(23.50)</b>	<b>(20.19)</b>
Profit (Loss) before financial cost and income tax	(4.47)	(3.46)	(5.92)
Financial Cost	(0.52)	(0.87)	(1.48)
Income Tax	-	-	-
<b>Net Profit (Loss)</b>	<b>(4.98)</b>	<b>(4.33)</b>	<b>(7.41)</b>

Unit: Baht Million

Descriptions	Year 2016	Year 2017	Year 2018
Assets			
Cash and cash equivalent	1.64	2.01	1.21
Account receivables and other receivables	0.53	0.45	0.74
Inventories	0.06	0.19	0.21
Other current assets	-	-	0.09
<b>Total Current Assets</b>	<b>2.22</b>	<b>2.65</b>	<b>2.25</b>
Office building, leased building improvement and equipment	7.05	9.71	10.37
Intangible Assets	0.46	0.17	0.03
Deposit	2.10	2.95	2.55
<b>Total Non-Current Assets</b>	<b>9.61</b>	<b>12.83</b>	<b>12.95</b>
<b>Total Assets</b>	<b>11.83</b>	<b>15.48</b>	<b>15.20</b>
Liabilities and Shareholders' Equity			
Bank Overdraft	2.91	2.86	2.84
Account payable and other payable	7.99	8.53	12.98
Short-term loans from related parties	7.37	14.98	18.03
Other current liabilities	0.08	0.18	0.06
<b>Total Current Liabilities</b>	<b>18.35</b>	<b>26.56</b>	<b>33.91</b>
Employee benefit obligations	0.40	0.17	-
Provision for the cost of demolition and transfer	0.57	0.57	0.52
<b>Total Non-Current Liabilities</b>	<b>0.97</b>	<b>0.74</b>	<b>0.52</b>
<b>Total Liabilities</b>	<b>19.32</b>	<b>27.30</b>	<b>34.43</b>
Paid-up capital	1.00	1.00	1.00
Retained Earnings (Deficits)	(8.49)	(12.82)	(20.23)
<b>Total Shareholders' Equity</b>	<b>(7.49)</b>	<b>(11.82)</b>	<b>(19.23)</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>11.83</b>	<b>15.48</b>	<b>15.20</b>

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<u>Remark</u>	<p>1. Audited financial statement for the year 2016 – 2018 was audited by Ms. Thanawan Anuratbordee, a certified auditor number 3440 and approved by the SEC, from Deloitte Touche Tohmatsu Jaiyos Co., Ltd.</p> <p>2. The KPN Academy group's accumulated loss and/or shareholders equity which is less than zero, as appeared on financial statement for the year 2018, resulting from loan and debt restructuring between related parties shall not negatively affect the Company's financial statement after entering into the transaction because, according to accounting principles, the preparation of the Company's financial statement shall not recognize the past accumulated losses of KPN Academy but shall recognize KPN Academy's total assets and liabilities in which they shall be taken and included in the Company's financial statement. This may result in a higher goodwill (The goodwill comes from the difference between the purchase price and the fair value of assets and liabilities of KPN Academy in accordance with Purchase Price Allocation: PPA as at transfer date) due to the purchase of businesses and give rise to a risk relating to goodwill depreciation appraisal. As a protection from such occurrence, the management had set conditions in prior to entering into the transaction that 1) the accumulated shareholders' equity in audited or reviewed financial statement of KPN Academy, KPN Music and KPN Chinese shall not be less than zero or minus prior to entering into the transaction and 2) KPN Academy group shall proceed and complete the loan and debt restructuring with the business and/or related parties prior to entering into the transaction in which shall results in KPN Academy group's recognition of profit from the loan and debt restructuring and shall increase the shareholders' equity. Therefore, after the restructuring, it is foreseen that the KPN Academy group's shareholders equity shall not be less than zero.</p>
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### **Analysis of KPN Chinese's operating performance**

Considering the past 3 year's operating performance, revenue of KPN Chinese was mainly driven by sales of Chinese language courses and revenue collected from franchisees. In 2018, total revenue decreased by 28.79 percent compared to 2017, due to the decrease of revenue from sales of Chinese language courses. Such incidence occurred because there was a closure of Central Pinklao branch for maintenance as well as decrease in revenue in other branches. While considering fixed costs and expenses which are not fluctuate with the decrease in revenue, KPN Chinese faced a net loss at the end of 2018 of Baht 7.41 Million.

Considering statement of financial position for the year 2016 – 2018, as of 31 December 2018, total assets did not change significantly comparing to 31 December 2017 but once considered thoroughly, it was found that, the operating loss in 2018 affected KPN Chinese's retained earnings (deficits) and increased its accumulated loss from Baht 12.82 Million to Baht 20.23 Million in 2018. Therefore, instead of using cashflow from operation to manage liquidity, KPN Chinese borrowed money from related parties to fund its operation. As a result, short-term loans from related parties slightly increased from Bath 14.98 Million in 2017 to Baht 18.03 Million in 2018.

