

No. GL03/2013

February 21st, 2013

Subject: Clarification for changing of criteria for allowance for doubtful account provision and effect to the financial statement

Attention: The President
The Stock Exchange of Thailand

Duplicate: The Secretary General
The Securities and Exchange Commission

Group Lease Public Company Limited changed the accounting estimates with respect to the percentage of allowance for doubtful accounts set up to comply with the business circumstance of the company and applied this change in estimate prospectively in Q4/2013. The effect of the change was to decrease allowance for doubtful accounts by a total of THB 35.9 million, decrease deferred tax assets for the year by THB 7.2 million and increase profit for the year by THB 28.7 million.

Review of Criteria for Allowance for Doubtful Account Provision process has detail as follows :

Review of Criteria for Allowance for Doubtful Account Provision

- **Existing criteria for allowance for doubtful account provision**
 - Existing guide line for provision for allowance for doubtful account has been applied from the year 2005 base on an announcement from SEC at Kor Lor Tor. Chor Sor. (Wor) 2/2004 which referred to Federation of Accounting Professions document Sor Nor. 111/2004 commencing on the provision for allowance for doubtful account of the Consumer Finance date April 23rd, 2004.
- **Mismatch between the criteria for allowance for doubtful account provision and actual business circumstance**
 - Mismatch to the nature of business This existing criteria for allowance for doubtful account provision relies on characteristic of general Consumer Finance business which is definitely different from the company's business because motorcycle hire-purchase business has motorcycle as a collateral but Consumer Finance in general, does not care for the collateral value. Moreover for the collection, the company must comply with the Consumer Protection Act and Regulation which has impact to the timeframe and execution to the account receivable of each overdue level. So this existing criteria may not be appropriate to the practical operation of each account receivable overdue level, for example to reserve 100% when account receivable has more than 3 months overdue which actually the lessee still has the potential to pay for an installment. Furthermore, practically to repossess a motorcycle and sell in auction, it may take up to over 6 months to finish the process.
 - Mismatch to the present business situation

Due to rapid and continuous business expansion over the past 1 year, the amount of account receivable has much increased in the short period so this existing criteria could be lead to the more distorted financial report compared to the past, and has tendency to have more distortion in the future under this continuous growing business policy.

- **Process to review criteria for allowance for doubtful account provision**

- Timing GL's BOD has followed up GL's financial reports included provision for the allowance for doubtful from the beginning of the year 2012. The BOD cannot see the clear distortion impact from the provision for the allowance for doubtful account to the financial reports of Q1 – Q3 because rapid increasing of the new motorcycle hire-purchase account receivable has started on May 2012 so the distortion from un-realistic provision of allowance for doubtful account significantly impacted to the financial reports from October 2012 (around 4 months from contract date). Resulting that the financial reports do not reflect the real business situation. So the BOD agrees that the company should consider to review criteria for allowance for doubtful account provision for the financial report from Q4/2012 to represent the company's correct financial position.
- Study the possibility to change criteria by compare the historical data 4-5 years backward of :
 - The percentage of allowance for doubtful account compare to Account receivables (Appendix, Table1)
 - Loss Ratio (Appendix, Table2)
- Studying the other companies criteria in the same industry
 - *Example Allowance for Doubtful Account Provision compare to the net account receivable 5 years historical record :*

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------------------------------|-------|-------|-------|-------|-------|
| % Allowance for Doubtful Account | 6.17% | 5.88% | 5.54% | 5.47% | 5.19% |

- *The latest percentage for doubtful account provision*
Example 1

| | % Allowance for Doubtful Account Provision |
|------------------------|--|
| Not yet due | 1 |
| Overdue 1 month | 1 |
| Overdue 2 - 3 months | 20 |
| Overdue 4 - 6 months | 50 |
| Overdue 7 - 12 months | 100 |
| Overdue over 12 months | 100 |

