



Sustainability Report 2016

Masterkool International Public Company Limited

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Corporate Social Responsibilities

Overview (CSR in Process)

The Company has concept of moral and transparent business operation concept with emphasis on responsibility toward society and all groups of stakeholders according to good corporate governance as well as policy and practical guideline toward different groups of stakeholders so as to ensure that the Company can build stability and sustainability in business operation and confidence to all parties of stakeholders. However, the Company operates with social responsibly focus as follows:

1. Fair Business Operation

- ◎ The Company determines policy and practical guideline to all groups of customers. The fair and clear condition under laws is notified and the precedence is given to customer satisfaction together with fair business operation.
- ◎ The Company equally and fairly treats its business partners and creditors through strict compliance with commercial condition and/or commercial agreement.
- ◎ The Company fairly treats the competitor companies without violation of business ethics as well as non-execution in the way of criticism, malevolence or defamation of the competitor companies.

2. Anti-Corruption

- ◎ The Company's policy is to define responsibility, practical guideline, and requirement in proper operation for prevention of anti-corruptions with all of the Company's business activities and for proper and circumspect consideration and practice on decision making and business operation that may have anti-corruption risk.
- ◎ The Company's anti-corruption policy covers the prohibition of the Company's directors, executives and employees to execute or accept all forms of corruption both of direct or indirect. It also covers the businesses in all countries and all relevant agencies with regular verification on compliance with anti-corruption policy as well as review of practical guideline and operating requirement to be consistent with the change of business, rule, regulation and legal provision.
- ◎ The Audit Committee has set guidelines for auditing the internal control system by the third-party auditors to be able to conduct a thorough audit on the key issues of neutrality and independence.

3. Respect on Human Rights

- ◎ The Company gives precedence and respects human right through promotion and protection of liberty and rights as well as fair and equitable treatment without the policy of discrimination on individuals who are divergent in races, females, children and disabled.
- ◎ The Company employs the disabled to work for the Company as equitable treatment, enabling to create jobs and revenues to such disabled.

4. Fair Employee Treatment

- ◎ Human resources are regarded as the cog in propelling the Company's business to achieve the targets. The Company therefore devotes to the employee's quality of life through good working environment, fair human resource management system, encouragement of personnel development to be progressive according to appropriateness in every functional line.

The Company cares for the quality of life of employees; therefore the Company has assessed the workplace health in 2016 and implemented the happy workplace project according to the guidelines for the happy organization by joining the Thai Health promotion Foundation.

5. Responsibility to Customers

- ◎ The customer satisfaction is regarded as one of the Company's main strategies in stepping into being "The Real Leader for Modern Cool" according to the Company's slogan. However, apart from maximum sales volume value in Thailand, the Company also emphasizes on customer responsibility.
- ◎ The Company has been certified for international standard of ISO 9001:2008 quality system management as the seal on well care in the Company's product and service quality. Moreover, the Company also has the assurance of the Company's product and service quality so that the customers are assured that they will get quality products and services from the Company with customer responsibility.
- ◎ The Company provides customers on direct complaint about products and services of the employees to the Company via telephone no. 02-953-8800 and 02-015-5920. In addition, the customers can directly contact to Customer Relations Management Unit via mobile phone nr. 081-422-4454. Besides, the customers may contact the independent unit i.e. the corporate secretary office via email: comsec@masterkool.com
- ◎ The Company has clear discount and selling pricing policy for each group of customers. Moreover, the Company also controls selling price with its dealers in every distribution channel to be in proper level.

6. Environment Care

- ◎ The Company realizes on the significance of environmental care in order not to cause pollution problems that may affect life quality of human and ecosystem. The Company then does not perform any acts that affect damage toward natural resources and environmental condition.

7. Co-Development for Community and Society

- ◎ The Company promotes the use of business process for benefit on quality of life development, helps build economy and strength to community and society, supports the employment in the community, implants employee conscious in environmental and social responsibility, and regularly seeks for opportunity in support of social and community activities.

8. Availability of Innovation and Propagation of Innovation Derived from Operation with Responsibility on Society, Environment and Stakeholders

- ◎ The Company continuously dedicates resources in research and development in order to invent environmentally friendly products and services, and helps in energy saving. The Company's evaporative air cooler product is one of the proofs for such dedications with energy saving capability of air cooler when compared with air-conditioner; moreover, the Company also accepts to completely advise energy saving.

