

Internal Control and Audit Risk Management

11.1 Internal Control

The Board highly concern to internal control. Thus, the Board managed finance sector, management sector and operation sector to be effectiveness and comply with the related laws, regulations, rules and the Board emphasized on continually development to be the guideline for COSO (The Committee of Sponsoring Organization of Treadway Commission) to getting successful and efficiency in internal control and risk management in company.

In addition, the company assigned the Board Director of Risk management which had been appointed by the Board Director comprising Miss Orrapat Peeradechapan, Mr. Jirapong Suntipiromkul, Mr. Boonchai Kowpanich, and Miss Porntera Rongkasiriphan to control and manage the risk in the organization to be systematic and effective. The Board Director of Risk management imposed the policy of risk management, risk assessment, and analysis the risk factor which would effect to internal and external organization to operate in all sectors of organization.

The Board Director meeting no. 3/2016 was held on March 12th, 2016 to assess the sufficiency of the internal control system regarding to the Committee of Securities and Exchange Commission (SEC) comprising internal control system in 5 parts for example organization and environment, risk management, operational control, information, communication system and tracking system. The Board Director's opinion that internal control in the organization is sufficient and proficient.

11.2 Internal Audit

P&L Internal Audit Co., LTD (P&L) has been being an auditor of company since 2010 and follow the report of internal audit of company between date September 9, 2014 to October 3, 2014 by reporting to the Board of Auditor no. 4/2014 on November 13, 2014 and further explaining to amendment to the Board of Auditor no. 4/2015 date July 6, 2015. The Board of Auditor is an opinion that internal audit in the organization is sufficient and proficient and can be

achievement and confidential in potential information without an error.

Currently, P&L assigned Mr. Thanapat Wongwit, Internal Audit Supervisor, to be main auditor in company. The Board of Auditor had concerned the qualification of P&L and Mr. Thanapat Wongwit that is qualified to operate this duty since he is independent and has experience in audit in similar filed of company for 6 years and he had passed the internal audit course, Certificate of The Institute of Internal Auditors of Thailand (CPIAT) no. 21.

The consideration and approval, appoint, demote an internal audit of company shall be get an approval from the Board of Auditor.

11.3 The Risk Management

The risk comes from dependence of main manufacturers and main material distributors.

The main material in production of processed seaweed which company ordered seaweeds from foreign country, Korea, which Korea is the leading manufacturer and exporter of seaweed. In past three year, company ordered seaweed from them for 90 % of total order per year. Thus, the proportion of seaweed ordering in 2014 and 2015, the company ordered the main manufacturers and main material distributors for 59.5% and 67.57 % of total order respectively. So, the processed seaweed business is risk because it relies on the main manufacturers and main material distributors is insufficient to supply the seaweed to company in qualified quantity, price and qualification. So, it would be significantly effect to company.

However, the company imposed the direction of selection of manufacturers and material distributor from experienced and well-known manufacturers and material distributors in market and good finance background and distribution order of seaweed from each manufacturers and supplier for risk

reduction from dependence of manufacturers and material distributors. Furthermore, company can maintain good relationship between other manufacturers and supplier by meeting and exchanging some information because avoiding lack of material from main manufacturers and main material distributors.

11.3.1 The Risk of dependence of main customers

In the past few year ago, the company sold huge amount of the snack to a big retail. The company got income amount 604.59 million baht and 570.78 million baht or 39.39% and 34.19 % of income in 2014 and 2015. Thus, if the company were lost such contracting party, it would get significant effect to company.

Nevertheless, the company concerned such the risk by developing the new products. The researchers and developers is hard working to study the behavior of consumers and create the new products to catch the target groups. Additional, the company planned to extends the business under the model of From Sea to Farm by producing the processed agricultural crops.

The Risk of renew of rental contracts at Noppawong office Noppawong office is the location of the company's factory, location of building no1, 3 and 4, which has many landlords. If the company could not renew the contract to all landlords, it would be effect to the business. The renewal contract can be extended until the year 2020 and get commitment for rental for 9 to 12 years count from year 2020. However, there is 1 area, location building no.2, has the rental age is 8 years. The others use for being parking lot and canteen. The renovation area should be belonging to the landlord.

However, the company concerned the rick of such rental contracts and the new factory area, Rojana Industry, is under the construction and it is going to operation within 2016 and can support the production in the future. If it is necessary to move to , Rojana Industry, the company is promptly move all machines. Additional, the company has the land at Ladbaulaung to support of such of moving. It can easily move within 6 months by using budget not more than 300 million baht. So, the company believes that the company can manage such a risk.

The Risk of the fluctuation of material pricing

The cost of production and distribution of processed seaweed comes from the seaweed. The seaweed cost is highly cost in 2014 and 2015 is 37.30% and 35.93 % of total cost. If price of seaweed is fluctuation, it will effect to the company.

However, the company planned to manage such a risk by doing contract with the manufacturer and supplier for 1 year by indication the qualification of seaweed such as quantity, price and quality. If the seaweed in the market is higher, the company will compare an analysis such information with the competitors.

The Risk of competitive in industry

There are many supplier of snack industry and the processed seaweed has low investment cost, so there are many competitor.

However, the company cannot comparative to the others because the company is the first trader and the customers recognized and remembered in our products. Additional, company has promote and public via TV, cable and internet by using annual budget and sponsor trading by being sponsorship in the concert and the shows.

