

KCE ELECTRONICS PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

1. GENERAL INFORMATION OF THE COMPANY AND SUBSIDIARIES

KCE Electronics Public Company Limited (“The Company”) was incorporated as a limited company under Thai law and had transformed to be a public company under the Public Limited Companies Act on 21 December 1992. The Company operates in Thailand and its principal activity is the manufacture and distribution of printed circuit board products, with the registered address at No. 125-125/1, 1 Moo 4 Lat Krabang Industrial Estate, Kwang Lumplatew, Lat Krabang, Bangkok.

K.C.E. International Co., Ltd., a subsidiary company, was incorporated as a limited company under Thai law. The registered address is at No. 677 Moo 4 Export Processing Zone, Bangpoo Industrial Estate, Sukhumvit Road, Tambon Phraksa, Amphur Muang, Samutprakarn Province. The subsidiary company operates its business in Thailand and its principal activity is the manufacture and distribution of printed circuit board products.

Thai Laminate Manufacturer Co., Ltd., a subsidiary company, was incorporated as a limited company under Thai law. The registered address is at No. 115/2 Moo 4 Export Processing Zone, Lat Krabang Industrial Estate, Kwang Lumplatew, Lat Krabang, Bangkok. The subsidiary company operates its business in Thailand and its principal activity is the manufacture and distribution of prepreg and laminate products to the Company and two subsidiary companies (K.C.E. International Co., Ltd. and KCE Technology Co., Ltd).

KCE Technology Co., Ltd., a subsidiary company, was incorporated as a limited company under Thai law. The registered address is at No. 117-118 Moo 1, Hi-Tech Industrial Estate, Tambon Ban Lain, Amphur Bang Pa-In, Pranakornsriyuthaya Province. The subsidiary company operates its business in Thailand and its principal activity is the manufacture and distribution of printed circuit board products.

KCE (Thailand) Co., Ltd., a subsidiary company, was incorporated as a limited company under Thai law. The registered address is at No. 100/61, 21st floor, Vongvanich Building, Rama 9 Road, Tambon Huaykwang, Amphur Huaykwang, Bangkok. The subsidiary company operates its business in Thailand and its principal activity is the domestic sale representative to the Company and its affiliates.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with accounting standards enunciated under the Accounting Profession Act B.E. 2547. The presentation of the financial statements has been made in compliance with the stipulations of the Notification of the Department of Business Development dated 14 September 2001, issued under the Accounting Act B.E. 2543.

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

The separate financial statements, which present investments in subsidiaries and associates presented under the cost method, have been prepared solely for the benefit of the public.

3. BASIS OF CONSOLIDATION

3.1 The consolidated financial statements include the financial statements of KCE Electronics Public Company Limited (hereinafter called “the Company”) and its subsidiaries (hereinafter called “the subsidiaries”) as below:-

Company's name	Percentage of shareholding		Assets as a percentage to the consolidated total assets as at		Revenues as a percentage to the consolidated total revenues for the year ended	
			31 December		31 December	
	2007	2006	2007	2006	2007	2006
<u>Held by the Company</u>						
K.C.E. International Co., Ltd.	94.99	94.99	9	12	15	19
KCE Technology Co., Ltd.	100.00	100.00	54	57	50	49
Thai Laminate Manufacturer Co., Ltd. (Held by the Company 52.00% and K.C.E. International Co., Ltd. 19.20%)	70.24	70.24	9	8	2	2
KCE (Thailand) Co., Ltd.	60.00	-	1	-	1	-
<u>Held by the subsidiary</u>						
Konstant Pte. Ltd. (Held by KCE Technology Co., Ltd. 100.00%)	100.00	100.00	-	-	-	-

During the year 2007, Konstant Pte. Ltd., a subsidiary company held by KCE Technology Co., Ltd., a subsidiary of the Company dissolved and liquidated in accordance with the Singapore Companies Act as described in Note 11 to the financial statements.

- 3.2 The financial statements of overseas subsidiary companies are translated into Thai Baht at the average exchange rate ruling on the balance sheet date for assets and liabilities, and at the monthly average exchange rates during the year for revenues and expenses. The resultant differences have been shown under the caption of “Translation adjustments” in the shareholders’ equity.
- 3.3 Material balances and transactions between the Company and its subsidiaries and investments in subsidiaries in the Company’s accounts and subsidiaries’ share capital have been eliminated from the consolidated financial statements.
- 3.4 The excess of cost over the net book value of investment in its subsidiaries at acquisition date has been shown as “Goodwill” under non-current assets in the consolidated balance sheets and is amortised as expenses over the periods of five and ten years.
- 3.5 The lower of cost of investments in subsidiaries and the net assets value of the subsidiaries at the time of acquisition has been shown as “Negative goodwill” under non-current assets in the consolidated balance sheets and is recognised as revenues over the periods of five years.

4. ADOPTION OF NEW ACCOUNTING STANDARDS

The Federation of Accounting Professions (FAP) has issued Notifications No. 9/2550, 38/2550 and 62/2550 regarding Accounting Standards. The notifications mandate the use of the following new Accounting Standards.

a) Accounting Standards which are effective for the current year

TAS 44 (revised 2007)	Consolidated Financial Statements and Separate Financial Statements
TAS 45 (revised 2007)	Investments in Associates
TAS 46 (revised 2007)	Interests in Joint Ventures

These accounting standards become effective for the financial statements for fiscal years beginning on or after 1 January 2007. During the first quarter of the current year, the Company changed its accounting policy for recording investments in subsidiaries and associates in the separate financial statements in order to comply with the revised Thai Accounting Standard No. 44 as discussed in Note 5.

b) Accounting Standards which are not effective for the current year

TAS 25 (revised 2007)	Cash Flow Statements
TAS 29 (revised 2007)	Leases
TAS 31 (revised 2007)	Inventories
TAS 33 (revised 2007)	Borrowing Costs
TAS 35 (revised 2007)	Presentation of Financial Statements
TAS 39 (revised 2007)	Accounting Policies, Changes in Accounting Estimates and Errors
TAS 41 (revised 2007)	Interim Financial Reporting
TAS 43 (revised 2007)	Business Combinations
TAS 49 (revised 2007)	Construction Contracts
TAS 51	Intangible Assets

These accounting standards will become effective for the financial statements for fiscal years beginning on or after 1 January 2008. The management has assessed the effect of these accounting standards and believes that they will not have any significant impact on the financial statements for the year in which they are initially applied, except for the following accounting standard.

TAS 43 (revised 2007) does not require the Company to amortise goodwill, including negative goodwill, acquired in a business combination. Such goodwill is instead to be tested for impairment, and measured at cost less accumulated impairment losses. In case of negative goodwill, identification and measurement of the acquiree's assets, liabilities and contingencies should be reassessed and the measurement of the cost of the combination and the remaining balance is to be recognised as income immediately in the income statement. This accounting standard applies to goodwill arising from business combinations for which the agreement date is on or after 1 January 2008. Previously recognised goodwill can be accounted for prospectively, according to the treatment as outlined in the accounting standard. Hence, in 2008, the Company will adjust the negative goodwill as of 31 December 2007 according to the treatment as outlined in the accounting standard.

5. CHANGE IN ACCOUNTING POLICY FOR RECORDING INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES IN THE SEPARATE FINANCIAL STATEMENTS

During the first quarter of the current year, the Company changed its accounting policy for recording investments in subsidiaries and associates in the separate financial statements from the equity method to the cost method, in compliance with Accounting Standard No. 44 (Revised 2007) regarding “Consolidated Financial Statements and Separate Financial Statements”, under which investments in subsidiaries and associates are to be presented in the separate financial statements under the cost method.

In this regard, the Company has restated the previous period’s separate financial statements as though the investments in the subsidiaries and associates had originally been recorded using the cost method. The change has the effect of decreasing net income for the year ended 31 December 2007 by Baht 195.7 million (Baht 0.50 per share) and increasing net loss for the year ended 31 December 2006 by Baht 12.5 million (Baht 0.04 per share), respectively, in the separate income statements. The cumulative effect of the change in accounting policy has been presented under the heading of “Cumulative effect of the change in accounting policy for investments in subsidiary and associated companies” in the separate statements of changes in shareholders’ equity.

Such change in accounting policy affects only the accounts related to investments in subsidiary and associated companies in the Company’s separate financial statements, with no effect to the consolidated financial statements.

6. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted by the Company and its subsidiaries are summarised below.

6.1 Revenue recognition

a) Sales of goods

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

b) Interest income

Interest income is recognised on an accrual basis based on the effective rate.

c) Dividends

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

6.2 Cash and cash equivalents

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

6.3 Trade accounts receivable and allowance for doubtful accounts

Trade accounts receivable are stated at the net realisable value. Allowance for doubtful accounts is provided for the estimated losses that may be incurred in collection of receivables. The adequacy of the allowance is based on collection experience and current status of receivables outstanding at the balance sheet date.

6.4 Related party transactions

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

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

6.5 Inventories and allowance for diminution in value of inventories and inventory obsolescence

Finished goods and work in process are valued at the lower of cost (weighted average method) and net realisable value. The cost includes cost of material, labour and production overheads.

Raw materials, spare parts and factory supplies are valued at the lower of cost (weighted average method) and net realisable value and charged to production costs whenever consumed.

The net realisable value of inventories is estimated from the estimated selling price in the ordinary course of business, less the estimated costs to complete the sale.

Allowance for diminution in value of inventories and inventory obsolescence are set up for obsolete, slow-moving and deteriorated inventories.

6.6 Investments

- a) Investments in the associates in the consolidated financial statements are stated under equity method.
- b) Investments in the subsidiaries and associates in the separate financial statements are stated under cost method.
- c) Investments in marketable securities held for trading are stated at fair value, which is based on the latest bid price of the last working day of the year as quoted on the Stock Exchange of Thailand. Changes in the carrying amount of securities are recorded as gain or loss on revaluation of investment in marketable securities in the income statements. The weighted average method is used for computation of the cost of investments.
- d) Company's shares held by subsidiaries are stated at cost and are presented as a deduction in shareholders' equity. Gain or loss from sales of such shares is recorded in the shareholders' equity.

6.7 Property, plant and equipment and depreciation

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

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

Building and plant	-	20 - 25	years
Machinery and equipment	-	5 - 20	years
Plant and office improvement	-	5 - 20	years
Furniture, fixtures and office equipment	-	5 - 10	years
Vehicles	-	5	years

No depreciation is provided for land, construction in progress, and machinery and equipment in transit and under installation.

6.8 Capitalisation of borrowing cost as cost of assets

The borrowing cost directly related to the acquisition of fixed assets is capitalised as part of cost of fixed assets, until the assets are ready for use.

6.9 Impairment of assets

The Company and its subsidiaries assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company and its subsidiaries make an estimate of the asset's recoverable amount. (An asset's recoverable amount is the higher of fair value less costs to sell and value in use.) Where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement.

6.10 Financial lease agreements

The Company and the subsidiaries record fixed assets under finance leases as assets and related liabilities in the balance sheets at amounts equal to the lower of fair value of the leased property or at the present value of the minimum lease payments at the inception of the lease. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease. The interest charge is recorded to periods during the lease term on the remaining balance of the liability for each period.

6.11 Goodwill/Negative goodwill

Excess/lower of cost of investments in subsidiaries over the fair value of the identifiable assets and liabilities acquired as at the date of acquisition to the extent of the Company's interest obtained is accounted for as goodwill/negative goodwill and amortised/recognised as expense/revenue on the straight-line basis over the periods of five and ten years.

6.12 Employee benefits

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

6.13 Income tax

Income tax is provided for in the accounts based on the taxable profits determined in accordance with tax legislation.

6.14 Forward exchange contracts

Receivables and payables arising from forward exchange contracts are translated into Baht at the rates of exchange ruling on the balance sheet. Gains and losses from the translation are included in determining income. Premiums or discounts on forward exchange contracts are amortised on a straight-line basis over the contract periods.

6.15 Foreign currencies

Foreign currency transactions incurred during the year are translated into Baht at the rates ruling on the transaction dates. Assets and liabilities denominated in foreign currency outstanding at the balance sheet date are translated into Baht at the rates ruling on the balance sheet date.

Exchange gains and losses are included in determining income.

6.16 Financial instruments

The Company and its subsidiaries have significant financial instruments carried in the balance sheet which include cash and cash equivalents, trade accounts receivable, investments, trade accounts payable, and short-term and long-term loans.

The Company and its subsidiaries entered into off-balance sheet derivatives for hedging commodities' price risk. At the end of period, the change of contract's fair values are recorded in shareholder's equity and recognised as a part of material cost when the materials are consumed.

6.17 Use of accounting estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions in certain circumstances, affecting amounts reported in these financial statements and related notes. Actual results could differ from these estimates.

7. ADDITIONAL INFORMATION OF CASH FLOWS STATEMENTS

Non-cash related transactions for investing activity for the years ended 31 December 2007 and 2006 are as follows : -

	(Unit: Baht)			
	<u>Consolidated financial statements</u>		<u>Separate financial statements</u>	
	2007	2006	2007	2006
Purchase of fixed assets – net	318,103,268	282,757,219	263,740,884	50,890,299
Add(less) :				
Other payable from purchases of fixed assets	(209,345,797)	(167,409,734)	(153,109,160)	(44,534,651)
Amounts due to related parties for purchases of fixed assets	-	-	(5,273,423)	(11,685,648)
Trust receipts	-	(113,969,117)	-	-
Accounts payable under hire purchase agreements	(105,627,533)	(704,214)	(105,358,301)	-
Deposit for purchases of fixed assets	(3,118,404)	-	-	-
Accrued interest capitalised as costs of machinery and equipment	-	(607,665)	-	-
Amounts due from related parties for sales of fixed assets	-	-	-	5,330,000
Others	(11,534)	(66,489)	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

8. TRADE ACCOUNTS RECEIVABLE

The outstanding balance of trade accounts receivable as at 31 December 2007 and 2006 are aged, based on due date, as follows :-

(Unit: Baht)

Age of receivables	Consolidated financial statements		Separate financial statements	
	2007	2006	2007	2006
Trade accounts receivable – related parties				
Not yet due	416,623,641	456,260,855	222,528,754	170,150,633
Overdue				
Less than 3 months	105,797,248	94,144,072	53,519,803	45,792,417
3 – 6 months	2,579,766	309,308	-	84,935
6 – 12 months	383,494	144,705	375,646	20,851
Over 12 months	1,287,958	48,018	36,618	48,018
Total trade accounts receivable – related parties	526,672,107	550,906,958	276,460,821	216,096,854
<u>Trade accounts receivable – others</u>				
Not yet due	1,355,432,980	1,264,238,473	393,500,515	323,879,203
Overdue				
Less than 3 months	94,344,264	190,365,839	35,871,371	69,013,968
3 – 6 months	10,362,734	4,817,779	2,442,566	3,051,742
6 – 12 months	11,781,678	1,799,906	2,813,492	1,738,239
Over 12 months	1,950,298	457,079	1,824,120	457,079
Total trade accounts receivable - others	1,473,871,954	1,461,679,076	436,452,064	398,140,231
Total trade accounts receivable	2,000,544,061	2,012,586,034	712,912,885	614,237,085
Less: Allowance for doubtful accounts	(2,420,485)	(1,033,531)	(2,357,396)	(1,033,531)
Trade accounts receivable - net	1,998,123,576	2,011,552,503	710,555,489	613,203,554

9. RELATED PARTY TRANSACTIONS

During the years, the Company and its subsidiaries had significant business transactions with related parties, which have been concluded on commercial terms and bases agreed upon in the ordinary course of businesses between the Company and those companies. Below is a summary of those transactions.