Operation and Reporting Preparation

Social responsibility according to aforesaid policy and practical guideline is the part of the Company's business operations that have been continuously practiced from fair treatment to business partner, quality product manufacture and service provision based on Management Quality of ISO 9001:2008, clear selling pricing for customer, fair appraisal of employee performance until participation in community development through employment to people in community.

Apart from compliance with policy and ongoing practical guideline, the Company also regularly reports social responsibility activities at the Company's website <http://www.masterkool.com>

Operation of Business Affecting Social Responsibility

-None-

Environmental and Social Benefit Activities (CSR After Process)

The Company regularly arranges environmental and social benefit activities. For 2016, the Company continued the "CSR-MASTERKOOI Weaving Coolness to Society Project", having its objective to render the Company's products for public benefit to various agencies that have confronted with hot weather problem and electricity bill problem of air-conditioner. The company's products were rendered in such project to various agencies such as temples, foundations, schools and hospitals, etc.

Wat Phra That Pha Sorn Kaew, Tambon Camp Son, Khao Kho, Phetchabun



Home for Blind Children
Ramindra Road, Bangkok

Suan Pa Uppatham School
Sanam Chaiket, Chachoengsao



Risk Factors

Important risk factors and procedures in order to reduce or hedge the impact are summarized as follows:



Company Business Risk

1.1 Risk of Increasing Competition

The continuous growth of the company has caused the growth of awareness of the evaporative fan and cooling fan products, especially in the cooling fan market, which has the capacity for major growth due to the fact that the product has the potential to gain a higher demand than air conditioners. In addition, a major factor that plays a part in the decision to purchase the product comes from the steady element of the tropical weather. As a result, many entrepreneurs enter the market in and become direct competitors to the company, and this may directly affect the company's performance.

However, the company's executive has over 14 years of experience in the business, and the company's perpetual marketing of the "MASTERKOOI" brand has caused it to become widely accepted in the market of open air cooling appliances. In addition, the company is also affiliated with many major long-time business partners who hold multiple channels of distribution. The company is currently in possession of more than 230 modern retailers, with plan to expand the numbers by 2017, through 210 local distributors and more than 40 international agents, coupled with a marketing strategy which emphasizes product quality. The research department is invariably responsible for designing, developing, and improving on the efficiency of the product. As a result, the products are differentiated from competition and gain popularity through distinction.

In addition, the company believes that the market still has much potential growth capabilities, due to the energy-saving properties when compared to air conditioners and cooling appliances that produce cooling breeze, which corresponds well with the needs of the consumer.

Therefore, with a secure brand and product quality, the company believes that its performance will not be significantly affected by increasing competition.

1.2 Risk of Annual Income Fluctuation

The main products of the company are cooling appliances, therefore, the annual revenue from sales fluctuate seasonally. Every year the company's sales peak during the summer months (February-June) which cause the turnover rate of the first half of the year to be larger than the second half, with the highest revenue being the 2nd Quarter.

The company is well aware of the risks of fluctuation and therefore there are measures in place to counter them. The company offers cooling systems for large industrial factories, warehouses, and retail outlets in place of air conditions, which use up more electricity by comparison. Typically, the installation of these appliances are done throughout the year, and as these customers are direct customers of the company, this makes the direct channel of distribution (being the one with the majority of the organization customers) less volatile in correlation to the other channels. Even income from the company's services is less volatile than sales revenue, per season. Therefore, if the sales of large-scale projects are higher, the company will earn more from non-seasonal services as well.

In addition to the cooling appliances, new and innovative products have been developed to compensate for declining revenues in the 3rd and 4th Quarters, such as a device from the Ingreen brand which uses ozone to cleanse fruits and vegetables, and there are still plans in place for the supplementation of new products by 2017, as well as increase the proportion of revenue sales from overseas consumers, whose summer season varies from Thailand's. These beginning measures can assist in reducing the impact of fluctuations in the annual revenue.

In any case, the comparative results of the company's annual results, the seasonal fluctuations will not have a significant impact on the revenue generated during the season.

1.3 Risk of Reliance on a Major Supplier or a Single Supplier for more than 50% of Total Imported Purchases

The company purchases more than 50% of the total orders from one major overseas manufacturer and distributor of the cooling appliance, which includes the production of the Masterkool I-Kool (MIK) mobile cooling fan product line. Therefore, in the case that the aforementioned manufacturer fails to produce or deliver the product, the company may face a shortage of goods and lose the opportunity to sell, affecting the company's performance. However, the company regularly assesses the demand for products and plans to produce them in advance. In the case of high demand products, the company will produce them in advance in order to meet those needs. The company will typically begin ordering products for sale in the current year's summer season from the 3rd Quarter of the previous year, which will aid in the reduction of impact of risk if the manufacturer does not produce or deliver as scheduled.

