

FAC/23-055

November 1, 2023

Subject: Clarification of Financial Information for the 2nd Quarter of 2023 [In response to the Stock Exchange of Thailand's inquiry \(additional details\)](#)

To: The Director and Manager
The Stock Exchange of Thailand

In response to the Stock Exchange of Thailand's ("SET") letter seeking clarification on the financial statements for the 2nd quarter of 2023, Qualitech Public Company Limited (the "Company") acknowledges the auditor's observation concerning the recognition of losses resulting from the impairment of investment in Property Aim Solutions Company Limited ("PAS"), an associate of the Company, in the amount of 121 million baht due to PAS facing financial liquidity challenges, leading to the suspension of operations and resignations of all PAS board members due to management conflicts. Currently, PAS has ceased its business operations. [The primary cause leading to the Company's net loss of 128 million Baht following an investment period of less than a year. In summary:](#)

| Subject | Value (Million Baht) | Description |
|--|----------------------------------|---|
| Loss incurred from the depreciation of investments in Property Aim Solutions Company Limited (PAS) | 121 (83% of investment value) | <ul style="list-style-type: none"> In the financial statements for the 6-month period ending in 2023, the auditor's report notes an observation where the Company incurred a loss of 121 million baht due to the impairment of its investment in PAS, in which the company holds a 49% stake. This loss stems from PAS's insufficient liquidity, leading to an inability to meet its obligations, including employee salary payments. Consequently, a group of employees initiated legal proceedings with the Department of Labor Protection and Welfare, resulting in work stoppages. The potential ramifications include contract cancellations by clients and |

| Subject | Value (Million Baht) | Description |
|---------|-------------------------|--|
| | | <p>legal actions against the affiliated company. Additionally, all three directors of the affiliated company resigned from their positions due to management conflicts, and PAS has subsequently ceased its business operations.</p> <ul style="list-style-type: none"> ● The Company invested 145 million Baht in PAS in August 2015, stating that the transaction was fairly priced at 267 – 311 million Baht. The board of directors believed that this investment would diversify business risks, foster revenue growth for the company, and that the purchase price was appropriate based on a fair value assessment (details available on SETSMART news on August 2, 2015). |

The Stock Exchange of Thailand requests the Company to clarify additional information as follows:

1. **Information Utilized by the Company's Board for Decision-making Beyond Fair Value Assessments along with reasons to ensure prudent consideration and mitigate potential adverse effects on operational performance, liquidity, and the financial position of the company, careful evaluation has been undertaken.**

The company would like to provide clarification as follows.

The Company intends to expand or invest in businesses with favorable returns to facilitate its growth. To support this initiative, the Company has consistently set aside funds for investment. These funds have been deposited with banks and invested in securities issued by various commercial banks. Historically, the company has garnered minimal returns, primarily in the form of interest. The Company's Board of Directors therefore agreed that it is advisable to channel these funds into enterprises that yield returns surpassing those from interest. The management has conducted an in-depth analysis of investment data across various sectors, with a particular emphasis on business categories resilient to the effects of the COVID situation. The investigation revealed that the real estate management sector stands out as an intriguing prospect due to its favorable returns.

The management has received information indicating that PAS is a company engaged in real estate management, making it an intriguing and reputable business with over 10 years of operation. After a preliminary review of past performance data, it was observed that PAS has consistently shown growth in its

operational results. In the years 2018 to 2021, the company generated revenues of 120.27, 146.82, 156.60, and 168.37 million Baht, respectively. Calculating an average annual growth rate of 11.87%, PAS demonstrated profitability. From 2018 to 2020, PAS reported profits of 3.02, 4.18, and 5.89 million Baht, respectively. In the second quarter of 2565, the company appointed an auditor to prepare the financial audit report for the year 2564, as a special case. The auditor conducted the examination according to the agreed-upon procedures to facilitate decision-making regarding the investment between our company and PAS. The audit revealed that PAS incurred a loss of 1.00 million Baht in 2021, primarily due to income tax deduction at source, resulting in an undesirable payment of approximately 8 million Baht. Therefore, considering the actual operational performance, PAS would have reported a profit before the mentioned special item of approximately 9 million Baht in 2021.