(Unit : Million Baht)

	Consolidated financial statements		Separate financial statements		Transfer Pricing Policy
	For the year ended		For the year ended		
	31 December		31 December		
	2007	2006	2007	2006	
<i>Transactions with subsidiaries</i>					
<i>(eliminated from the consolidated financial statements)</i>					
Sales of goods	-	-	300.0	272.8	Market prices and prices per job order for each product which are agreed between the parties
Sales of fixed assets	-	-	0.3	8.8	Net book value plus margin and prices agreed between the parties
Dividend income	-	-	-	125.7	At the declared rate
Purchases of goods	-	-	927.2	799.2	Market prices and prices per job order for each product which are agreed between the parties
Purchases of fixed assets	-	-	37.2	29.4	Prices agreed between the parties
<i>Transactions with associated companies</i>					
Sales of goods	1,833.5	1,782.7	604.6	532.4	Market prices at which similar quality products are sold under same conditions
Sales of fixed assets	20.4	-	-	-	Net book value plus margin and prices agreed between the parties
Purchases of raw materials	236.4	257.1	83.4	101.6	Market prices at which similar quality products are purchased under same conditions
Purchases of fixed assets	23.7	-	2.4	-	Prices agreed between the parties
Commission expense	47.6	40.0	23.3	20.4	At the agreed rates between the parties which is general rate for the same business
<i>Transactions with related company</i>					
Interest income	29.9	29.9	29.9	29.9	Interest rate at 7.5 percent per annum

The balances of the accounts as at 31 December 2007 and 2006 are as follows:-

	(Unit: Baht)			
	Consolidated financial statements		Separate financial statements	
	2007	2006	2007	2006
<u>Trade accounts receivable - related parties</u>				
Subsidiaries				
KCE Technology Co., Ltd.	-	-	73,789,592	65,763,955
K.C.E. International Co., Ltd.	-	-	21,831,476	6,791,283
KCE (Thailand) Co., Ltd.	-	-	5,092,617	-
Thai Laminate Manufacturer Co., Ltd.	-	-	1,515,678	737,348
Total trade accounts receivable - subsidiaries	-	-	102,229,363	73,292,586
Associated companies				
KCE America, Inc.	474,563,257	487,655,378	146,830,692	104,504,723
KCE Singapore Pte., Ltd.	52,108,850	63,251,580	27,400,766	38,299,545
Total trade accounts receivable - associated companies	526,672,107	550,906,958	174,231,458	142,804,268
Total trade accounts receivable - related parties	526,672,107	550,906,958	276,460,821	216,096,854
<u>Amounts due from and short-term loans to related parties</u>				
Subsidiaries				
KCE Technology Co., Ltd.	-	-	8,904	5,620,846
KCE (Thailand) Co., Ltd.	-	-	8,000	-
K.C.E. International Co., Ltd.	-	-	-	331,549
Total amounts due from and short-term loans from subsidiaries	-	-	16,904	5,952,395
Associated company				
KCE Singapore Pte., Ltd.	336	2,227	-	-
Total amounts due from and short-term loans from associated company	336	2,227	-	-
Related company				
Avatar Systems Corporation				
Loans	399,235,126	399,235,126	399,235,126	399,235,126
Accrued interest income	271,226,834	241,284,199	271,226,834	241,284,199
	670,461,960	640,519,325	670,461,960	640,519,325
Less : Allowance for doubtful accounts	(670,461,960)	(640,519,325)	(670,461,960)	(640,519,325)
Total amounts due from and short-term loans from related company	-	-	-	-
Total amounts due from and short-term loans from related parties - net	336	2,227	16,904	5,952,395

(Unit: Baht)

	Consolidated financial statements		Separate financial statements	
	2007	2006	2007	2006
<u>Trade accounts payable - related parties</u>				
Subsidiaries				
Thai Laminate Manufacturer Co., Ltd.	-	-	251,855,678	60,799,674
KCE Technology Co., Ltd.	-	-	82,968,607	185,010,106
K.C.E. International Co., Ltd.	-	-	3,507,609	14,168,199
Total trade accounts payable - subsidiaries	-	-	338,331,894	259,977,979
Associated company				
KCE Singapore Pte., Ltd.	51,264,377	67,794,102	14,480,307	24,488,515
Total trade accounts payable - associated company	51,264,377	67,794,102	14,480,307	24,488,515
Total trade accounts payable - related parties	51,264,377	67,794,102	352,812,201	284,466,494
<u>Amounts due to and advances from related parties</u>				
Subsidiaries				
KCE Technology Co., Ltd.	-	-	4,911,223	10,053,424
Thai Laminate Manufacturer Co., Ltd.	-	-	-	1,657,394
K.C.E. International Co., Ltd.	-	-	778,408	-
Total amounts due to and advances from subsidiaries	-	-	5,689,631	11,710,818
Associated companies				
KCE Singapore Pte., Ltd.	9,155,383	10,733,972	2,170,946	1,413,519
KCE America, Inc.	-	78,332	-	-
Total amounts due to and advances from associated companies	9,155,383	10,812,304	2,170,946	1,413,519
Total amounts due to and advances from related parties	9,155,383	10,812,304	7,860,577	13,124,337

Directors and management's remuneration

In 2007 and 2006, the Company and its subsidiaries recorded salaries, bonus, provident fund and meeting allowances to their directors and management totaling Baht 55.9 million and Baht 53.7 million (only directors totally Baht 20.9 million as previously disclosed in 2006 financial statements), respectively (The separate financial statements : Baht 30.4 million and Baht 29.6 million, (only director totally Baht 16.2 million as previously disclosed in 2006 financial statements) respectively).

Guarantee obligations with related parties

The Company and its subsidiaries have outstanding guarantee obligations with its related parties, as described in Note 27.4 to the financial statements.

10. INVENTORIES

As at 31 December 2007 and 2006, inventories consisted of :-

	(Unit : Baht)			
	Consolidated financial statements		Separate financial statements	
	2007	2006	2007	2006
Finished goods	295,267,443	175,582,503	75,010,922	36,546,162
Work in process	434,467,075	367,903,186	141,904,345	93,822,265
Raw materials	466,785,436	320,873,744	94,194,945	62,716,303
Supplies	264,216,713	236,206,148	107,792,156	98,175,577
Spareparts	207,189,884	203,056,390	63,834,735	65,996,749
Goods in transit	72,069,515	87,785,448	11,961,259	15,375,872
Total	1,739,996,066	1,391,407,419	494,698,362	372,632,928
Less : Allowance for diminution in value of inventories and inventory obsolescence	(28,672,744)	(20,852,876)	(15,695,064)	(12,731,126)
Inventories - net	1,711,323,322	1,370,554,543	479,003,298	359,901,802

11. INVESTMENTS IN SUBSIDIARIES

(Unit: Baht)

Company's name	Separate financial statements											
	Paid-up capital		Shareholding percentage		Cost		Provision for impairment of investments		Carrying amounts based on cost method net		Dividend received for the year ended 31 December	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	Baht	Baht	(%)	(%)								
K.C.E. International Co., Ltd.	100,000,000	100,000,000	94.993	94.993	172,499,000	172,499,000	-	-	172,499,000	172,499,000	-	99,743,700
Thai Laminate Manufacturer Co., Ltd.	250,000,000	250,000,000	52.000	52.000	157,710,310	157,710,310	-	-	157,710,310	157,710,310	-	25,999,980
KCE Technology Co., Ltd.	1,150,000,000	1,150,000,000	100.000	100.000	1,150,000,000	1,150,000,000	(563,271,135)	(563,271,135)	586,728,865	586,728,865	-	-
KCE (Thailand) Co., Ltd.	Baht 3,600,000	-	60.000	-	2,160,000	-	-	-	2,160,000	-	-	-
Total					<u>1,482,369,310</u>	<u>1,480,209,310</u>	<u>(563,271,135)</u>	<u>(563,271,135)</u>	<u>919,098,175</u>	<u>916,938,175</u>	<u>-</u>	<u>125,743,680</u>

According to TAS 44 regarding “Consolidated Financial Statements and Separate Financial Statements” the Company has accounted for the investments in subsidiaries using cost method whereby the Company has restated the separate financial statements as through the investments had originally been recorded using the cost method. However, the Company considered the value of investments in KCE Technology Co., Ltd., a subsidiary, which had deficit balance as at 31 December 2006 of approximately Baht 565 million. The Company set the provision for impairment of these investments as at 31 December 2006 of approximately Baht 563 million. Although, in 2007 the subsidiary had improved the operating results but the provision would be adjusted when the subsidiary has continuous operating income.

On 14 July 2006, the Extraordinary General Meeting of the shareholders of K.C.E. International Co., Ltd., a subsidiary company, passed a resolution approving the payment of a dividend in respect of prior year’s income at Baht 10.50 per share, or a total sum of Baht 105 million. The dividend was paid to the subsidiary company’s shareholders on 23 August 2006 and 13 September 2006.

On 7 August 2006, the Board of Director Meeting of Thai Laminate Manufacturer Co., Ltd., a subsidiary company, passed a resolution approving the payment of a dividend in respect of prior year’s income at Baht 2 per share, or a total sum of Baht 50 million. The dividend was paid to the subsidiary company’s shareholders on 30 August 2006.