In addition, the company has also prepared a contingency plan to halt production from the single main contractor and employ alternative manufacturers with a similar production ability. The company believes that the impact from the dependence on the major contractor will not significantly impact the company's performance.

1.4 Risk of Counterfeited Products

Most of the company's products are related to innovation and new products are constantly designed and invented and there is always the possibility that the products will be imitated by competitors, which will directly impact revenue sales. The company will apply for patents and petty patents over the products that the company invents, designs, and produces, through the Department of Intellectual Property, Ministry of Commerce, in order to be the sole patentee. In which case, if the Patent Act of 1979 is violated, the company may take legal action.

1.5 Risk of Inventory Damage

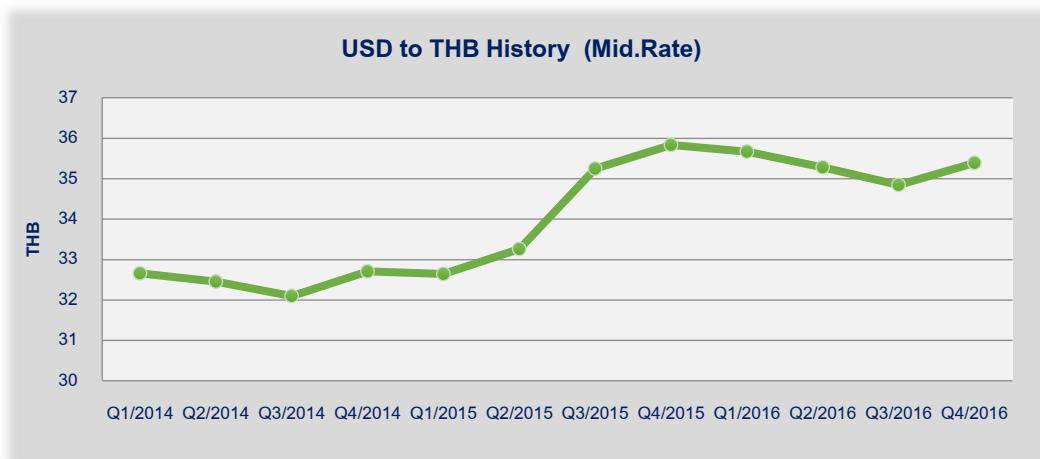
From the 4th Quarter of the previous year to the 1st Quarter of the current year, the company will prepare finished goods in various warehouses in order to accommodate for sales during the summer season. If damage to the product occurs, such as through fire, earthquakes, or other natural disasters, the company must be aware of all losses resulting from the damage to the goods, including loss of opportunity of sale. At the end of 2016, the company had inventory of 183.62 million Baht. The company also deposited the finished goods in two warehouses, namely from Phanat Nikhom and Pathum Thani, in order to reduce the impact of risk from the aforementioned disasters. In addition, the company has insured inventories to reduce the risk of damage to the goods with a total protection amount of 70 million Baht.

2 Financial Risks

2.1 Risk of Fluctuation in the Foreign Exchange Rate

Fluctuations in foreign exchange rates have had an impact on the company's earnings due to the fact that the company operates mainly by importing goods from abroad and paying for them in US Dollars, while the income will be converted to the Thai Baht. In the case that the US Dollar inflates – or the Thai Baht deflates – the product costs will immediately become higher, while the company will be unable to adjust their own prices with the same rapidity, causing a loss and affecting the company's performance.

Nevertheless, the company earns a portion of its sales in US Dollars from sales to its overseas distributors. In 2016, the company's overseas revenue was 216.66 million Baht, or 24.36% of total sales and services. Currently the company has more than 40 international agents worldwide with both income and expenses in US Dollars. The company's operations are managed by the hedging policy at the same time (Natural Hedge), which reduces the effect of the exchange rate volatility at a certain level.



Source: The Bank of Thailand

At present the company keeps a close track on the fluctuation of the US Dollar and manages the risk of the exchange rate volatility by primarily using the Foreign Exchange Forward contracts. The Company will consider the financial cost of entering into forward foreign exchange contracts together with the fluctuation of exchange rates in the market for consideration of entering into future contracts.