The Risk of immediately stop working caused by Force Majure

Doing the business can be immediately stop due to production problem or losses in asset or national disaster, politic, terrorist. The company planned to protect and reduce such the risk by appointed Quality Management Representative to give advice and audit the management, building, fire exit for reduction of such the risk.

However, the such direction cannot guarantee the effect from natural disaster or force majeure. For safety, the company decided to have insurance with the stably and experienced insurance statues to manage the risk including stolen seaweed, natural disaster, force majeure, liability from other person or management and the company will get the compensation of such the situation happened.

11.3.2 The Risk of production

The Risk of Labor issue

The labors are important in the production such as fired process, grilled process and packaging process. The efficiency labors and the cost of labors are the significance. The majority of the labors is foreigners. So, there are highly turnover after finishing practice. The company will lose the quality the labors and waste the time and money to practice the new ones.

However, the company managed by hiring the professional headhunter to support the lacking of labors and manage the labors together with the chief each departments. The company imposed the remuneration, welfare and incentive, so it can keep the efficient workers. Moreover the company invested the new technology, packaging machine, controller stove or environmental adaption, to help the product line. The company are ensure the manage such the risk.

The Risk of deterioration of inventory stock

The inventory stock comprises of the finished products, material, container and packaging and such of the inventories are necessary to maintain and use in the appropriated time before deterioration. Thus, the majority of inventories are seaweed and the shelf life averages 1 year to 2 years count from the production date. The company will lose the income and consume time and pay the extra expense to destroy the expired products. So, the company resolves by doing sale contract of seaweed for 1 year, savory powder for 6 months and packaging for 1 year and maintain in the proper temporary to avoid to losses. The shelf life of national products is 6 months and international products is 12 months including time of transportation. The company has to assess situation by calculating the inventories which will be effect to profit of company.

However, the company planned to manage inventories stock with strictly for protection and reduction such the risk. The processes of products and materials have to be assess for the market and production to manage the orders and manage the stock. It can be helped the company to have the volume of goods to proper with the consumers and easily to release the goods to the market. For the container and packaging , the company has the good measure of storage. So, the company can manage the risk of deterioration of inventory stock by calculating the deterioration which will be effect to profit of company.

The Risk of efficiency in production

The production is significant and association with the business, so it has to use the workers in every parts such as fired process, grilled process, sprinkled savory powder, saucing and packaging.

It has chance to losses. It depends on capability of each workers. Furthermore, the company uses the technology to support to transport and packaging which to be controlled by the experienced employees for avoidance of default or accident. If the employees could not support in some part of production, it will effect to company.

Thus, the company trained the new employees before operation for reduction in product line and imposed the remuneration for each persons to persuade the employee to work in efficiency and employed the experts to use the technology to support company. Additional, there is the maintenance of machines to promptly use by hiring the technicians to support and check all machines for frequency before operation. The above mention can be helped to reduce the risk.

11.3.3 The Risk of currency

The Risk of fluctuation in foreign exchange

The company faces to the risk of fluctuation in foreign exchange because of ordering seaweed from in foreign countries and distribution products in nation and foreign countries. So, the ordering and exporting must impose in the US dollar. In 2014 and 2015, the company has cost of order seaweed in US dollar for 22.39 % and 22.61 % of total order and the selling in US dollar is 33.56% and 25.11%.

However, the company partial imposed the export rate in US dollar as same as order of material. If Baht is appreciated, it will effect to the circulation but if Baht is weaken, it will effect to cost of material.

The company resolution by buying the Future with finance institute for 1 year to reduce of fluctuation in foreign exchange.

The Risk of repayment of Loan

Some of investment comes from institute's loan and issuing bill of exchange. On December 31, 2014 company rent the money for 332.06 million baht separating to be short term loan 290.16 million baht and long term loan 41.90 million baht. The funding by issuing bill of exchange 49.56 million baht . On December 31, 2015, company rent the money for 337.15 million baht separating to be short term loan 264.70 million baht and long term loan 112.45 million baht. To maintain adequate liquidity for principal repayment by doing contract with finance institute by using Debt Service Coverage Ratio method and Debt to Equity Ratio method. In case of breach on loan covenants, the creditors can enforce the Company to pay the penalty rate of interest and may seize the pledged collateral which harms the Company's reputation, financial stability, and financial performance materially.

However, the company is always follow the regulation. In the loan contract has proportion debt per shareholder which calculate from the special budget is not more than 3.5 time in 2014 and not more than 3.0 time in 2015 and debt per shareholder is 2.33 time in the end of 2014 and 0.51 time in the end of 2015 as specify in contract. The repayment shall be paid at least 1.5 time but the capability of company in repayment is 10.06 time in 2014 and 12.67 time in 2015. The company can maintain adequate liquidity for principal repayment.

11.3.4 The Risk of effect to the rights or investment of shareholder

The Risk of Majority of shareholder holding more than 50 percent

On December 30, 2015 Peeradechapan group held 1,020 million share equal to 73.91 % of total issued and paid share, so Peeradechapan group can control the resolution in all agenda such as promotion, voting ..etc. except the laws impose of the vote.

However, the company appointed the independence board for 3 persons choosing from 8 persons. So, it shall be balanced in the proper management and transparent management and auditable. In addition, there is internal auditor is independent working under control of the Board of Auditor.