On 14 July 2006 and 31 July 2006, the Extraordinary General Meeting of the shareholders of KCE Technology Co., Ltd., a subsidiary company, had a special resolution to approve the increase of the subsidiary company’s registered share capital from Baht 900 million (90 million ordinary shares of Baht 10 each) to Baht 1,400 million (140 million ordinary shares of Baht 10 each) through the issuance of 50 million new ordinary shares with a par value of Baht 10 each, Baht 250 million of which had already been paid-up. The subsidiary company registered the share capital increase with the Ministry of Commerce on 25 August 2006.

On 8 March 2007, the Company purchased 216,000 shares of KCE (Thailand) Co., Ltd. at Baht 10 per share, or a total sum of Baht 2.16 million, which represents 60 percent of registered share capital of that company.

On 10 April 2007, the Extraordinary General Meeting of the shareholders of Konstant Pte. Ltd., a subsidiary company held by the subsidiary of the Company, passed a resolution approving the dissolution of the company.

On 20 August 2007, that company finished the process of liquidation in accordance with the Singapore Companies Act.

12. INVESTMENTS IN ASSOCIATES

12.1 Details of associates

(Unit: Baht)

Company's name	Nature of business	Country of incorporation	Consolidated financial statements					
			Shareholding percentage		Cost		Carrying amounts based on equity method	
			2007 (%)	2006 (%)	2007	2006	2007	2006
KCE America, Inc.	Foreign sale representative to the Company and its affiliates	United States of America	48.750	48.750	643,633	643,633	56,461,901	58,558,481
KCE Singapore Pte., Ltd.	Foreign sale representative to the Company and its affiliates	Singapore	47.770	47.770	4,201,138	4,201,138	25,711,155	22,557,649
Total					4,844,771	4,844,771	82,173,056	81,116,130

(Unit: Baht)

Company's name	Separate financial statements			
	Shareholding percentage		Cost	
	2007 (%)	2006 (%)	2007	2006
KCE America, Inc.	25.00	25.00	321,816	321,816
KCE Singapore Pte., Ltd.	24.50	24.50	2,100,569	2,100,569
Total			2,422,385	2,422,385

Company's name	(Unit: Baht)			
	Consolidated financial statements		Separate financial statements	
	Share of income from investments		Dividend received	
	in associates during the year		during the year	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
KCE America, Inc.	1,458,266	19,078,022	-	-
KCE Singapore Pte., Ltd.	3,230,649	1,043,783	-	-
Total	<u>4,688,915</u>	<u>20,121,805</u>	<u>-</u>	<u>-</u>

Share of income from investments for 2007 in above two associated companies was calculated from the unaudited financial statements of those associated companies because they are located overseas and the Company has no power to direct the financial and operating policies of those companies, including the audit of their financial statements.

12.2 Summarised financial information of associates

Company's name	(Unit: Thousand Baht)									
	Paid-up capital as at		Total assets as at		Total liabilities as at		Total revenues for the		Net income	
	31 December		31 December		31 December		year ended		for the year ended	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
KCE America, Inc.	US\$ 50,000	US\$ 50,000	586,706	620,254	479,684	519,916	1,645,420	1,871,233	13,595	27,522
KCE Singapore Pte., Ltd.	S\$ 500,000	S\$ 500,000	159,397	180,441	110,905	137,916	630,708	503,520	6,153	1,326

In 1998, the Company made repayment of liabilities from guarantees of loans of Avatar Systems Corporation, a subsidiary of an associated company, totaling approximately Baht 399 million in the consolidated financial statements and in the Company's financial statements. This company had been liquidated under Chapter 7 of the U.S. Federal Bankruptcy Code. The Company had not received repayment from that company. However, the Company is in the process to sue this case under the court in Thailand. As at 31 December 2007 and 2006, the Company has recorded the above transaction with that company as short-term loans to related parties and has set up a full allowance for such loans and other receivable from that company, as detailed in Note 9 to the financial statements.

13. PROPERTY, PLANT AND EQUIPMENT

(Unit : Baht)

Consolidated financial statements

	Land	Building and plant	Machinery and equipment	Plant improvement	Furniture, fixtures and office equipment	Office improvement	Vehicles	Plant and plant improvement under construction	Machinery and equipment under installation	Machinery and equipment in transit	Total
Cost :											
31 December 2006	404,790,982	600,212,586	6,082,471,666	81,819,381	512,286,116	11,986,326	44,196,297	16,604,110	544,882,794	14,436,012	8,313,686,270
Purchase	-	2,122,222	129,276,736	33,964,601	9,220,967	387,557	2,012,370	13,411,806	619,427,886	67,768,307	877,592,452
Transfer in (out)	-	28,544,531	710,823,955	20,008,942	25,317,318	150,000	-	(28,950,311)	(740,506,473)	(15,387,962)	-
Disposal	-	-	(30,371,830)	(5,140)	(14,277,303)	-	(5,413,886)	-	-	-	(50,068,159)
31 December 2007	404,790,982	630,879,339	6,892,200,527	135,787,784	532,547,098	12,523,883	40,794,781	1,065,605	423,804,207	66,816,357	9,141,210,563
Accumulated depreciation :											
31 December 2006	-	186,766,703	2,321,142,028	51,115,939	249,209,857	7,235,491	28,516,257	-	-	-	2,843,986,275
Depreciation for the year	-	27,047,148	454,494,343	7,391,857	56,277,760	969,526	5,082,783	-	-	-	551,263,417
Accumulated depreciation of disposed assets	-	-	(13,749,465)	(5,139)	(9,717,996)	-	(5,164,194)	-	-	-	(28,636,794)
31 December 2007	-	213,813,851	2,761,886,906	58,502,657	295,769,621	8,205,017	28,434,846	-	-	-	3,366,612,898
Net book value :											
31 December 2006	404,790,982	413,445,883	3,761,329,638	30,703,442	263,076,259	4,750,835	15,680,040	16,604,110	544,882,794	14,436,012	5,469,699,995
31 December 2007	404,790,982	417,065,488	4,130,313,621	77,285,127	236,777,477	4,318,866	12,359,935	1,065,605	423,804,207	66,816,357	5,774,597,665
Depreciation for the year :											
2006 (Baht 472.1 million included in manufacturing cost, and the balance in selling and administrative expenses)											532,184,229
2007 (Baht 488.9 million included in manufacturing cost, and the balance in selling and administrative expenses)											551,263,417

(Unit : Baht)

	Separate financial statements									
	Land	Building and plant	Machinery and equipment	Plant improvement	Furniture, fixtures and office equipment	Office improvement	Vehicles	Machinery and equipment under installation	Machinery and equipment in transit	Total
Cost :										
31 December 2006	231,603,891	81,125,125	1,346,362,653	48,622,482	25,099,334	9,881,998	14,257,217	202,970,922	6,557,775	1,966,481,397
Purchase	-	-	122,219,624	31,110,114	3,054,330	387,558	1,362,756	279,978,155	42,259,053	480,371,590
Transfer in (out)	-	-	264,025,993	14,132,574	-	150,000	-	(278,308,567)	-	-
Disposal	-	-	(26,049,102)	-	(54,350)	-	(4,269,586)	-	-	(30,373,038)
31 December 2007	<u>231,603,891</u>	<u>81,125,125</u>	<u>1,706,559,168</u>	<u>93,865,170</u>	<u>28,099,314</u>	<u>10,419,556</u>	<u>11,350,387</u>	<u>204,640,510</u>	<u>48,816,828</u>	<u>2,416,479,949</u>
Accumulated depreciation :										
31 December 2006	-	51,941,138	816,927,600	39,155,602	18,622,921	5,777,041	11,765,093	-	-	944,189,395
Depreciation for the year	-	3,782,958	108,179,142	6,008,175	2,523,789	504,865	757,412	-	-	121,756,341
Accumulated depreciation of disposed assets	-	-	(25,879,987)	-	(12,356)	-	(4,047,086)	-	-	(29,939,429)
31 December 2007	<u>-</u>	<u>55,724,096</u>	<u>899,226,755</u>	<u>45,163,777</u>	<u>21,134,354</u>	<u>6,281,906</u>	<u>8,475,419</u>	<u>-</u>	<u>-</u>	<u>1,036,006,307</u>
Net book value :										
31 December 2006	<u>231,603,891</u>	<u>29,183,987</u>	<u>529,435,053</u>	<u>9,466,880</u>	<u>6,476,413</u>	<u>4,104,957</u>	<u>2,492,124</u>	<u>202,970,922</u>	<u>6,557,775</u>	<u>1,022,292,002</u>
31 December 2007	<u>231,603,891</u>	<u>25,401,029</u>	<u>807,332,413</u>	<u>48,701,393</u>	<u>6,964,960</u>	<u>4,137,650</u>	<u>2,874,968</u>	<u>204,640,510</u>	<u>48,816,828</u>	<u>1,380,473,642</u>
Depreciation for the year :										
2006 (Baht 110.6 million included in manufacturing cost, and the balance in selling and administrative expenses)										<u>114,150,089</u>
2007 (Baht 118.0 million included in manufacturing cost, and the balance in selling and administrative expenses)										<u>121,756,341</u>

As at 31 December 2007 and 2006, certain machinery and equipment of the Company and its subsidiaries have been fully depreciated but are still in use. The original cost of those assets amounted to Baht 817.7 million and Baht 780.7 million, respectively (The Separate financial statements : Baht 409.8 million and Baht 431.7 million, respectively).