Following a thorough assessment of operational results, the management observes that PAS's business exhibits a consistent growth trend and has been minimally impacted by external factors. Even during the COVID-19 pandemic in the years 2020 to 2021, which affected the overall real estate industry, PAS maintained continuous revenue growth and profitability. When compared to some competitors, PAS demonstrated effective business management capabilities. Additionally, management received information about positive developments in the real estate industry, indicating an improving residential market. Economic factors are anticipated to drive growth, leading to increased government investments in large-scale infrastructure projects. Moreover, private sector property developers are inclined to launch new projects to meet the growing demand from domestic and international customers. The easing of travel restrictions since the end of 2021 is expected to further boost housing demand, positively impacting PAS's property management business.

The management has reported that financial consultants, who have received approval from the Securities and Exchange Commission ("SEC"), have been engaged to study various aspects and provide financial advice. This includes conducting an analysis of the current valuation of PAS to assist in investment decisions. The financial consultants have assessed the fair value based on financial assumptions, utilizing information obtained from management and relevant personnel, including interviews with PAS executives. The summary of the valuation methods employed is as follows:

| Methods of Stock Valuation | Business Enterprise Value (Million Baht) | Value per Share (Baht/Share) |
|--|---|---------------------------------|
| 1. Book Value Approach | 16.27 | 542.40 |
| 2. Adjusted Book Value Approach | 16.27 | 542.40 |
| 3. Discounted Cash Flow Approach | | |
| 3.1 Scenario 1: Basic Case | 310.96 | 10,365.44 |
| 3.2 Scenario 2: Project Reduction Adjustment | 267.20 | 8,906.73 |

Remark: Par Value per Share is 100.00 Baht.

The financial consultants have found that the fair value of ordinary shares of PAS, based on various valuation methods, ranges from 542.40 million Baht to 10,365.44 million Baht, or a fair value per share ranging from 16.27 to 310.96 Baht, respectively. However, the financial consultants recommend the Discounted Cash Flow (DCF) approach as the most suitable method for evaluating the fair value of PAS's ordinary shares. This is because the DCF method aligns with financial estimates provided by the company's management, considering assumptions related to revenue, service cost, sales and management expenses, corporate income tax, and the determination of an appropriate discount rate. The financial forecast is based on various business assumptions derived from past performance, management interviews, and other relevant data. These considerations encompass the risks in various aspects, reflecting the rate of return of shareholders against the company's risk at the rate of return on shareholders (K_e), which is used as the rate for discounting future cash flows. However, in cases where this data undergoes changes in the future, influenced by various internal and external factors, and significantly impacts the company's operations from the assumptions made. The key assumptions include:

- Revenue Breakdown: The revenue is categorized into income from outsourcing personnel and administrative fee income. For the existing projects, the figures are based on historical data, while for the projected projects, the reference is the average revenue from services provided by the new projects received.
- Service Costs: The primary component is the cost of personnel working on the projects, with a specified annual growth rate of 5.00%.
- Sales and Management Expenses: The majority of sales expenses will be franchise fees, referenced according to the contract value. Meanwhile, the primary portion of management

expenses will constitute the salaries of executives and central staff, with a prescribed annual growth rate of 5.00%.

- Financial Costs: Referenced from the average financial costs of short-term and long-term funds.
- Corporate Income Tax: Set at 20%.

The details of the income statement projection for 2022 - 2026 are as follows.

| | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|-------------|--------------|--------------|--------------|--------------|
| Revenue From Rendering | | | | | |
| Services | 193.81 | 218.97 | 243.17 | 272.46 | 306.30 |
| Costs From Rendering | | | | | |
| Services | 144.42 | 160.16 | 177.62 | 196.73 | 217.59 |
| Gross Profit (Loss) | 49.39 | 58.81 | 65.55 | 75.73 | 88.70 |
| Profit (Loss) Before | | | | | |
| Expenses | 49.39 | 58.81 | 65.55 | 75.73 | 88.70 |
| Selling Expenses | 0.56 | 0.74 | 0.79 | 0.84 | 0.84 |
| Administrative Expenses | 36.55 | 39.98 | 43.26 | 47.73 | 51.88 |
| Total Expenses | 37.11 | 40.72 | 44.05 | 48.57 | 52.72 |
| Profit (Loss) Before | | | | | |
| Finance Costs And | | | | | |
| Income Tax Expense | 12.28 | 18.09 | 21.50 | 27.16 | 35.98 |
| Finance Costs | 0.11 | -0.10 | -0.24 | -0.15 | 0.00 |
| Profit Before Income Tax | 12.18 | 18.20 | 21.74 | 27.31 | 35.98 |
| Corporate Income Tax | 2.44 | 3.64 | 4.35 | 5.46 | 7.20 |
| Net Profit (Loss) | 9.74 | 14.56 | 17.39 | 21.85 | 28.78 |
| Adjust Items, Additional Expenses** | 5.11 | - | - | - | - |
| Net Profit (Loss) After Adjustment | 4.63 | 14.56 | 17.39 | 21.85 | 28.78 |

