

Risk management policy

The company is committed to conducting business to achieve the company's goals and specified business plans. It realized the ever-changing business environment and the risks that can occur at all times. In order to comply with the principles of good corporate governance, the company has established risk management policy in order to lead to a systematic operation by appropriately analyzing, evaluating, managing and monitoring risks at all times, to help minimize losses and potential impacts. In this regard, the management and staff at all levels have been developed to have knowledge, understanding, and to participate in the risk management process, in order to ensure the company's operation can achieve the mutual goals and objectives of the organization.

1. The Risk of Reliance on Key Management Staff

There are three founders of the company. Two of them have currently retired and the remaining founder is Dr. Narong Thasnanihan senior professional civil engineer, an engineer with long experience in the construction industry, particularly the underground construction, over 45 years. He is well recognized and accepted by designers, engineering companies, consultants and project owners. That is the key qualification to make contact with customers.

The company recognizes the risk of reliance on these three individuals. The company has implemented human resource planning in each function to enable a smooth succession in senior positions. These includes the recruitment of professionals to assist in the management function, the initiative to build a strong relationship between middle management and operational staff with customers' supervisory as well as operational staff both at government agencies and the private sector to maintain the continuing good relationship for the next management generation, the Company sought the potential candidate and hired the qualified personnel whose work performance proves satisfactory.

2. The Risk of Reliance on Engineers

The company's business relies on specialists who possess skill and experiences in design, planning, and operating the construction work according to plan. These mean engineers at the level of Project Director, Project Manager, and Project Engineer or Foreman. If the company fails to retain these engineers,

it will adversely affect the company's ability to tender for contract, as well as company's future operating results.

However, Executive Vice President, Project Manager, or Project Engineer of the company, most of them in the percentage of 90% have been working with the company for about more than 10 years, having controlled engineering professional license, in the levels of associate engineer, ordinary engineer and senior professional engineer, altogether for more than 20 people. This is because company's good human resource policy through continuing career development, sponsoring employee domestic and overseas participation in seminar, as well as competitive incentive measure to retain needed staff to work for the company. To minimize potential problem, the company has invited universities to send their engineering students for their internship at the company every year. This has resulted in university graduates become interested in joining the company. The Company has also granted scholarships to a number of educational institutions, namely AIT (Asian Institute of Technology), King Mongkut's Institute of Technology Ladkrabang and International Civil Engineering Program, Kasetsart University.

3. The Risk of Financing

The risk of the party to the contract defaults on the contract, particularly on payment per contract completion, may cause damage to company's operating result. The company's policy for preventing such risk is to analyze customer's financial position prior to agreeing on the contract. This includes compiling additional customer information or request for advance payment prior to commencement of the contract, or progressive payment on a percentage project completion basis. The company set allowance for doubtful accounts for trade accounts having outstanding debts more than 12 months. In the year 2019, the company set reserve for bad debt in the amount of 3.53 million Baht.

4. The Risk of the Volatility of Construction Material Cost

There are two types of contract the company has been engaging in namely 1. the contract that includes both costs of labor and construction materials, and 2. the contract that includes labor cost only. In the former case, the company is responsible for both the construction work, and the acquisition of raw

materials resulted in the risk that operating costs may rise because of price volatility or shortage. This is because the company tenders for contract prior to commencement of contract works. Nonetheless such risk may not be excessive comparing to other construction businesses because of the following:

- Most of the contracts the company engages in are with short tenor averaging between 3-5 months per project. This enables construction material cost control for the committed project.
- There are only two main materials namely pre-mixed concrete, and iron wire. The company has been the major customer of the said material distributor. The company is therefore able to negotiate based on good relationship with the distributor and be able to fix material cost over a time period. In addition, in the event of high price volatility, the company may purchase the entire materials estimated to be needed for the project and scheduled for gradual delivery per actual work performed.
- As the diesel price was adjusted in a floating manner, the Company's cost structure was affected. The Company, which was affected by this cost burden, has emphasized this issue and closely monitored the price fluctuation. In case that the diesel price is inclined to rise, the Company would adjust the price for future construction projects to compensate the costs appropriately and consider the future potential in market competition.

5. The Risk of Delay or Failure to Meet Quality Standard

In general, company's construction contract has included penalty clause for delay amounting to 0.01% for value of contract per day. There is also established maximum fine by number of days or as a percentage no more than 10% of contract value for failure to meet quality standard. In such event the company must undertake to remedy the works resulted in higher operating costs and incurring more work time. Nonetheless if the delay is not caused by the company such as Construction not permitted, the change of construction design or the project owner is not ready to take delivery of the works completed, or the changing weather condition not conducive to construction such as the rainy season. All of these result in hardship to the company without prior warning and proper planning. The company has been able to negotiate and reason with project owner and extend the contract terms. Thus far the company has not been

financed for reason of delay significantly because of the long years of experience helping plan the work schedule, and preventive measures for problem or obstacles that may arise ahead of time. This includes the preparedness for tools and equipment required for the works, number of engineering supervisor with experience as well as modern construction technique.