Example 2

| | Allowance for Doubtful Account (%) | |
|------------------------|------------------------------------|-------|
| | 2011 | 2010 |
| Not yet due | 9.8 | 9.97 |
| Overdue 1 month | 9.81 | 9.99 |
| Overdue 2 - 3 months | 9.84 | 9.99 |
| Overdue 4 - 6 months | 37.83 | 41.09 |
| Overdue 7 - 12 months | 37.83 | 41.09 |
| Overdue over 12 months | 37.83 | 41.09 |
| Cases on Legal Process | 37.83 | 41.09 |

From the company's historical record for the percentage of allowance for doubtful account to account receivables past 5 years ago, the percentage has an increasing trend and much higher than the estimate loss ratio and also higher than percentage of reserve of other companies in the same industry so to adjust the criteria for allowance for doubtful account provision is reasonable.

- Study the past record 4 years ago as a guide line to determine percentage of the allowance for doubtful account provision, classify by each overdue month of the factors as follow :
 - Percentage of paid amount compared to installment the debtor has to pay. This is to identify the possibility that that account receivable still can keep payment. (A)
 - Percentage of repossession motorcycle selling compared to the net account receivable (B)
 - Percentage of loss from disposals of foreclosed assets (C)
 - Percentage of proceeds from disposals of foreclosed assets compared to the account receivable (cost) (D=1-C)

Basic of calculation:

The rate of Allowance of Doubtful Account of each overdue level

= Percentage of the overdue (net) account receivable – (Percentage of repossession motorcycle selling x Percentage of proceeds from disposals of foreclosed assets)

$$= (1 - A) - (B \times D)$$

Researching of the past record separate to each year result (for 2011 separate to included and excluded Q4), 4 years result – combine all together and 4 years result but excluded Q4/2011. All results are as follows:

| | Y2012 | Y2011 | Y2011 (Exc.Q4'11) | Y2010 | Y2009 | Y2012-Y2009 | Y2012-Y2009 (Exc.Q4'11) |
|----------------------|--------|--------|----------------------|--------|--------|-------------|----------------------------|
| Current | 1.17% | 4.34% | 2.47% | 1.09% | 2.57% | 2.29% | 1.78% |
| Overdue 1 | 10.34% | 16.84% | 13.82% | 12.30% | 15.73% | 13.79% | 12.99% |
| Overdue 2-3 | 17.24% | 25.82% | 22.51% | 22.10% | 23.23% | 22.07% | 21.17% |
| Overdue 4-6 | 34.20% | 42.71% | 39.57% | 38.33% | 40.28% | 38.85% | 37.96% |
| Overdue 7-9 | 54.01% | 59.48% | 56.61% | 57.10% | 59.83% | 57.58% | 56.88% |
| Overdue 10-12 | 70.11% | 76.87% | 74.99% | 77.85% | 78.39% | 75.80% | 75.35% |
| Overdue 13++ | 89.15% | 92.36% | 91.59% | 92.15% | 91.43% | 91.27% | 91.04% |

- **Determine the range of loss ratio** rely on the past record and the real business operation timing. To determine the allowance for doubtful account provision percentage from the range of loss ratio is quite flexible, match to the behavior of the account receivable on each overdue level and can reduce the fluctuation to the financial statement.

| % range of loss ratio | | Average from lower and upper-end % |
|-----------------------|-----------|---------------------------------------|
| lower-end | upper-end | |
| 0 | 2 | 1.00 |
| 2 | 3 | 2.50 |
| 3 | 4 | 3.50 |
| 4 | 5 | 4.50 |
| 5 | 15 | 10.00 |
| 15 | 25 | 20.00 |
| 25 | 35 | 30.00 |
| 35 | 45 | 40.00 |
| 45 | 55 | 50.00 |
| 55 | 65 | 60.00 |
| 65 | 75 | 70.00 |
| 75 | 85 | 80.00 |
| 85 | 95 | 90.00 |
| 95 | | 100.00 |

- The first level of the loss ratio range from 0 – 2% because this is account receivable on the no overdue level, the behavior of the loss ratio not over 2% still has very high possibility to keep on payment.