- 13.1 As at 31 December 2007, the Company and its two subsidiaries, K.C.E. International Co., Ltd. and Thai Laminate Manufacturer Co., Ltd., entered into negative pledge memorandums which are part of bank overdrafts and loans agreements. Under these memorandums, the Company and its subsidiaries are not allowed to dispose of, transfer, mortgage or provide any lien on their assets, as stipulated in such memorandums.
- 13.2 As at 31 December 2007, the subsidiaries of the Company have mortgaged and pledged the following property, plant and equipment :-
- 13.2.1 Thai Laminate Manufacturer Co., Ltd., a subsidiary, has mortgaged construction and pledged its machinery with a total net book value as at 31 December 2007 of Baht 127 million as collateral for loans from banks, as described in Note 17 to the financial statements.
- 13.2.2 KCE Technology Co., Ltd. a subsidiary, has mortgaged most of land and construction thereon and pledged most of its machinery as collateral for bank overdrafts and loans from banks, as described in Notes 15 and 17 to the financial statements.
- 13.3 The Company and its subsidiaries have capitalised interest expenses as part of costs of machinery and equipment under installation as follows.

(Unit : Thousand Baht)

	For the year ended 31 December	
	2007	2006
Consolidated financial statements	7,808	4,566
Separate financial statements	4,044	2,508

The assets capitalisation rates for the year ended 31 December 2007 are at the rates between 3.50 to 7.25 percent per annum in the consolidated financial statements and the separate financial statements. (2006 : at the rates between 4.74 to 7.14 percent per annum)

14. GOODWILL/NEGATIVE GOODWILL

(Unit: Baht)

	Consolidated financial statements	
	2007	2006
Goodwill	57,204,718	57,204,718
Less : Accumulated amortisation of goodwill	(57,204,718)	(57,137,201)
Goodwill - net	<u>-</u>	<u>67,517</u>
Negative goodwill	(17,968,446)	(17,968,446)
Less : Accumulated amortisation of negative goodwill	10,781,064	7,187,376
Negative goodwill - net	<u>(7,187,382)</u>	<u>(10,781,070)</u>
Amortisation expenses of goodwill/negative goodwill for the year	<u>(3,526,171)</u>	<u>(3,526,171)</u>

15. BANK OVERDRAFTS AND SHORT-TERM LOANS FROM FINANCIAL INSTITUTIONS

Bank overdrafts and short-term loans from financial institutions as at 31 December 2007 and 2006 are consisted of :-

(Unit: Baht)

	Consolidated financial statements		Separate financial statements	
	2007	2006	2007	2006
Bank overdrafts	38,100,235	32,806,525	-	6,906,731
Short-term loans	1,003,000,000	1,072,000,000	215,000,000	235,000,000
Packing credits	2,147,000,000	1,910,200,000	612,000,000	563,500,000
Trust receipts	535,986,109	405,507,721	42,104,492	16,240,697
Total	<u>3,724,086,344</u>	<u>3,420,514,246</u>	<u>869,104,492</u>	<u>821,647,428</u>

15.1 As at 31 December 2007 and 2006, bank overdrafts and partial loans from banks of the Company are guaranteed by K.C.E. International Co., Ltd., a subsidiary company.

15.2 As at 31 December 2007 and 2006, bank overdrafts and loans from banks of K.C.E. International Co., Ltd., a subsidiary company, are guaranteed by the Company.

15.3 As at 31 December 2007 and 2006, bank overdrafts and loans from banks of KCE Technology Co., Ltd., a subsidiary company, are guaranteed by the Company and are secured by the mortgage of land, construction thereon and the pledge of most of machinery of such subsidiary company.

16. ACCOUNTS PAYABLE UNDER FINANCIAL LEASE AGREEMENTS

As at 31 December 2007 and 2006, accounts payable under financial lease agreements are as follows :-

(Unit : Baht)

	Consolidated financial statements		Separate financial statements	
	2007	2006	2007	2006
Accounts payable under financial lease agreements (Contractual value)	105,627,533	-	105,358,301	-
Less : Current portion due within one year	(23,249,671)	-	(22,980,439)	-
Accounts payable under financial lease agreements - net of current portion	<u>82,377,862</u>	<u>-</u>	<u>82,377,862</u>	<u>-</u>

The Company entered into a number of financial lease agreements with a leasing company for machinery and equipment for its operations. The rental installments are paid on a monthly basis for up to 48 periods. At the end of each agreement, the Company has an option to purchase such machinery and equipment at terms and prices which are specified in the lease agreements.

17. LONG-TERM LOANS

(Unit: Baht)

	Consolidated financial statements		Separate financial statements	
	2007	2006	2007	2006
EURO portion	201,331,480	260,242,428	107,177,151	120,043,872
Baht portion	1,176,164,770	1,465,624,770	-	2,850,000
	<u>1,377,496,250</u>	<u>1,725,867,198</u>	<u>107,177,151</u>	<u>122,893,872</u>
Less: Current portion of long-term loans	(573,383,283)	(696,813,251)	(63,796,691)	(74,648,460)
Long-term loans, net of current portion	<u>804,112,967</u>	<u>1,029,053,947</u>	<u>43,380,460</u>	<u>48,245,412</u>

As at 31 December 2007, the Company and its two subsidiaries, K.C.E. International Co., Ltd. and KCE Technology Co., Ltd. had long-term loans from banks in EURO currency of EURO 4.1 million in consolidated financial statements and EURO 2.2 million in the separate financial statement (2006 : EURO 5.4 million in consolidated financial statements and EURO 2.5 million in the separate financial statement).

KCE Technology Co., Ltd., a subsidiary company, negotiated with a local commercial bank for changing the principal repayment condition of loan facility of Baht 1,070 million, and in September 2006 received a letter from the bank approving the change of the principal repayment condition that all loan principal repayment of Baht 267.50 million will be made within 22 December 2006. The subsidiary company has subsequently renegotiated with a local commercial bank for changing the principal repayment condition back to previously agreement which loan principal repayment of Baht 133.75 million would be made within December 2006 which was already paid. The remaining outstanding loan principal of Baht 133.75 million was made within January 2007 and April 2007. The amendment agreement for this change was made in January 2007 and the remaining outstanding loan was already paid in 2007.