**The adjustments to expenses in 2022 are primarily based on the findings from the special case financial statement audit report conducted by the accountants. These adjustments include items such as revenue growth, taxes, business-specific taxes on loan interest, expenses for the disabled fund, service contract stamp duty, among others.

In addition, the financial advisor has provided information about the risks of entering into the transaction. The details are as follows:

1. Revenue Risk: There is a risk that the actual revenue may not align with forecasts due to market volatility and current economic conditions. Some housing projects may experience reduced expenditure on project management, opting for lower-cost service providers, potentially affecting the company's revenue.
2. Contract Renewal Risk: The short-term nature of service contracts, typically one year, with some extending to two or three years, poses a risk if clients choose not to renew contracts upon expiration. This may impact the company's ability to generate future revenue.
3. Human Resource Risk: Workforce-related challenges, including staffing shortages and high turnover rates, particularly among maintenance staff, may affect the company's ability to find replacements promptly. In situations where staff availability falls short of contractual obligations, the company may face challenges in invoicing clients for personnel costs.
4. Management Dependency Risk: The company's operations are currently primarily managed by Mr. Sampob Bunnag, who holds the position of Managing Director and is a significant shareholder. Any changes in key management personnel could impact the company's future business operations and strategic direction.

Furthermore, the company has engaged a legal consulting firm to conduct a legal due diligence on PAS and provide legal opinions related to the purchase and sale agreements.

The Audit Committee Meeting No. 3/2022 on July 29, 2022 and the Company's Board of Directors Meeting No. 6/2022 on August 1, 2022, after a comprehensive evaluation of PAS's business value such as the balance sheet, income statement, cash flow statement, and current ratio (D/E, Debt to EBITDA). The Company therefore concluded that investing in PAS's ordinary shares could yield favorable returns. The Company further determined that after the share acquisition, it would maintain sufficient funds for its business operations without relying on any additional credit. Hence, the Company decided to utilize the funds previously invested in securities amounting to 144.55 million baht to purchase ordinary shares in PAS, totaling 14,700 shares or 49.00 percent of the total number of shares of PAS with a total trading value of 144,550,000 baht. (As informed in a letter to the Stock Exchange on August 2, 2022) The objective of this acquisition is to foster the Company's growth, diversify risks in its operations, and anticipate long-term returns for shareholders. The Company's Board of Directors believes that to mitigate the risk associated with relying solely on PAS management for operational management, which is a significant risk that could impact business operations, prior to acquiring shares in PAS, a management contract should be established

between PAS and the primary management for a period of 5 years. The contract will include a non-competition clause preventing the primary management from competing with PAS. Additionally, the company is to appoint experienced real estate management executives as directors in PAS.

2. Does the Board of Directors have measures to monitor the operations and financial status of the associated companies after the investment? How? And what are the guidelines for resolving the situation of the associated company?

The company would like to provide clarification as follows.

