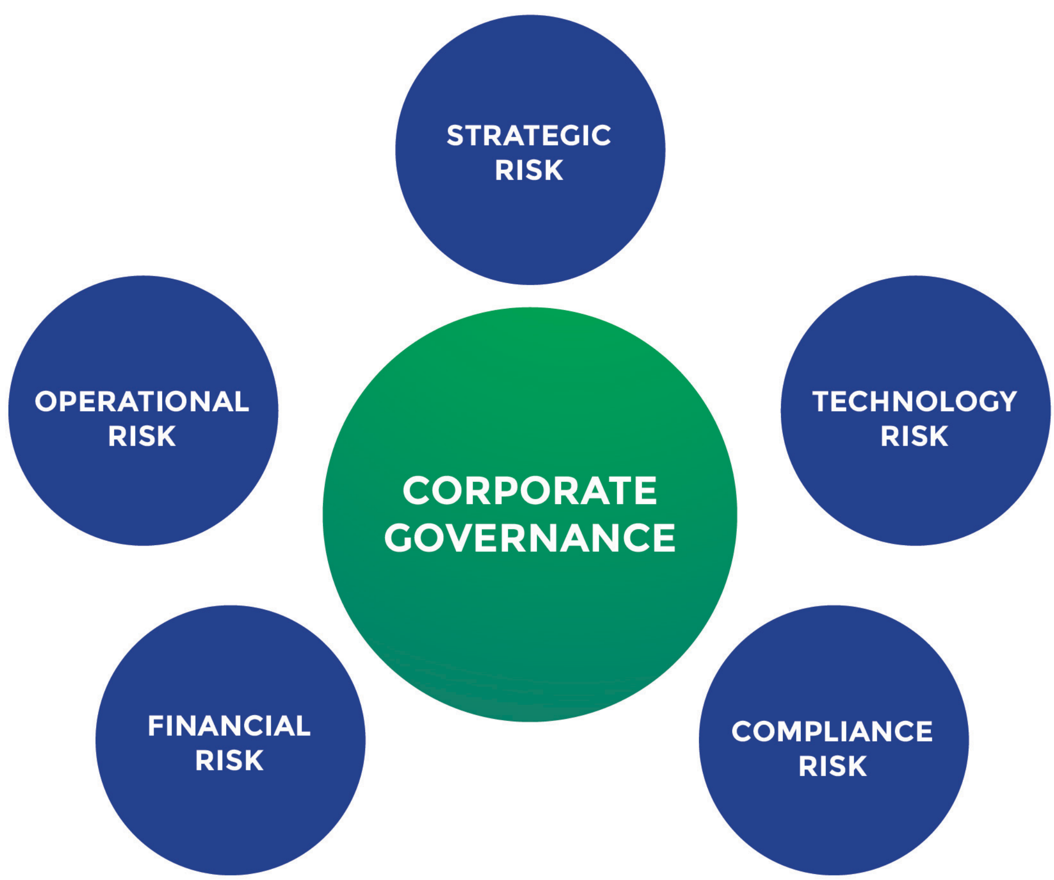
Enterprise Risk Management

Stars Microelectronics (Thailand) Public Company Limited understands the importance of the company's risk management. The company's Board of Directors appointed the Risk Management Committee (RMC) under good corporate governance, who, every year reviews and sets risk management policies and then assigns each related department to implement. Thus, the company's risk management is systematic and moving in the same direction. The RMC sets rules, regulations and procedures for the company's risk management and sets auditing, evaluating, and reporting to the Board of Directors and reveals the important information to related parties on a regular basis.

The company aims to drive the organization and improves risk management continuously to increase the company's efficiency by considering internal and external risk factors which change simultaneously.

In 2019, the RMC held 4 meetings and reported the progress and obstacles to the Audit Committee meetings and the Board of Directors' meetings. In 2019, the company analyzed the risks within the framework of risk management set by the RMC and also set the following risk factors.

1. Strategic Risk Management
2. Operational Risk Management
3. Technological Risk management
4. Financial Risk Management
5. Compliance Risk Management



The important factors affecting the company's performance are concluded as follows.

1. Strategic Risk Management

The company has established a process for strategic risk management. The process is starting from risk identification, analysis, evaluation, treatment, and monitoring plans. In setting of the company strategic plan and annual budget, the company takes into consideration all risk factors such as the world economy situation, outlook & trend of related industries, etc., in order to gain confidence that the strategic plan reflects the company's true potential operations plan correctly to targets. The strategic plan is prepared transparently within the framework of good governance and can be audited.