Internal Control and Risk Management

1. Opinion of the Board of Directors on Internal Control System

The Company and its subsidiary have the order of precedence to good internal control system management for supporting effective operations of the Company and its subsidiary under internal control system that is adequate, effective and extensive to all areas in order to be in line with the relevant laws and rules for the listed companies in the Stock Exchange. The Board of Directors always arranges the adequate and effective check and balance mechanism for protection and well-management of the properties of the Company and its subsidiary under authorization level of approval and specifies roles and responsibility of the executives and staff by check and balance mechanism with written work procedures. The independent internal audit work unit is available. The Company has hired Acc-Plus Consultant Company Limited ("Acc-Plus Co., Ltd.") to perform auditing work of all units of the Company and its subsidiary; and directly report to the Audit Committee.

Moreover, the Company and its subsidiary also arranges proper and sufficiently circumspect Internal Control System and Internal Audit System for protecting assets of the Company and its subsidiary from improper use as well as prevention of fraud that may take place in the Company and its subsidiary under clear and accountable work process in consistency with the guideline of the Stock Exchange of Thailand.

In the Board of Directors' Meeting No. 1/2016 on 23rd February 2016, the Board of Directors which included the Audit Committee considered adequacy of internal control system of the Company and its subsidiary based on Assessment Form of the Office of SEC in accompany with further inquiries for additional information from the management and related officers. The internal control system of the Company and its subsidiary in all 5 areas has been assessed based on Guideline of COSO (Committee of Sponsoring Organizations of the Treadway Commission) as follows.

- 1) Control Environment
- 2) Risk Management
- 3) Control Activities
- 4) Information & Communication
- 5) Monitoring Activities

The Board of Directors commented that the Company and its subsidiary have proper and adequate internal control system according to existing control environment. Moreover, the Company has also arranged the sufficient personnel for effective system operation and has also proper internal control system in the issue of monitoring and controlling the operations of the Company and its subsidiary to enable to sufficiently protect the properties of the Company and its subsidiary from the unauthorized or wrongful use of their directors or executives; including related-party transaction and transaction who may have conflict of interest. In conclusion, the Audit Committee and the Board of Directors have had aligned comments.

2. Observations of Internal Audit Unit on Internal Control System of the Company

In 2016, the internal auditor entered to audit and monitor internal control system and system compliance covering all of the systems of the Company and its subsidiaries, consisting of: 1) sales, marketing and after-sales service system,

2) cash receipt system, 3) payment system, 4) production system, 5) product and cost management system, 6) fixed asset system, and 7) payroll and human resource management system. The risks were also simultaneously assessed.

From the audit of aforesaid work process, the observations of Internal Audit Unit regarding work process have been as follows.

1) Sales, marketing and after-sales service system

The demand for the products of the international market has continued; in complying with the growth of international business of which risen in misting fans and evaporative air coolers. These products have a variety of requirements / specifications due to the differences in each system design of installation. Some of these products or optional parts do not have high demands in local market; thus some items may not be listed on the standard price list. The Company, therefore, has updated the standard pricing list to cover all product categories of the company; including discount structure for the international market; along with revised working procedures.

2) Cash Receipt System (Inflow)

In the rental system for the product, some consumers may provide payment through transferring the rent through the company's account, deducted the withholding tax. The submission of the certificate of withholding tax to the company will be continuously monitored by the company to be used as corporate income tax credit, by assigning the staff of the rental branch for follow up and to communicate with customers about the tax deduction process when they open their sales in the future. All outstanding values do not have a significant effect the results of operations. During the year 2016, the total amount of outstanding tax deductible items was 58,641.07 Baht.

3) Payment System (Outflow)

In order to achieve proper budgetary disbursement, checks and balances are carried out. The company has set up a manual to control the use of investment and other budgets, together with the Authority Table, to be consistent and presented to the Board for approval and to provide clear guidelines for all practitioners.

4) Production System

--None--

5) Product and Cost Management System

--None--

6) Fixed Asset System

--None--

7) Payroll and Human Resource Management

The company's business is seasonal, which results in a management which has to consider several factors such as seasonal stock (in order to accurately quantify production orders or importation of goods according to demand) as well as human resource management. Therefore the company plans the

capacity according to the sales forecast and sets the annual budget plan. But the management of the business according to season has to be closely monitored, so when the off season/low season begins, the relevant agencies will have to report information in a timely manner and plans must keep in pace with any swift changes in the environment. For example, the speed of the off-season due to weather conditions will affect the number of branches and the capacity to achieve business value. In addition, the company has prepared a long-term plan to generate consistent annual revenue.