Details of long-term loans from bank as at 31 December 2007 are as follows:-

No.	Contract date	Credit facility	Outstanding long-term loan amount			Significant terms and conditions of loan agreements		
			Current portion (Baht)	Non-current portion (Baht)	Total (Baht)	Loan period	Principal repayment	Interest repayment
<u>The Company Only</u>								
1.	18 August 2005	Euro 1,000,000	5,889,918	-	5,889,918	3 years	1 month	1 month
2.	9 June 2006	Euro 3,500,000	57,906,773	43,380,460	101,287,233	3 years	1 month	1 month
Total loans of the Company			63,796,691	43,380,460	107,177,151			

No.	Contract date	Credit facility	Outstanding long-term loan amount			Significant terms and conditions of loan agreements		
			Current portion	Non-current portion	Total	Loan period	Principal repayment	Interest repayment
			(Baht)	(Baht)	(Baht)			
Subsidiaries								
<u>K.C.E International Co., Ltd.</u>								
1.	2 July 2004	Baht 109,500,000	33,375,000	-	33,375,000	4 years	1 month	1 month
2.	2 July 2004	Euro 1,000,000	15,158,971	-	15,158,971	4 years	1 month	1 month
			48,533,971	-	48,533,971			
<u>Thai Laminate Manufacturer Co., Ltd.</u>								
1.	18 July 2002	Baht 340,000,000	34,800,000	135,000,000	169,800,000	5 years	3 months	3 months
			34,800,000	135,000,000	169,800,000			
<u>KCE Technology Co., Ltd.</u>								
1.	1 December 2003	Euro 3,000,000	34,932,621	44,062,737	78,995,358	6 years	3 months	3 months
2.	9 August 2004	Baht 445,500,000	104,800,000	183,500,000	288,300,000	6 years	3 months	1 month
3.	20 September 2004	Baht 704,049,770	167,720,000	33,169,770	200,889,770	4 years 6 months	3 months	1 month
4.	27 October 2004	Baht 124,500,000	29,200,000	58,800,000	88,000,000	6 years	3 months	1 month
5.	28 February 2005	Baht 180,000,000	42,400,000	95,200,000	137,600,000	6 years	3 months	1 month
6.	31 October 2005	Baht 200,000,000	47,200,000	141,000,000	188,200,000	6 years	3 months	1 month
7.	8 August 2007	Baht 70,000,000	-	70,000,000	70,000,000	6 years	3 months	1 month
			426,252,621	625,732,507	1,051,985,128			
Total loans of subsidiaries			509,586,592	760,732,507	1,270,319,099			
Total loans of the Company and subsidiaries			573,383,283	804,112,967	1,377,496,250			

- 17.1 Long-term loans from banks of the Company is EURO loan which carry interest at the rate of LIBOR plus 1.5 to 2.5 percent per annum.
- 17.2 A long-term loan from bank of K.C.E. International Co., Ltd., a subsidiary company, are Baht and EURO loans which carry interest at the rates of 3.5 percent and LIBOR plus 1.5 percent per annum, respectively. The loans are guaranteed by the Company.
- 17.3 A long-term loan from bank of Thai Laminate Manufacturer Co., Ltd., a subsidiary company, carries interest at the rates of MLR (Minimum Loan Rate) less 1.0 to 1.5 percent per annum. The loan is guaranteed by the Company and secured by mortgage of the subsidiary company's plant, building and pledge of part of its machinery. In addition, there are certain significant conditions that the subsidiary has to comply with, such as maintaining a ratio of total debt to equity not exceeding 3 : 1. Moreover, the Company and its subsidiaries must maintain the shareholding structure, whether by direct or indirect holding at not less than 51 percent of the registered and paid-up capital of the subsidiary.
- 17.4 Long-term loans from banks of KCE Technology Co., Ltd. a subsidiary company are Baht and Euro loans which carry interest at the rates between MLR (Minimum Loan Rate) less 1.25 percent and MLR (Minimum Loan Rate) per annum and LIBOR plus 2.0 percent per annum, respectively. These loans are guaranteed by the Company and are secured by the mortgage of the subsidiary's land and construction thereon and the pledge of most of the subsidiary's machinery.

18. SHARE CAPITAL

18.1 Convertible debenture

On 27 April 2006, the Annual General Meeting of the Company's shareholders passed a resolution approving the issuance and offering of the THB Senior Convertible Debentures for the amount not more than Baht 500 million which will be offered to specific investor (Private Placement) and allocation of share to reserve for the exercise of the convertible debentures. However, the Annual General Meeting of the Company's shareholders passed a resolution approving the cancellation of the resolution of the Annual General Meeting of the Company's shareholders on 27 April 2006 regarding the issuance and offering of convertible debentures of the Company and allocation of the newly issued shares to accommodate the exercise of the convertible debentures.

18.2 Share warrant

On 27 April 2006, the Annual General Meeting of the Company's shareholders passed a resolution approving the issuance and offering of warrants to purchase the Company's ordinary share to the employees of the Company and/or its subsidiaries under the ESOP program of 3,000,000 units and allocation of shares to reserve for the exercise of the warrant.

On 24 July 2007, the meeting of the Company's Board of Directors passed a resolution approving the detail for issuing and offering the warrants of ordinary shares for the amount of 3,000,000 units to the employees of the Company and/or its subsidiaries in accordance with the approval from the Annual General Meeting of the Company's shareholders on 27 April 2006. The Company has been already permitted by the Securities and Exchange Commission for issuing and offering those warrants on 6 August 2007.

The movements of warrants during the year ended 31 December 2007 and 2006 are as follows:-

	Number of units	
	<u>2007</u>	<u>2006</u>
Warrants issued as at beginning of the year	-	-
Add : warrants issued during the year	2,370,000	-
Warrants issued as at end of the year	<u>2,370,000</u>	<u>-</u>

On 9 August 2007 and 10 October 2007, the Company issued and allotted 365,000 and 2,005,000 registered and untransferable (except for transferring as stipulated in the prospectus) warrants free of charge, respectively, to the employees of the Company and/or its subsidiaries. These warrants are exercisable at a price of Baht 3.93 per share at a ratio of 1 warrant to 1 new ordinary share, every quarter from 15 to 18 of March, June, September and December, for a period of 5 years from the issue date, starting from 15 to 18 September 2008 and with a final exercise date of 18 June 2012. The aforesaid exercise price and/or exercise ratio may be adjusted if certain events stipulated in the prospectus occur.

As at 31 December 2007, 2,370,000 units of issued warrant remained. No warrants were exercised because the exercise date started from 15 to 18 September 2008.

18.3 Company's ordinary shares

On 30 April 2007, the Annual General Meeting of the Company's shareholders passed a resolution approving the reduction and the increase of the registered capital as follow :-

- a) Reducing registered capital from Baht 450,000,000 (450,000,000 shares at the par value of Baht 1 per share) to Baht 317,930,000 (317,930,000 shares at the par value of Baht 1 per share) by canceling 132,070,000 authorised but unissued shares.

- b) Increasing registered capital from Baht 317,930,000 (317,930,000 shares at the par value of Baht 1 per share) to Baht 500,000,000 (500,000,000 shares at the par value of Baht 1 per share) by issuing the newly issued shares in the number of 182,070,000 shares at the par value of Baht 1 per share whereby 157,465,000 shares are to be offered to the existing shareholders of the Company, at the ratio of 2 existing shares to 1 new share and at offering price of Baht 1 per share. The remaining 24,605,000 shares shall be proposed for further consideration by the shareholders.

The Company had been paid up the increased share capital of Baht 147.6 million and registered it with the Ministry of Commerce on 22 June 2007.

18.4 Company's shares held by its subsidiaries

The Company's shares held by its subsidiaries represent the Company's ordinary shares which are held by its two subsidiaries, K.C.E. International Co., Ltd. and Thai Laminate Manufacturer Co., Ltd. However, during the year, Thai Laminate Manufacturer Co., Ltd. disposed all its shares of the Company, therefore as at 31 December 2007, only subsidiary company which holds shares of the Company is K.C.E. International Co., Ltd.

This shareholding is presented as a deduction item in the shareholders' equity in order to present the net Company's shareholders' equity in the consolidated financial statements. The details as at 31 December 2007 and 2006 are as follows :-

	2007	2006
Number of shares held by its subsidiaries (shares)	4,571,850	4,905,000
Cost of shares (Baht)	12,962,513	18,209,154
Shares discount (Baht)	1,847,064	4,534,660
Shares held by its subsidiaries (Baht)	14,809,577	22,743,814

18.5 Weighted average number of ordinary shares

As at 31 December 2007 and 2006, the weighted average number of ordinary shares in the consolidated financial statements is calculated as follows:-

	(Unit : Shares)	
	2007	2006
Balance brought forward	314,930,000	314,930,000
Add : Shares issued during the year	78,028,720	-
Less: Shares of the Company held by subsidiaries	(4,571,850)	(4,905,000)
Weighted average number of ordinary shares	388,386,870	310,025,000
Add : Potential ordinary share - share warrants (2007 : 2,370,000 shares, 2006 : no balances)	-	-
Diluted weighted average number of ordinary shares	388,386,870	310,025,000

Since exercise price of the above warrants exceeds the weighted average of fair value of ordinary shares for the year ended 31 December 2007, the Company expected that the warrant will not be exercised. Therefore, the issued share warrant is excluded from the calculation of potential diluted ordinary shares for diluted earnings per share calculation.

