

Risk Management

Risk Management Policy and Plans

Risk Management Policy

Recognizing the value of risk management under changing circumstances that may affect businesses due to internal and external factors, HARN relentlessly complied with the principles and approach of COSO, an international standard on risk management. Regards risk management as a critical component of all its business processes that must be comprehensively connected, so it has risk management policy for everyone to observe. The Risk Management Committee were thus appointed to steer overall risk management for maximum efficiency.

Risk Management

Corporate risks are systematically managed through risk management committees to give risk management plans effectiveness and efficiency in line with corporate goals and strategies. Operational risks fall under the supervision of executives responsible for a given function. All units are responsible for managing and controlling risks to manageable levels and this has been spelled out in the job descriptions of all units.

However, HARN has investigated and applied various risk management tools, including adopted Risk & Control Self-Assessment (RCSA) to help analyze the risk factors and prioritized to assess the level of impact of the major risks and Key Risk Indicators (KRI), to indicate the impact on operating results in the form of the existing control level, as well to define measures, prevent and monitor. In addition, it monitors key changes in external factors and emerging risks to develop proactive risk management measures before such risks harm business.

HARN cultivates risk management awareness among all its employees along with nurturing risk management ambiance and culture, focusing on due resource allocation and provision of assorted supports for continuous improvement of corporate risk management efficiency, a risk management policy has been published on a website accessible to all, along with risk management training courses, as well as an annual review opinion and understanding of corporate risk management.

Risk Factors Facing HARN's Businesses

HARN analyzes internal and external circumstances as well as various trends (economic, social, political, technological, industrial, competitor, and others) to arrive at corporate risk factors, grouped as follows:

Risk from Loss of Distributorship Status

HARN is a distributor of Fire Suppression products Air-conditioning and Sanitary products, Refrigeration products, and Digital Printing products with a diverse range of products under world-class brands. The top three brands with highest sales volume altogether made up about 40.63% and 44% of its total sales in 2021 and 2022 respectively. As such, a loss of its distributorship right to the significant brands could affect its sales.

Having distributorship authorization is highly essential to HARN's business. There are two types of distribution authorization, i.e., with expiration and without expiration. However, for most of the brands distributed by HARN, it has not yet officially entered into distributorship contract with the brand owners, is thus exposed to risk if its distributorship is revoked or its distributorship contract has been terminated under whatever circumstances, for example, trade partner entering joint venture with another company or trade partner discontinuing business, etc. In whichever case, there may be negative impact on HARN's sales. Which, since

2011, HARN's brands had never been revoked since being authorized as the distributor. However, in view of our experience in this business and longstanding relationship with brand owners, its distribution coverage of over 60 brands, good service quality, and good relationship with customers, as well as a large customer base of over 5,400 customers, HARN is confident that if it loses distribution authorization of any brand, it will be able to secure alternative brand to satisfy the market demand. Also, HARN has also developed its house brands for some product items to mitigate risk of dependence on other brands.

In addition, throughout the past years, HARN has honored all trade terms and conditions as agreed upon and as trusted for being distributor of the respective brands. This can be witnessed from its continuously rising growth of sales. Coupled with its efficient distribution channels, a strong sales team and distributorship of brands that allows it to achieve ongoing growth of sales, HARN is confident that brand owners will continue to assign HARN as their distributor through the years ahead, it is therefore classified as assessment the risk control at a satisfactory level.

Risk from Brand Owners Implementing Marketing by Themselves

If a foreign brand owner wishes to operate business in Thailand without dependence on HARN, could risk losing its distribution authorization for any such brand and may otherwise have to compete with that brand owner.

Nonetheless, HARN believes that there is a slim chance for such risk to occur, considering that it is not worthwhile for the brand owner to make such investment and implement the marketing by itself. In the distribution of valves and equipment for fire protection system, air-conditioning system and sanitary system, Refrigeration system, and Digital Printing system, the distributor must be able to offer a broad variety of products and comprehensive solutions to satisfy customers' requirements. Customers prefer convenience in ordering products from the distributor who has all products to completely serve their needs. Over the past years, some brand owners from abroad assigned their subsidiaries to directly operate on their behalf, but they failed, so they have switched back to the original distribution method through distributors, it is therefore classified as assessment the risk control at a satisfactory level.

Regulation Risks

Changes in the government's policies focusing on economic growth in parallel with development of society, communities, and the environment do not affect current businesses, however HARN has therefore monitored new investigated laws and regulations, changes in government policies, e.g. laws on trade competition and the Public Procurement and Supplies Management Act, laws concerning public-sector financial discipline, laws on anti-corruption, Personal Data Protection Act, laws on cybersecurity, and laws whose interpretation is unclear. To ensure that HARN's operation complies with the laws, regulations, announcements, rules, and the public sector's directives that bind businesses, promptly cope with changes, include cultivating awareness of the importance of legal compliance among all employees.

