

## Information on Connected Transaction regarding the Product Development Fee

between

Kang Yong Electric Public Company Limited

and

Mitsubishi Electric Corporation

## 1. Transaction date

April 1 , 2019 - March 31 , 2024

## 2. Connected parties

Payer : Kang Yong Electric Public Company Limited ("the company")

Payee : Mitsubishi Electric Corporation ("MELCO") holds 8,978,020 shares or 40.81%.

## 3. Character of the transactions

This transaction defined as a normal business supporting transaction, which does not have general trading conditions. The company entered into the Technical Assistance Agreement with MELCO ,as a mahor shareholder of the company since 26th April 1979, the company shall be licensed to manufacture and distribute home appliances under " Mitsubishi Electric" brand, and MELCO shall provide the company with technical know-how and production technology for new product development. In consideration thereof, the company is obligated to pay a development fee to MELCO based on the actual cost, which consists of material cost,design & trail cost, and engineering & technician fee.

The renewal of agreement is for a period of 5 years, with the approval of the shareholders to sign the renew the agreement.

The product development fee paid by the company to MELCO in the past five years, is as follows:

Fiscal year	2014	2015	2016	2017	2018
	01/04/'13- 31/03/'14	01/04/'14- 31/03/'15	01/04/'15- 31/03/'16	01/04/'16- 31/03/'17	01/04/'17- 31/03/'18
Development Fee (M.Baht)	194	218	282	306	295
Development Fee / NTA (%)	4.5%	4.4%	5.3%	4.9%	4.7%

However, at the rate 4% of revenue from sale of goods and rendering of services as mentioned, it is the approval of the budget for the management of the Company. This rate has not stated in the terms and conditions of the both Agreements which is going to renew. Under the Agreement, payment for development fee to MELCO will base on the actual cost which may be higher than 4% of revenue from sale of goods and rendering of services. In case of in the future the development fee higher than 4% of revenue from sale of goods and rendering of services, the Company will seek the approval to the next Meeting of Shareholders.

#### 4. Size of the Connected Transaction

Not exceeding 4% of the revenue from sale of goods and rendering of services (same as last time) or about 2,156 Million Baht per 5 years, which exceeding 3% of Net Tangible Assets (NTA) (NTA at 31st March 2018 = 6,267 M.baht , 3% of NTA =188 M.baht)

(Estimate development fee)	Actual	Estimate	
	2010-2014	2015-2019	2020-2524
	01/04/'09- 31/03/'14	01/04/'14- 31/03/'19	01/04/'19- 31/03/'24
Sale of goods and rendering of services (M.baht)	41,944	45,022	53,891
% sales growth	28.5%	7.3%	19.7%
Development Fee (M.baht)	1,100	1,379	2,156
% per Sale of goods and rendering of services	2.6%	3.1%	4.0%

The payment of product development fee is based on the actual cost incurred in each year, the amount of such payment cannot be accurately identified at the present thus, expected not to exceed 4% of estimated revenue from sale of goods and rendering of services, for the future five-year period .

#### 5. Directors who is related person and/or Directors who is no attending and no right to cast the votes

<u>Name</u>	<u>Relevant</u>	<u>hold KYE's shares</u>
1.Mr. Takenori Adachi	Directors who are related person from MELCO	None
2.Mr. Akira Nakamichi	Directors who are related person from MELCO	None
3.Mr. Hirotake Abo	Directors who are related person from MELCO	None
4.Mr.Yasumichi Tazunoki	Directors who are representative from MELCO	None
5.Mr. Shinji Sasaki	Directors who are representative from MELCO	None
6.Mr. Tomohiko Kasai	Directors who are representative from MELCO	None

## 6. Reasonableness of Transaction

- 1) To maintain business continuity because product development is important in the business of the company.  
In addition, product development also enhance competitive advantage when compared to competitors.
- 2) To enhance revenue of sales and maintain the market share. Continuous product development with MELCO whether it is a minor change or major change, improve revenue of sales of the company and maintain the market share.
- 3) It creates opportunities and prepares for business expansion into new markets.
- 4) To enhance quality and improve products quality to comply with the regulatory and standard requirement of each country.
- 5) To strengthen the development skills of technology transfer from MELCO

## 7. Opinion of the Audit Committee

- 1) The reasons for the connected transaction to propose to the Board of Director meeting as follows;
  - The development and the improvement are the highly influential factors to home appliances business which the development has continued.
  - To enhance efficiency and competitiveness with the current market conditions. By maintaining the market share and strengthened the brand image of "Mitsubishi Electric" with the support of MELCO and the availability of assistance.
  - The development in quality appearance and technology in new model enhance the competitive opportunity and expand the sales to the new market to escalate the income of the company.
- 2) The fairness of the price and the conditions of such transaction.
  - The proportion of the development fee to the sales revenue was reasonable when compared to the same business in Home Appliances.
  - The company acquired the license to produce and distribute the home appliances under "Mitsubishi Electric" trademark. By gaining the technician support, production technology, and new product development. The payment of the development fee will pay same as the actual amount of the materials, testing, and labor cost of engineer and technician. For this time renewal is the development and improvement of the quality of products that the business continuity of the company.

In the audit committee's point of view, the mentioned connected transaction is reasonable.

It is, therefore, appropriate to propose to the Board of Directors for further consideration.

8. The Board of Directors's opinion

- 1) This agreement is essential to the company's business. It is able the company to produce the quality and safe products which using the high technology. As a result, the company has increased its efficiency and performance to be competitive in the market.
- 2) Adding the value to the products which able to increase the sales revenue and maintain the business continuity.
- 3) The payment term & conditions are reasonable. The proportion of the development fee to the sales revenues are suitable when compared to the same business in home appliances.

The Board of Directors is of the opinion that the mentioned connected transaction is appropriate to propose to grant the approval from the Annual General Meeting will be held on Wednesday 25th July 2018

The Board of Directors meeting no.4/2017 on 13<sup>th</sup> February 2018 had the resolution to appoint "Finnex Advisory Company Limited" to be the independent financial advisor to comment the connected transaction in the AGM.

Your kind acknowledgement in this matter will be appreciated.

Yours sincerely,



(Mr. Praphad Phodhivorakhun)

Chairman

Corporate Strategice Planning Office

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