	(Unit : Share)	
	Separate financial statements	
	2007	2006
Balance brought forward	314,930,000	314,930,000
Add : Shares issued during the year	78,028,720	-
Weighted average number of ordinary shares	392,958,720	314,930,000

19. CORPORATE INCOME TAX

No corporate income tax is payable on the Company's income for 2007 and 2006 because the Company has tax loss from the write-off of debts according to the Central Bankruptcy Court's order and has tax loss carried forward from prior years over its income for the year.

Corporate income tax for 2007 and 2006 of three subsidiary companies, K.C.E. International Co., Ltd., Thai Laminate Manufacturer Co., Ltd. and KCE Technology Co., Ltd., have been calculated from the non-BOI promoted income (if any), after adding back non-tax deductible expenses and deducting loss from the write-off of debts according to the Central Bankruptcy Court's order and tax loss carried forward from prior years.

20. STATUTORY RESERVE

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

21. DIVIDEND PAYMENT

On 30 April 2007, the Annual General Meeting of the Company's shareholders passed a resolution approving the omission of the annual dividend payment for the year 2006 to the Company's shareholders.

On 27 April 2006, the Annual General Meeting of the Company's shareholders passed a resolution approving the omission of the annual dividend payment for the year 2005 to the Company's shareholders.

22. PRIOR YEAR'S ADJUSTMENT

The Company has adjusted the beginning retained earnings as at 1 January 2006 amounting Baht 0.4 million, on the consolidated statements of changes in shareholders equity because of under recording of minority interest in subsidiaries in 2005.

23. NUMBER OF EMPLOYEES AND RELATED COSTS

	Consolidated financial statements		Separate financial statements	
	2007	2006	2007	2006
Number of employees at the end of year (Persons)	4,703	4,243	1,476	1,266
Employee costs for the year (Million Baht)	1,055	941	359	313

24. PROVIDENT FUND

The Company and its subsidiaries, and their employees have jointly established a provident fund as approved by the Ministry of Finance in accordance with the Provident Fund Act B.E. 2530. Both employees and the Company or the subsidiary companies contributed to the fund monthly at the rates of 3 - 8 percent of their basic salary. The fund, which is managed by National Asset Management Co., Ltd., will be paid to employees upon termination in accordance with the fund rules. During the year 2007, the Company and its subsidiaries contributed Baht 19.3 million in consolidated financial statements (2006 : Baht 14.5 million) and Baht 7.6 million in the separate financial statement (2006 : Baht 7.5 million) to the fund.

25. PROMOTIONAL PRIVILEGES

The Company and its subsidiaries have been granted promotional privileges under the Investment Promotion Act B.E. 2520 by the Board of Investment under certain significant conditions. Significant privileges of the Company and its subsidiaries are as follow :-

Details	KCE Electronics Public Company Limited			K.C.E. International Co., Ltd.			Thai Laminate Manufacturer Co., Ltd.				KCE Technology Co., Ltd.	
	1292/2539	1062/2541	1065/2543	1003/2538	1015/2543	1278(2)2548	1099/2544	1249(1)/2545	1664(2)2547	1176(2)/2550	1378/2543	1598(2)/2547
1. Certificate No.												
2. Promotional privileges for	Manufacturing of Printed Circuit Board	Manufacturing of Printed Circuit Board	Manufacturing of Printed Circuit Board	Manufacturing of Printed Circuit Board	Manufacturing of Printed Circuit Board	Manufacturing of Printed Circuit Board	Manufacturing of Prepreg	Manufacturing of Laminate	Manufacturing of Prepreg	Manufacturing of Propreg and Laminate	Manufacturing of Printed Circuit Board	Manufacturing of Printed Circuit Board
3. The significant privileges are												
3.1 Exemption of corporate income tax for net income from promotional operation and exemption of income tax on dividends paid from the profit of the operations throughout the period in which the corporate income tax is exempted.	3 years (Expired)	3 years (Expired)	3 years (Expired)	3 years (Expired)	3 years (Expired)	3 years	3 years (Expired)	3 years (Expired)	3 years (Expired)	5 years	7 years	7 years
3.2 Allowance for 5% of the increment in export income over the preceding year for ten years, providing that the export income of that particular year should not be lower than the average export income over the three preceding years except for the first two years.	Granted (Expired)	Granted	Granted	Granted (Expired)	Granted	Not granted	Granted	Not granted	Not granted	Not granted	Granted	Not granted
3.3 Exemption of import duty on machinery as approved by the board.	Granted	Granted	Granted	50% Exemption	Granted	Granted	Granted	Granted	Granted	Granted	Granted	Granted
3.4 Exemption of import duty on raw materials and significant supplies used in export production for a period of one year from the first import date.	Granted (Expired)	Granted (Expired)	Not granted	Granted (Expired)	Not granted	Not granted	Not granted	Not granted	Not granted	Not granted	Granted (Expired)	Granted (Expired)
4. Date of first earning operating income	6 January 1996	8 August 1998	4 June 2000	15 June 1994	13 October 1999	1 September 2006	3 November 2000	1 September 2003	7 July 2004	2 May 2007	25 June 2001	1 November 2004

All sales of the Company for 2007 and 2006 are derived from non-promoted operation which could be separated between export and local sales as follows :-

	(Unit : Baht)	
	2007	2006
Sales		
Export	2,879,219,356	2,389,845,964
Local sales	46,322,555	95,526,423
Total sales	<u>2,925,541,911</u>	<u>2,485,372,387</u>

26. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income for the year by the weighted average number of ordinary shares held by outsiders and in issue during the year.

Diluted earnings per share is calculated by dividing net income for the year by the total sum of the weighted average number of ordinary shares held by outsiders and in issue during the year and the weighted average number of ordinary shares to be issued for conversion of all dilutive potential ordinary shares into ordinary shares. The calculation assumes that the conversion took place either at the beginning of the year or on the date the potential ordinary shares were issued.

27. COMMITMENTS AND CONTINGENT LIABILITIES

27.1 As at 31 December 2007, the Company and its subsidiaries have rental and service contract commitments with a period of 1 - 3 years. The future minimum charge according to the agreements until the end of the agreements are as follows :-

Currency	Consolidated financial statements	Separate financial statements
Baht	48,379,360	25,062,985
US Dollar	68,140	-

27.2 As at 31 December 2007, the Company and its subsidiaries have outstanding bank guarantees of approximately Baht 59.1 million (the separate financial statements : Baht 24.4 million) in respect of certain performance bonds as required in the normal course of business, mainly for guarantee of electric payment.

27.3 As at 31 December 2007, the Company and its subsidiaries had commitment to purchase machine amounting to approximately USD 1.7 million and YEN 34.6 million and Euro 0.1 million or totally equivalent to Baht 78.0 million (The Company only : USD 1.7 million and Euro 0.1 million or totally equivalent to Baht 65.6 million).

27.4 As at 31 December 2007 and 2006, the Company and its subsidiaries have contingent liabilities in respect of cross guarantees of loans and other credit facilities as follows:-

(Unit : Million)

Guarantee company	Guarantor			
	KCE Electronics Plc.		K.C.E. International Co., Ltd.	
	2007	2006	2007	2006
K.C.E. International Co., Ltd.				
- Baht	212	319	-	-
- USD	5	-	-	-
KCE Technology Co., Ltd.				
- Baht	3,846	3,871	-	-
- EURO	2	2	-	-
Thai Laminate Manufacturer Co., Ltd.				
- Baht	170	81	-	-
KCE Electronics Plc.				
- Baht	-	-	258	439

27.5 As at 31 December 2007, Thai Laminate Manufacturer Co., Ltd., a subsidiary company, has one-year distributionship commitment to commission the Southeast Asia distributors at the rate stipulated in the agreement.

27.6 On 26 October 2005, KCE America Inc., an associated company, had entered into operating lease agreement for its office premises with a subsidiary of an associated company for a period of 15 years. Under this agreement, as at 31 December 2007, the associated company has commitment to pay the rental fee in the future of approximately USD 1.9 million or equivalent to approximately Baht 65.4 million.