In addition, HARN also attention on the Personal Data Protection Act (PDPA) to supervise and steer personal data management in line with the PDPA Act B.E.2562 (2019) to assure data owners of HARN's data security. Actions taken included training and counseling for corporate personnel and development of information systems and personal data management of higher efficiency.

Business Disruption Risks

The spread of COVID-19 and relevant public-sector measures, have directly shaken business HARN has to manage risks and issue various measures to plan and manage the crisis short-and-long-term to maintain competitiveness and strength, including had adjust the way conduct business by enabling technologies to help core systems allowing work to be performed outside anytime and anywhere considering the safety of employees, being able to deliver a continuous flow of products and services to customers, the process as follows.

- Designate the guidance and communicate to employees regarding raising awareness of self-care, visiting customers, overcrowding on site is avoided and Social Distancing etc., provide strictly screened employees regularly before outside work and employees in the risky group are quarantined, by continuously monitoring the number of infected people and people at risk.
- Improved communication formats with customers through electronic meetings and communication via video conference and developing online video training programs.
- Formulating the Work from Home Policy for all employees or accessed computers from other work place through the virtual private network (VPN), and supporting the use of digital equipment for work efficiency. The access the network, computers must pass HARN's security standard.
- Establish a working group; namely chief executive, building management department and human resource department, in order to assess the situation in the emergency and coordinate with the appropriate authorities.

In 2022, Dealing with new risks emerging, assesses the results of risk control are at a controlled level, but still not satisfactory, A total of 147 employees were found to be infected, accounting for 60% of the total number of employees, affecting the cost of prevention and treatment 266,129 Baht. However, has no serious impact on the life and safety of employees.

Manpower and Competency Capacity Risks are Insufficient for Business Growth.

HARN is aware of the adequacy of manpower to be in line with the vision, strategy, and direction of the organization, therefore manages the risk through the following measures:

- Reviewed its organization structure and required human resource plan.
- Implemented the recruitment by selecting and adding channels for adopting various technologies to be in effective recruitment.
- The Executives prepares development plans skillful personnel in line with based on business growth to consider successors in each business to develop specialized skills for each career path as well as leadership development and promotion of overall learning of HARN, ready to grow into a future executive. These moves ensure that HARN will constantly command an adequate supply of quality executives and employees to effectively support future business growth.
- The personnel retention with strengthen cordial relationships through activities, such as new employee orientation, annual tour, new year's Party and sports day activities, including an employee satisfaction survey annually for the improvement of work processes and its better work environment.

In 2022, the evaluation employee satisfaction survey was 80.54, compared with 81.49% in 2021, decrease 0.95%. However, HARN has analyzed the results and recommendations and assigned the relevant department to make a revised plan in 2023.

In 2022, the resignation of employees was 13.33%, increase of 8.15% compared to 2021, but still able to achieve the target not exceeding 14% per year, and the rate of recruitment to fill the vacancies was 19.69%, decreased of 22.31% compared to 2021, but still achieved 18% higher the target, However, HARN has still reviewing to the qualifications and remuneration structure by comparing in the labor market at the same level annually, risk control is at a good level. However, in 2023 still focus great emphasis to accelerating the implementation of Guidelines for Sustainable Development in the Smart PEOPLE Dimension.

Volatility Exchange Rate Risk

The products distributed by HARN are mainly imported from abroad. Its import volume in 2021 and 2022 made up 74.08% and 76.24% of total volume of product procurement respectively. Tender offer and payment for products are primarily denominated in US dollar, Pound Sterling and Euro currency totally 99.02% and 99.17% respectively of the foreign purchase volume, while most products are almost entirely for local distribution in Thai baht. In some cases, HARN is unable to promptly adjust product prices upward in line with the rising cost and is thus vulnerable to foreign exchange fluctuation, which will further affect its costs of products and gross profits. However, there are agreements for some customers to pay in USD, EUR and GBP.

HARN well aware of such impact, has the exchange rate management policy as the follow:

- Required executed forward contracts with financial institutions to provide hedging against such risk. The contract value covers all existing foreign trade account payables. In addition, HARN has opened foreign currency deposit accounts in USD, GBP, EUR, JPY and AUD in order to receive payments from customers in foreign currency. And is another way to reduce exchange rate risk.
- Also continuously monitor the trend in the change of the currency for evaluation and to manage the risks from the exchange rate closely

To ease risks of foreign currency fluctuation, in 2021 and 2022, HARN has purchasing forward foreign currencies for smart repayment and commercial transactions total Baht 455.02 million and Baht 654.97 million, or 88.83% and 97.46% of its import volume. Furthermore, HARN managed its exchange rate risk by always keeping abreast of foreign exchange movement, resulting in only not much risk exposure as can be seen from its exchange risk management outcome. In 2021 and 2022 which recorded foreign exchange gains of Baht 3.61 million and Baht 0.11 million, respectively, it is therefore classified as assessment the risk control at a satisfactory level.