### **KPN Chinese's Commitments and Letters of Guarantee**

The Company has commitments and letters of guarantee as follows:

- 1) Commitments on agreements

1.1) Long-term leases and service agreements: KPN Chinese has commitment under long-term operating lease agreements for office building rental and service agreement. Lifetime of agreement is between 1 – 3 years. The minimum rental payments to be paid in the future as of 31 December are as follows:

Descriptions (Baht Million)	Year 2017	Year 2018
<b>Office building rental agreements</b>		
Not later than one year	2.22	2.18
Later than one year but not more than five years	4.25	1.92
<b>Total</b>	<b>6.47</b>	<b>4.10</b>
<b>Service agreements</b>		
Not later than one year	3.17	3.86
Later than one year but not more than five years	6.00	3.21
<b>Total</b>	<b>9.17</b>	<b>7.07</b>

For the year ended 31 December 2018 and 2017, KPN Chinese recorded office building rental and service expenses under long-term operating lease agreements as expense in the income statement of Baht 5.88 Million and Baht 5.20 Million respectively.

1.2) As of 31 December 2018, KPN Chinese has commitments on the facility agreements dated 31 March 2015 with a financial institution as follows:

Type (Baht Million)	Facility Amount	Collaterals/Guarantors
Bank Overdraft facility	3.00	1. Mortgage land of a related company 2. Guaranteed by KPN Music Company Limited, KPN Chinese Academy Company Limited, KPN Tutoring Co.,Ltd., KPN Music Academy Co.,Ltd., and Penta Systems Co.,Ltd

2) Letter of guarantee: As of 31 December 2018, KPN Chinese has issued a letter of guarantee for bank overdraft of KPN Academy Co.,Ltd, a major shareholder company, and KPN Tutoring Co.,Ltd., KPN Music Company Limited and KPN Music Academy Co.,Ltd, which are related companies for the total credit limit of Baht 22.00 Million

#### **Overall operating performance of KPN Academy's group**

KPN Academy conducts business by investing in ordinary shares of KPN Music, KPN Chinese and other subsidiaries, as well as being an intermediary for funding allocation. Therefore, major sources of revenue of KPN Academy come from interest received from inter-lending and management fees from subsidiaries. At the same time, KPN Academy is also responsible for all central administrative expenses from its subsidiaries. Such entities include other companies besides KPN Music and KPN Chinese such as Innovative Learning and Design Company Limited, KPN Music Academy Company Limited, KPN Tutoring Company Limited, Penta Systems Company Limited, Siam Wilson Learning Company Limited, and Sport Society Company

Limited. As a result, these factors contributed to a net loss in the KPN Academy's separate financial statement. However, this problem can be solved by Group Restructuring and reducing excessive cost of administration to only 2 subsidiaries (KPN Music and KPN Chinese). With these actions, it will improve the cost structure of the company and potentially generate positive impacts to the company's financial statements in the future. In addition, debt restructuring before the transaction will also help reduce interest expenses.

Furthermore, net loss of KPN Academy in 2018 was caused by impairment losses of investment in subsidiaries and allowance for doubtful debts as a result of operating losses generated by its subsidiaries in the total amount of Baht 514.99 Million which are non-cash items. The above structural problems stem from the fact that KPN Academy's business strategies was failed in the past caused by the focus on KPN Tutoring Company limited. Instead of generating profit, KPN Tutoring faced loss due to its business model, the company did not own lesson contents and courses but instead purchasing them from reputational professors and institutions and acted as service provider. This business model means higher profit sharing to content providers or lower profit margin for the company. Not only KPN Tutoring generated low profit margin, but it also created incentive for students who have previously studied at a branch of KPN Tutoring to move to the originated institutions where lessons and courses were produced.

In addition, KPN Academy's group has rapidly used its cash flow to expand KPN Tutoring's branches before a year 2015 and did not have enough cash flow to expand number of branches for KPN Music and KPN Chinese which are KPN Academy's key expertise. However, KPN Academy's Group Restructuring will be executed before entering the transaction by selling other underperformed subsidiaries and having only 2 subsidiaries which are KPN Music and KPN Chinese in the company.

Regarding KPN Music and KPN Chinese, the two subsidiaries had slightly negative EBITDA (Excluding special items) of Baht 2.71 Million and Baht 7.41 Million respectively due to small number of branches and budget constraint. As a result, these subsidiaries have focused on branch expansion in the form of franchise resulting in lower than usual revenue. Therefore, in the future, KPN Music and KPN Chinese will adjust expansion strategies by increasing proportion of branches under management of KPN Music and KPN Chinese, and also adjusting proportion of Chinese teachers between Chinese and Thai nationality. With this actions, KPN Academy, KPN Music and KPN Chinese will receive higher revenue from operation while enjoying benefit of economy of scale resulting in overall cost reduction and therefore lead to positive profit and overall improvement of financial statement.



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Please be informed accordingly.

Yours sincerely,

East Coast Furnitech Public Company Limited

(Mr.Chalee Suksawad and Mr.Arak Suksawad)

Authorized Directors