28. FINANCIAL INFORMATION BY SEGMENT

The Company and its subsidiaries' operations mainly involve business segments in printed circuit board, prepreg and laminate products with production facilities in Thailand and operates in both local and overseas markets. Financial information of the Company and its subsidiaries by business is as follows:-

(Unit : Thousand Baht)

Consolidated financial statements														
For the year ended 31 December														
Printed Circuit Board business														
	Prepreg and Laminate business		America		Europe		Asia		Total		Eliminating entries		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Revenue from external customers	138,701	133,452	1,633,058	1,548,740	4,900,339	3,759,663	1,693,313	2,097,999	8,226,710	7,406,402	-	-	8,365,411	7,539,854
Inter-segment revenues	1,447,262	1,230,151	-	-	-	-	870,940	797,171	870,940	797,171	(2,318,202)	(2,027,322)	-	-
Total revenues	1,585,963	1,363,603	1,633,058	1,548,740	4,900,339	3,759,663	2,564,253	2,895,170	9,097,650	8,203,573	(2,318,202)	(2,027,322)	8,365,411	7,539,854
Segment operating income	140,397	175,316							1,324,125	920,740	6,669	33,987	1,471,191	1,130,043
Unallocated income													186,754	144,170
Interest income													32,300	32,053
Unallocated expenses													(1,113,441)	(1,080,046)
Interest expenses													(287,770)	(296,124)
Corporate income tax													(10,517)	(13,990)
Minority interest in income of subsidiaries													(21,091)	(32,453)
Net income (loss)													257,426	(116,347)

Financial information by business segment for the consolidated balance sheets as at 31 December 2007 and 2006 are as follows :-

(Unit: Thousand Baht)

	Prepreg and Laminate business		Printed Circuit Board business		Total	
	2007	2006	2007	2006	2007	2006
Property, plant and equipment - net	525,044	500,732	5,249,554	4,968,968	5,774,598	5,469,700
Other assets	939,273	765,450	3,163,094	2,880,423	4,102,367	3,645,873
Total assets	1,464,317	1,266,182	8,412,648	7,849,391	9,876,965	9,115,573

Transfer prices between business segments are as set out in Note 9 to the financial statements.

29. FINANCIAL INSTRUMENTS

29.1 Financial risk management

The Company and its subsidiaries' financial instruments, as defined under Thai Accounting Standard No. 48 "*Financial Instruments: Disclosure and Presentations*", principally comprise cash and cash equivalents, trade accounts receivable, investments, trade accounts payable, and short-term and long-term loans. In addition, the Company and its subsidiaries have off-balance sheets derivatives for hedging the risk from commodities' price. The financial risks associated with these financial instruments and derivatives and how they are managed is described below.

Credit risk

The Company and its subsidiaries are exposed to credit risk primarily with respect to trade accounts receivable. The Company and its subsidiaries manage the risk by adopting appropriate credit control policies and procedures and therefore do not expect to incur material financial losses. In addition, the Company and its subsidiaries do not have high concentration of credit risk since they have a large customer base that has good payment abilities. The maximum exposure to credit risk is limited to the carrying amounts of receivables as stated in the balance sheet.

Interest rate risk

The Company and its subsidiaries' exposure to interest rate risk relates primarily to its cash at banks and financial institutions, bank overdrafts, and loans from bank. However, since most of the Company and its subsidiaries' financial assets and liabilities bear floating interest rates or fixed interest rates which are close to the market rate, the interest rate risk is expected to be minimal.

Significant financial assets and liabilities as at 31 December 2006 classified by type of interest rates are summarised in the table below.

	Consolidated financial statements			
	Floating	Non-interest	Total	interest rate
	interest rate	bearing		interest rate
		(Million Baht)		(% p.a.)
<u>Financial Assets</u>				
Cash and cash equivalents	190	-	190	0.25 - 0.75
Trade accounts receivable	-	1,998	1,998	-
Investments in associates accounted for under equity method	-	82	82	-
Investments in marketable securities	-	1	1	-
	<u>190</u>	<u>2,081</u>	<u>2,271</u>	
<u>Financial liabilities</u>				
Bank overdrafts	38	-	38	4.00 - 7.63
Short-term loans from financial institutions	3,686	-	3,686	4.80 - 7.83
Trade accounts payable	-	1,421	1,421	-
Amounts due to and advances from related parties	-	9	9	-
Other payable from purchases of equipment	-	206	206	-
Accounts payable under financial lease agreements	106	-	106	6.35 - 6.76
Long-term loans	1,377	-	1,377	5.25 - 6.97
	<u>5,207</u>	<u>1,636</u>	<u>6,843</u>	

	Separate financial statements			
	Floating	Non-interest	Total	interest rate
	interest rate	bearing		interest rate
	(Million Baht)		(% p.a.)	
Financial Assets				
Cash and cash equivalents	83	-	83	0.25
Trade accounts receivable	-	711	711	-
Investments in subsidiaries and associates accounted for under cost method	-	922	922	-
Investments in marketable securities	-	1	1	-
	83	1,634	1,717	
Financial liabilities				
Short-term loans from financial institutions	869	-	869	4.10 - 6.75
Trade accounts payable	-	672	672	-
Amounts due to and advances from related parties	-	8	8	-
Other payable from purchases of equipment	-	153	153	-
Accounts payable under financial lease agreements	105	-	105	6.35 - 6.76
Long-term loans	107	-	107	5.97 - 6.97
	1,081	833	1,914	

Foreign currency risk

The Company and its subsidiaries' exposure to foreign currency risk relates primarily to their sales of goods, purchases of materials and loans, which are denominated in foreign currencies. The Company and its subsidiaries have policies to manage their assets and liabilities denominated in foreign currencies through balancing the proportions and conditions of those assets and liabilities (Natural Hedging), with emphasis on having cash inflows and cash outflows occur concurrently. In addition, the policy has also been focused on hedging on transaction risk in accordance with varying situations and forecasts of the foreign exchange rates. As a result, the Company and its subsidiaries have entered into a number of forward exchange contracts with banks that have maturities of less than one year in order to hedge their foreign currency risk.

As at 31 December 2007, the Company and its subsidiaries had balances of financial assets and liabilities denominated in foreign currencies as follow :-

Foreign currency	Consolidated financial statements		Separate financial statements		Exchange rate as at	
	Assets	Liabilities	Assets	Liabilities	31 December 2007	
	(Thousand Unit)	(Thousand Unit)	(Thousand Unit)	(Thousand Unit)	Buying rate	Selling rate
					(Baht per unit of foreign currency)	
USD	45,581	46,773	14,573	18,304	33.5519	33.8850
EURO	9,554	5,120	3,409	2,783	48.9006	49.6202
GBP	311	24	290	-	66.8427	67.7950
YEN	-	106,133	-	43,393	-	0.2997

As at 31 December 2007, the Company and its subsidiaries had outstanding forward exchange contracts, of which details are presented below :-

Currency	Amount	Maturity date	Contract exchange rate
	(Thousand)		(Baht per unit of foreign currency)
Buy			
USD	4,089	4 January 2008 - 8 May 2008	33.7200 - 34.1400
YEN	250,000	15 January 2008 - 21 January 2008	0.2788 - 0.2798
Sell			
EURO	9,009	15 January 2008 - 3 July 2008	47.3000 - 50.3250
USD	65,353	15 January 2008 - 2 July 2008	33.4960 - 34.0750

Commodity price risk

As at 31 December 2007, the Company and its subsidiaries had outstanding commodity swap agreements, of which details are presented below :-

Type of goods	Quantity	Maturity date	Contract price	Commodity's market price as at 31 December 2007
	(Ton)		(US dollar per unit)	(US dollar per unit)
Copper	560	30 April 2009-31 May 2008	6,600 - 7,500	6,677

29.2 Fair values of financial instruments

Since the majority of the Company and its subsidiaries' financial instruments are short-term in nature or bear floating interest rates, their fair value is not expected to be materially different from the amounts presented in the balance sheets.

A fair value is the amount for which an asset can be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The fair value is determined by reference to the market price of the financial instrument or by using an appropriate valuation technique, depending on the nature of the instrument.

30. RECLASSIFICATION

In addition to the change in accounting policy as mentioned in Note 5, which affects the previously reported net loss and shareholder's equity, revenues amounts in the consolidated financial statements for the year ended 31 December 2006 have been reclassified to conform to the current year's classification but with no effect to previously reported net loss other than from the change in accounting policy.

31. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Company's Board of Directors on 26 February 2008.