For the civil work undertaken from the government agencies, the company has prepared the construction plan in accordance with the construction schedule to prevent any penalty charge imposed on late delivery even though there have been some penalty charges imposed in the preceding years.

6. Risk from new regulations of the public sector

New regulations to be issued by the public sector will certainly affect the construction of the buildings such as rules and regulations related to environment permit which will delay the issue of the construction permit and will increase the construction cost. However, the piling and earth prevention dyke business of the company would be completed within 3-4 months so the impacts would be in a short term. To prevent the risk, the company would ask for the position of the permission process before the work is accepted. Thus the company will be able to arrange a plan to control the production cost within the target.

7. Risk from investment in subsidiary companies, joint ventures and other companies

As the company has already invested in several subsidiary companies, joint ventures and other companies which have undertaken the businesses similar to that of the corporate group which are involved with a number of construction projects and investments. Each project has different investment partners. Most of the joint ventures are incorporated with an objective to undertake a few projects. The joint ventures will be dissolved after the project has completed. The investment risk is limited to the amount of investment in each project. The feasibility study would be conducted for each project or investment carefully, together with the expected return when the company plans to make an investment. Most of the investments by the company have a satisfactory operating result.

8. Litigation Risk

In performing construction works, the Company might be affected by damages due to several causes, such as damages nearby, near or adjacent to the construction sites, or those from constructions not meeting the standards or construction drawings, which might result in litigation by the injured like nearby site or project owner, eventually detrimental to the Company.

In order to reduce litigation risk, before entering a construction site, the Company will affect insurance covering damages potentially caused by the construction, including conducting a pre-survey before work commencement. In the part of project owner, the Company deposits with it an achievement bond of 1-2 years, as the case may be. In the past, the Company was not subject to any litigation by a project owner because our work quality met international standards. We were somewhat sued by nearby site owners but not affected by it as we had a separate insurance coverage for it.

9. New-Projects Risk

With their conditions, bored pile and diaphragm wall works in each project take a period of 3-4 months approximately, hence the risk of being unable to seek new projects upon completion of the current ones. The Company searched for new market for instance, in AEC in order to support domestic market.

The Company has 30 percent of market share in the bored pile and diaphragm wall market, which market share is considered highest. Therefore, it stays a better chance than competitors in getting projects. With over 45 years of reputation, we well understand the competitive conditions and have expanded more bases in foundation, structural, road and tunnel works.

10. Risk from shortage in personnel

According to the growth in construction business and the government policy to adjust the daily minimum wage to 300 baht in every province of the country, many workers have opted to go back home. As a result, the construction businesses have suffered the labor shortage problem. Therefore, the company has made the registration with the Department of Employment for procurement of alien workers and promotion of trainee students from various academic institutes to participate in the training program of the

company for selection of the students to work with the company. Besides, the company has provided educational scholarship to the students in the undergraduate institutes to have those students work with the company after their graduation. .

11. Risks from Fraud and Corruption

Most of the construction works have to be performed outside, so it is quite difficult to prevent frauds and corruptions. We reduce the risks by encouraging report on wrongdoings and establish foolproof internal control system in which we make assessment continuously. We also provide training in meditation to ensure that our staffs are happy, peaceful and calm in order to reduce risks.

The company has carefully arranged a procedure to protect and to prevent those whistle blower from any impact.

12. Risk from non-compliance with the production process indicated

Non-compliance with the process results in the risk and the company may have the performance problems such as

- Outputs are not in accordance with the schedule while costs like repair charge will increase.
- Trust from customers will decline because the output is not in accordance with the schedule.
- Damages incurred nearby the work site may lead to a law suit.
- Accident resulted from the work may damage the property of the company, including safety of the employees.

To prevent such risk, the company has prepared a checklist for the employees to comply and there is a process arranged to monitor that the process has been followed or not.

13. The new risks

Referring the urban community growth, it must have various industries, as a result in the climate change. It has caused higher temperatures to create global warming and floods, dust, including the epidemic as in the present time.

We have prevented a risk by insurance to cover an impact on the change of the climate, and the company also had a policy of taking responsibility for the society to reduce the global warming. For instance, promoting reforestation, a campaign to reduce the use of plastic bags, including giving knowledge to the employees on protection against contagion with an emphasis for the employees should eat hot food, using a serving spoon, wash their hands and wear a surgical mask staying in the community or crowd and frequent washing hands.

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