- The loss ratio from 2 – 5%, space of each level is 1%. This group has high sensitivity because of big portion of the account receivable, low overdue and still has high possibility to repay so the range should have high frequency to reduce fluctuation from the provision of allowance for doubtful account and has provision close to the reality as much as possible.
 - The loss ratio from 5 – 95%, appropriate space of each level is 10%
 - The loss ratio from 95% up, reserve 100%
- Conclusion calculation from the past 4 years record and consideration to the practical guideline for the account receivable of each overdue level, calculate base on the method mentioned above by skip the result of Q4/2011 (because of disaster from flood which is an abnormal situation and very low possibility to happened) compare to the loss ratio range table, use an average value of the upper and lower end of the range which match to the loss ratio of that overdue level, to be a percentage to set allowance for doubtful account provision of the level.
- Not yet due - the calculation result is 1.78% so match to the range 0 – 2 %, so set up the allowance for doubtful account of this level from the average of upper and lower-end which equal to 1%
 - Overdue 1 month – the calculation result is 12.99% so match to the range 5 – 15%, so set up the allowance for doubtful account of this level from the average of upper and lower-end which equal to 10%
 - Overdue 2 – 3 months - the calculation result is 21.17% so match to the range 15 – 25%, so set up the allowance for doubtful account of this level from the average of upper and lower-end which equal to 20%
 - Overdue 4 – 6 months - the calculation result is 37.96% so match to the range 35 – 45%, so set up the allowance for doubtful account of this level from the average of upper and lower-end which equal to 40%
 - Overdue 7 – 9 months - the calculation result is 56.88% so match to the range 55 – 65%, so set up the allowance for doubtful account of this level from the average of upper and lower-end which equal to 60%
 - Overdue 10 – 12 months - the calculation result is 75.35% so match to the range 75 – 85%, so set up the allowance for doubtful account of this level from the average of upper and lower-end which equal to 80%
 - Overdue over 12 months - the calculation result is 91.04% but for this overdue level up the company set up the allowance for doubtful account at 100%

- The new provision for allowance for doubtful account criteria will be as follow :

| Overdue (months) | Allowance for Doubtful Account (%) - Existing | Allowance for Doubtful Account (%) - New |
|------------------------|---|--|
| Not yet due | 1 | 1 |
| Overdue 1 month | 1 | 10 |
| Overdue 2 - 3 months | 2 | 20 |
| Overdue 4 - 6 months | 100 | 40 |
| Overdue 7 - 9 months | 100 | 60 |
| Overdue 10 - 12 months | 100 | 80 |
| Overdue over 12 months | 100 | 100 |

- **Effect from changing of criteria for allowance for doubtful account provision**

| | Outstanding AR as of 31 Dec'12 | %Allowance (Old) | Allowance (Old) | %Allowance (New) | Allowance (New) | Net Change |
|----------------------|--------------------------------|------------------|-----------------|------------------|-----------------|-----------------|
| Current | 2,604,418,220.76 | 1% | 26,044,183.82 | 1% | 26,044,182.21 | (1.61) |
| Overdue 1 | 185,488,778.38 | 1% | 1,854,888.15 | 10% | 18,548,877.84 | 16,693,989.69 |
| Overdue 2-3 | 196,973,280.28 | 2% | 3,939,465.45 | 20% | 39,394,656.06 | 35,455,190.61 |
| Overdue 4-6 | 117,784,030.45 | 100% | 117,784,030.45 | 40% | 47,108,941.51 | (70,675,088.94) |
| Overdue 7-9 | 37,709,294.52 | 100% | 37,709,294.61 | 60% | 22,616,795.20 | (15,092,499.41) |
| Overdue 10-12 | 10,571,186.03 | 100% | 10,571,186.03 | 80% | 8,441,073.33 | (2,130,112.70) |
| Overdue 13++ | 12,763,959.78 | 100% | 12,529,150.58 | 100% | 12,388,855.63 | (140,294.95) |
| | 3,165,708,750.20 | | 210,432,199.09 | | 174,543,381.77 | (35,888,817.32) |

Please be informed accordingly.

Yours sincerely,

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(Mr. Deepong Sahachartsiri)

Director