3. Observations on the Internal Control System of the Auditor

The Annual General Meeting of Shareholders held on 21st April 2016, resolved to appoint PricewaterhouseCoopers ABAS Ltd. as the auditor of the Company. In auditing the financial statements for the year 2016, the auditors have reviewed the internal control system of the Company and its subsidiary, reporting to the Audit Committee Meeting No. 1/2017 held on 23rd February 2017 that there were no observations of defects of the internal control system from the audit for the fiscal year 2016.

Related Party Transaction

1. Nature of Relationship of Related Party Transaction

Person / Juristic Person that may have conflict of interest	Nature of Relationship
Site Preparation Management Company ("Site Prep Co., Ltd.")	Mr. Kritsana Thaidumrong, the Director and Major Shareholder in Site Prep Co., Ltd. and the Company's director
Actdee Company Limited ("Actdee Co., Ltd.")	Mr. Thanapat Thaidumrong and Mr. Thammathat Thaidamrong, the Director and Major Shareholders in Actdee Co., Ltd. Mr. Thanapat Thaidamrong and Mr. Thammathat Thaidamrong are the close relatives of Mr. Kritsana Thaidumrong who is the Company's Director
Mr. Noppachai Veeraman	The Company's Director, Chairman of the Board, Managing Director, and Major Shareholder
Mr. Fung Meng Hoi	The Company's Director, Board Member, and Major Shareholder
Miss Varin Veeraman	Close relative of Mr. Noppachai Veeraman who is the Company's Director, Chairman of the Executive Committee Board, Managing Director, and Major Shareholders
Miss Veena Veeraman	Close relative of Mr. Noppachai Veeraman who is the Company's Director, Chairman of the Executive Committee Board, Managing Director, and Major Shareholders
Ms. Sunanta Wanwat	The Company's Director, Assistant Managing Director – Business and Customer Service
Ms. Phornphan Nilprasit	The Company's Director, Assistant Managing Director – Logistics

2. Details of Related Party Transaction

Person / Juristic Person that may have conflict of interest	Type of RPT	Value in FY 2016 (Thousand Baht)	Necessity and Reasonability
1. Site Preparation Management Company ("Site Prep Co., Ltd.")	Sales and service of evaporative air coolers	Sales Revenues 32.60 AR (Beginning) - AR (Ending) -	The Company has sold products and installation services of air cooler system to Site Prep Co., Ltd. under price and condition indifferent from other customers.
2. Actdee Company Limited ("Actdee Co., Ltd.")	Sales and service of evaporative air coolers	Sales Revenues 12,821.27 AR (Beginning) 3,972.56 AR (Ending) 884.31	The Company has sold the Company's products and services to Actdee Co., Ltd. which is the Company's dealer under price and condition in line with the criteria of which the Company has sold to other dealers in the same level.

As of 31st December 2016, the Company has been granted for credits from 3 financial institutions for total loan limit of approximately Baht 335.50 million. Some of this loan limit has been guaranteed by the director, executive and relevant person with below details.

Person / Juristic Person that may have conflict of interest	Type of RPT	Value	Value	Necessity and Reasonability
		(Mil.Baht) 2014	(Mil.Baht) 2015	
1. Mr.Noppachai Veeraman 2. Mr.Fung Meng Hoi 3. Ms. Varin Veeraman 4. Ms. Veena Veeraman	Co-Guarantors of Company's loan below: • Short-term loan • Overdraft loan • Letter of Guarantee	220.0 5.0 2.0	- - -	The Company has negotiated for personal guarantee with two financial institutions: • KASIKORN BANK: has successfully discharged the guarantor in July 2016 • UOB BANK has successfully discharged the guarantor in Dec. 2016
1. Mr.Noppachai Veeraman	Co-Guarantors of Company's loan below: • Short-term loan • Overdraft loan • Letter of Guarantee	32.4 13.6 -	32.4 13.6 -	For financial institution that also have a personal guarantee obligation; and is in the process of requesting for release of the guarantee • TMB BANK
2. Mr.Fung Meng Hoi 3. Ms. Sunanta Wanwat 4. Ms. Phornphan Nilprasit	Co-Guarantors of Company's loan below: • Short-term loan • Overdraft loan • Letter of Guarantee	32.4 3.6 -	32.4 3.6 -	
5. Mr.Noppachai Veeraman	Co-Guarantors of Company's loan below: • Short-term loan • Overdraft loan • Letter of Guarantee	85.0 2.0 -	250.0 27.5 5.0	• SCB BANK: has successfully discharged the guarantor in July 2016 Presently, the Company was granted the limits with the bank without guarantee obligation totaling 282.50 million baht.