Following the completion of the ordinary shares' transaction with PAS, the Company has appointed two representatives to serve as directors of PAS. The list of PAS's board of directors consists of Mr. Sampop Bunnag (Former Executive), Mr. Nikm Thanaphumikul and Mr. Thitiwat Teerakulthanyaroj (Representative of the Company) (Details according to the information regarding the acquisition of assets of the Company which was published to the Stock Exchange on August 2, 2022) Discussions have taken place with the former executives regarding operational changes, including the expansion of personnel and investment in software systems for management purposes. These efforts aim to prepare for the registration of PAS in the stock market and align with the investment objectives in PAS, fostering sustainable returns for the company in the long term. The Company acknowledges the potential challenges in collaboration that representatives and former executives might face, and it is expected that collaborative endeavors will undergo adjustments over time. Following the collaboration between the representative director of the Company and the former executive, challenges arose due to disparities in management approaches, visions, and attitudes during their joint work. Nevertheless, the Company does not foresee any conflicts that may impede joint management, becoming a primary cause for issues affecting PAS and impacting its business operations in this instance.

Throughout the investment period, the Company's board of directors has closely monitored the progress of PAS. Regular meetings have been conducted to stay informed about the challenges faced by PAS and to provide recommendations for addressing various issues. However, due to persistent internal management conflicts, the anticipated smooth operation of PAS has been impeded. This has adversely affected the overall management functions and the actual operational outcomes of PAS which deviated from initial expectations and had an impact on liquidity issue and employee-related problems. The details are as follows:

2.1 The Company's Board of Directors Meeting No. 7/2022 on August 13, 2022, a resolution was made to acknowledge the progress in the execution of the share purchase agreement, the shareholder agreement, the payment for shares, and a report detailing the actions taken in accordance with the regulatory conditions before and after the transaction was provided.

2.2 The Company's Board of Directors Meeting No. 1/2023 on February 3, 2023, a resolution was made to acknowledge PAS's plan for the year 2023 which aligns with the Company's investment objectives.

2.3 The Company's Board of Directors Meeting No. 2/2023 on February 18, 2023, involved discussions about engaging a financial advisor to study the prospect of acquiring additional PAS shares. The challenges arose from PAS's status as an associate company, hindering the company's ability to manage PAS efficiently. The operational outcomes of PAS in 2022 have not met the anticipated expectations. Despite the appointment of two directors to PAS, their control authority remained limited. To facilitate the ongoing development of PAS, it was deemed necessary to revise the management structure for enhanced control.

2.4 The Company's Board of Directors Meeting No. 3/2023 on February 25, 2023, concluded with a resolution to recognize the operational outcomes of PAS in 2022. The findings revealed that PAS's performance fell short of expectations, leading the Company to acknowledge a loss resulting from the impairment of the investment in PAS, amounting to 18.08 million baht. The Board of Directors has recommended closely monitoring the operational results and has entrusted representatives to engage in discussions with the existing management focusing on strategies and management plans to ensure that the operational outcomes align with the established objectives. Additionally, regular progress reports will be provided to keep the Company's Board of Directors informed at intervals.

2.5 The Company's Board of Directors Meeting No. 4/2023 on May 6, 2023, a resolution was made to acknowledge operational issues in PAS reported by the representatives on the PAS Board of Directors. It was found that PAS encountered liquidity issues [due to the loss of customers across multiple projects, it has become unfeasible to remunerate employees in full starting from April 2023](#). This situation posed a risk of employees lodging complaints with the Department of Social Welfare and Labor Protection. Furthermore, conflicts among PAS executives were identified, complicating the management process, and there was an indication that the company might face difficulties in sustaining its operations. The Board of Directors recommends taking immediate actions to address the liquidity issues to prevent potential workforce-related problems. It is advised that representatives engage in discussions with the existing management to collaboratively find solutions and eliminate the conflicts that have arisen. This approach aims to swiftly

resolve the liquidity challenges and foster a cooperative working environment and mitigating the issues that have emerged.

2.6 The Company's Board of Directors Meeting No. 5/2023 on May 13, 2023, a resolution was made to acknowledge the operational results for the 1st quarter of 2023. It was found that PAS incurred losses in its operations. The Company had to recognize its share of the losses from the investment in PAS, amounting to 1.44 million baht. Furthermore, the Audit Committee reported that financial and legal consultants involved in the PAS share purchase were invited to provide additional details on May 18, 2023. additional details on May 18, 2023.