2. Operational Risk Management

2.1 Risk of customer concentration

The company had revenues from sales and services for a customer more than a half of total sales and services. However, the company has gross profit distribution by customer appropriately. In this regard, the company has expanded the customer base by acquiring new customers and new products to reform revenue structure resulting in balanced dispersion and do not rely on any one customer.

2.2 Risk of demand uncertainty

Fast changing environment of electronic goods make them have a short life cycle. Product demands change constantly following the change of consumer behavior. As a result, the company may be faced with a tough environment as great responsiveness is required to satisfy customer needs. Concurrently, there would be a challenge to control production cost within the targets.

The company has developed strategic policies to emphasize specific electronic product groups where they have a long-life cycles, are less volatile, and have a high enough demand so that the company could be able to manage cost effectively.

2.3 Labor shortage risk

Labor shortage is one of the most important issues that the company is always aware of and tries to minimize the impact as much as possible. In this regard, two strategies have been adopted. Firstly, the company is focusing on an investment in automated machines to resolve the labor shortage concern and to ensure production continuity. Secondly, the company is constantly developing labor relationship management programs with the ambition to strengthen employee loyalty. The company missions are to minimize employee turnover rate, improve recruitment systems to acquire new talent, and provide training system to develop high quality staffs to meet with the company needs.

2.4 Risk from material shortage and price fluctuation.

The cost of materials is a large part of the overall production costs. Therefore, a great material sourcing management and price control are a crucial part to the company's operations. Prices of some raw materials are fluctuating overtime, along with evolving trends in the world market. In some cases, there may be such a shortage of materials that the company cannot produce and deliver finished goods on time.

In this regard, the company manages to have strict control over raw material sourcing processes by closely tracking delivery procedures of each vendor (or customer's in the case of raw material consignment). This is to ensure that there should not be any obstacles to company production processes, and to the plan of finished goods delivery.

3. Technological Risk Management

The company has invested continually in new machines, with more advanced and efficient technology, for both current capacity expansion and new production line installments. Regarding the complication of production line arrangements, the company is focusing on effectiveness and flexibility of production processes which should be able to satisfy various customized demands from customers and also should be able to apply for the variety of new product developments. The company put focus on R&D for new production techniques and new product developments. The aim is to improve production effectiveness and enrich innovation to satisfy customer needs constantly. Moreover, the company jointly with its customer to develops new products, and also jointly invests in new specialized machines. The company develops the production process to fit with the current demands continuously and is highly confident that the company can serve greater various demands of its customers.

4. Financial Risk Management

4.1 Customer Credit Risk

The company is exposed to customers' credit risk. If a customer experiences financial difficulties, it could make debt collection prolong and, in the end, result in an adverse effect to the company profitability and financial position.

In this regard, the company closely monitors the credit quality of its customers and also puts focus on customer credit risk reviewing. In addition, the company has a policy to expand business targeting by acquire new various customer groups in order to diversify revenue sources and also customer credit risks. The goal is to avoid relying on any particular group of customers.

4.2 Foreign Exchange Fluctuation Risk

The company is an exporter which uses US dollars in a major currency for selling goods. The US dollars is the proportion of sales. Nevertheless, the company sources raw materials and imports numbers of machine & equipment in US dollars. This makes collection and payment in US dollars match each other and allow the company to do natural hedging to reduce risk of currency exchange fluctuation. The company has opened FCD accounts for oversea debt collection and oversea payments to reduce risk exposure of currency exchange rate fluctuation. In addition, the company's financial department has a policy to use financial tools e.g. forward contract, financial derivative instruments, to hedge against short-term currency fluctuation.

4.3 Interest Rate Risk

At present, the company obtains short-term debts, less than one year, for working capital and long-term debts, less than three years, for supporting machines and equipment. There are partly floating interest rates which might be increase or decrease following to market interest rate fluctuation. The company has a policy to manage sources and costs of funds with prudence to achieve the best possible financing costs at acceptable risk. Moreover, the company follows the interest rate policy of the public sector and the international markets closely to use the information for effective risk management.

4.4 Liquidity Risk

The company realizes the importance of working capital management and prepares for working capital to support future growth of the company. In addition, the company also plans for cash flow management in advance to manage cash flow efficiently, reducing risk and having a low financial cost.

5. Compliance Risk Management

The company strongly desires to be acknowledged for high compliance with regulations. The company recognizes the risk that may arise as a result of evolution in modern and covering laws, rules and regulations including those for environment safety and health of employees. Therefore, the company simultaneously keeps up-to-date to the changes of those regulations. The company evaluates both the immediate and future impact, that may arise and adapts strategies to reduce any damage that may arise.