3. Measure and Procedure of Approving on Related Party Transaction

The Company has set up measures to enter into related party transactions with people who may have conflicts. The Audit Committee is required to give an opinion on the necessity of entering into the transaction with reasonableness and the price suitability of the item; based on the conditions in the normal course of the market. This can be compared to the price charged to third parties. In the event that the Audit Committee is unqualified in considering potential inter-transactions, the Company will provide persons with special expertise such as auditor, financial advisor, Property appraiser law Office Independent experts, independent of the company. And a person who has no conflict of interest as a facilitator of such connected transaction to be used for the decision of the Audit Committee; for the Audit Committee to present to the Board meeting and / or shareholders as depending on each case.

In addition, the Company has imposed measures not to the management and / or stakeholders can participate in approving directly or indirectly their own interests. Also, the Board of Directors is responsible for the Company to comply with the laws governing securities and stock exchange and regulations, announcements, orders or requirements of the

Capital Market Supervisory Board and the Stock Exchange of Thailand; including compliance with the disclosure requirements of connected transactions, and acquiring or disposing of important assets of the Company or its subsidiary, moreover, comply with the accounting standards set by the Federation of Accounting Professions and the Certified Public Accountants of Thailand. The disclosure of related party transactions is included in the notes to financial statements that have been audited or reviewed by the Company's auditor.

4. Policy and Trend of Future Related Party Transaction

The Company will continue to do such transactions in the future with ACTDEE Co. Ltd, a major dealer of the Company, and relatives of the directors are major shareholders in such companies. By entering into the related transaction, it will be according to the ordinary course of business. There is a clear policy on entering into inter-company transactions i.e. the normal price and terms of business; likely to a transaction with an unrelated party by entering into an interim transaction in the future. It is necessary for the business operations and benefits of the Company

The Audit Committee will review the compliance with the rules and give an opinion on the reasonableness of transactions occurring quarterly.

For related party transactions between the Company or its subsidiaries and the person who may have conflict of interest that are not in line with normal commercial condition, the Company shall assign the Audit Committee to be the person who advises the necessity, Reasonability and appropriateness of price of connected transactions occurred to be in line with market price. The price occurred with outsiders is compared. However, if the Audit Committee is unskilled in consideration on related party transactions that may occur, the Company shall bring the person who possesses knowledge and special skill such as auditor and asset estimator, etc. that is independent from the Company and is the person who has no conflict of interest to enter for consideration and giving opinion about such related party transactions in order to be used as support on decision making of the Audit Committee.

Nevertheless, according to related party transactions that may cause conflict of interest possibly occurred in the future, the Company has prescribed the measure on prohibition of the participative ability of the executive, director or stakeholder in approval of the transaction with self-interest both direct and indirect. However, the Board of Directors shall enter to control the Company to perform in accordance with the law of Securities and Stock Exchange, regulation, proclamation, order or requirement of the Board of the Stock Exchange of Thailand and Capital Market Supervisory Board as well as the compliance with criteria about disclosure of information of connected transactions and acquisition or disposal of the Company's and its subsidiaries' assets according to the Proclamation of the Board of the Stock Exchange of Thailand and the Proclamation of Capital Market Supervisory Board and/or related agencies as well as compliance with the accounting standard required by Federation of Accounting Professions and Certified Public Accountant of Thailand.

Director's Responsibilities for Financial Statements

The Board of Directors is aware of the corporate governance responsibilities of the Company, as well as the supervision of the financial statements and reports as appeared on the annual report. The financial statements are prepared in accordance with accounting standards and sufficient disclosure of material information in the notes should be made in the financial statements. This includes a financial report review to monitor the internal control system effectively, in order to ensure that accurate, complete, timely, and fraudulent accounting records are kept.

The Board of Directors is of the opinion that the internal control system of the company is included in the satisfactory criteria, and to ensure the reliability of the company's financial statements as of 31st December 2016, the company's auditors, in accordance with generally accepted auditing standards, have expressed the opinion that the financial statements and the results of the company's operations are reasonable in substance according to conventionally adopted accounting principles



(Asso. Prof. Dr. Prakit Tangtisanon)

Chairman of the Board



(Mr. Noppachai Veeraman)

CEO/Managing Director