2.7 The Company's Board of Directors Meeting No. 6/2023 on June 3, 2023, a resolution was made to acknowledge the progress regarding issues in PAS. It was found that PAS encountered liquidity issues, resulting in an inability to remunerate employees fully. Subsequently, employees lodged complaints with the Department of Labor Protection and Welfare and refrained from working for customers. This situation could potentially lead to customer complaints or legal actions against PAS. Moreover, all three directors of PAS have tendered their resignations [in May 2023](#), resulting in the absence of directors and executives in PAS.

2.8 The Company's Board of Directors Meeting No. 7/2023 on July 7, 2023, a resolution was made to acknowledge the ongoing operational challenges in PAS. It was noted that all three directors had resigned, resulting in no ongoing operations in PAS and a considerable number of employees filing complaints with the Department of Social Welfare and Labor Protection. The meeting deliberated on the absence of directors in PAS following the resignation of all directors. Consequently, the Company decided to utilize its entitlement to convene a meeting with PAS shareholders to address concerns and explore potential solutions. The challenges faced by PAS originate at the administrative level, encompassing a persistent shortage in the management team, operational staff, and cash flow for business operations. Additionally, there is a possibility for various disputes to arise in the future. Rectifying these issues will necessitate the company to make investments or incur additional expenses. Therefore, the Company's Board of Directors determined that the Company would refrain from engaging in business rehabilitation or taking any action in PAS. As a resolution, the approval was granted for the provision for impairment of all remaining investments, totaling 126.46 million baht, culminating in 144.55 million baht within the 2nd quarter of 2023.

Following the Company's Board of Directors' awareness of internal management issues within PAS, proactive measures were taken to address these concerns. Past initiatives involved the appointment of new directors from the Company to assume PAS management responsibilities in lieu of the former executives. Furthermore, there have been discussions with the former executives to investigate the potential of

collaboratively infusing capital to enhance PAS's liquidity and facilitate continued business operations. However, the presence of diverse internal issues in PAS, such as liquidity challenges, internal conflicts among executives, and employee-related concerns, resulted in unsuccessful resolution attempts. During the Company's Board of Directors Meeting No. 8/2023 on August 11, 2023, a deliberation took place to reevaluate the management situation in PAS. Despite the Company's efforts to engage PAS shareholders in discussions aimed at finding solutions to the identified problems which requires cooperation from the Board of Directors in PAS to invite a meeting of PAS shareholders, however, the company did not receive cooperation from the directors of PAS in inviting a meeting of shareholders. Consequently, the Company was unable to proceed with any corrective actions. Due to PAS's financial status, which is burdened with significant liabilities exceeding its assets and may face additional liabilities from various legal actions that could impede any recovery or future operations, the original shareholder group proposed the sale of 12,600 ordinary shares of PAS to the company at a price of 1 Baht per share. However, the Board of Directors voted against approving the purchase of these shares and resolved to sell the entire 14,700 ordinary shares of PAS to the original shareholder group at the same price of 1 Baht per share. Subsequently, the original shareholders of PAS rejected the company's offer to purchase the shares. Hence, the Board of Directors has delegated the Executive Committee with the authority to engage in negotiations, reach agreements on the share purchase agreement, and execute any pertinent agreements necessary for the successful completion of the share purchase agreement.

The company wishes to inform that PAS, an associate of the Company, is facing legal issues resulting from a lawsuit filed by its employees. This matter involves disputes between PAS and its employees, stemming from management and financial mismanagement issues leading to the suspension of business operations. As a shareholder, the Company is not liable for any current or future legal cases and damages incurred by PAS.

The Company, as a shareholder invested in PAS, is aware of the losses incurred due to the depreciation of its investment in PAS, amounting to THB 121 million in the 2nd quarter of 2023. The impact of setting reserves has resulted in a net loss of THB 128 million for the first 6 months of 2023. Excluding the loss from the depreciated investment, the Company has a net loss of THB 7 million. The assets have decreased by THB 122 million, and the shareholder's equity has decreased by THB 122 million. As of June 30, 2023, the remaining shareholder's equity is THB 309.26 million, comprising issued and paid-up capital of THB 98.57 million and accumulated profits of THB 124.97 million. The recognition of losses from the

depreciated investment does not impact the Company's current cash flow, as the investment in PAS was made during the 2nd and 3rd quarters of 2022.

Please be informed accordingly.

Yours sincerely,

(Miss Kunlanit Sarapab)

Director