In addition, if foreign exchange rates change to the level that leads to sharp increase in its cost, HARN will revise its selling prices based on market conditions with prior notice thereof to its customers. HARN also keeps a stock of products to accommodate product distribution in advance. Therefore, foreign exchange volatility does not have any significant impact on the revenues and costs of HARN.

Risk from Impairment of Goodwill

HARN has to record goodwill from a fair value of the consideration for the purchase and acceptance of entire business transfer of net assets of Chillmatch Co., Ltd. and subsidiary, which is higher than a fair value of Chillmatch Co., Ltd. and subsidiary as of the date of issuance of newly ordinary shares as a consideration for the said entire business transfer. In this respect, the executive of HARN will conduct an impairment test in every year and set aside an allowance for impairment loss (if any). HARN may therefore be exposed to risk in case the auditor considers that the goodwill is impaired and such impairment will then affect its income statement with regard to net profit, equity and debt to equity ratio as a whole according to the value in use.

The executive conducted the impairment test of goodwill consists of Refrigeration Business and Digital Printing Business. The management estimated the expected free cash flow sometimes called "Realizable Value" of the two business. Those cash flow is consisted of forecasted sales, cost of goods sold, selling and administrative expenses (depreciation and amortization excluded), income tax, capital budgeting necessary to operate and also the changes in relevant working capital such as accounts receivable, inventory and accounts payable. Those annual free cash flows were discounted into present value to determine the realizable value. The discount rate used is a pre-tax rate that reflects the specific risk of HARN as whole according to the Value in Use criteria.

The free cash flow valuation based on reasonably business assumptions and most likely possibility according to the current economic circumstances. As the result the realizable value is greater than the carrying amount of the fixed assets used in the operation of the business unit, goodwill and customer relationship it arrives from entire business transfer from Chillmatch Co., Ltd and Q II S Co., Ltd. Therefore, there is no indication of impairment of goodwill as of December 31, 2022. Also, complied the financial reporting standards was audit by the certified public accountant.

Risk from Corruption

The products sold by HARN are imported from abroad, which are sold to government and private sectors. In accordance to these processes may cause corruption, therefore, to prevent that HARN does not follow the procedure, such as importing goods, customs clearance, offerings & auctions product sales and/or installation high-value projects, such internal processes may be caused by non-compliance with the work practices of procurement, control of goods or assets, disbursement of improper expenses, paying or being called payments to accept from government or incorrect accounting records, therefore, measures as follows:

- Established a Risk Management Committee, analyze and determine measures manage business risks, prevent and monitor risks of corruption both at the organization and operation levels a quarterly basis.
- Provide an internal audit from efficient auditors external and have internal monitor to quality standards ISO 9001:2015 every year.
- Declaration of intent to be member of the Thai Private Sector Collective Action Coalition Against Corruption (CAC) since 2017, certified as member on November 5, 2018 and applied for CAC recertification and won approval, with effect from September 30, 2021 to present, demonstrate its commitment to all anti-corruption, HARN determine anti-corruption policies and guidelines, together with communicated to the board, executives, staffs and all stakeholders to be acknowledged in the specified channels, and report to the Board a quarterly basis.
- Provide complaints channels and whistles.

In 2022, assesses this risk control at a satisfactory level and no fraud or unethical offenses were found.

Cybersecurity Threats Risks

The risk of Cybersecurity threats is very important and are rapidly on the rise these days, it will impact the operation of HARN, especially the important working system such as network, finance and accounting, internal management and human resources system, which system contains personal information owned by HARN. If there is a problem with HARN's information technology system, access the personal information owned by HARN, will lead to image and reputation loss, and possibly disruption to business interruptions.

HARN continuously prioritizes cybersecurity, therefore, plans and investment in development support to new technology, and the prevention the risk of Cybersecurity threats. The plans include improve the availability of computer networks to avoid network and server failures ensure that the system can work continuously and formulate strict security control measures, e.g., firewall, data access rights establish a network and backup center to support emergencies so that business continuously, as well as raising awareness of cyber threats to employees and clear security incident response plan.

Climate Change Risks

Climate change is becoming increasingly critical. This is evident meeting of member states under the United Nations treaty on climate change, no. 27 (COP 27) held from November 6-18, 2022, In a bid to set the direction for activities on climate change in the global community according to the strategy, such as the Paris Agreement of the United Nations Framework Convention on Climate Change, and to set mutual goals in reducing greenhouse gas emissions, Thailand has a clear goal to achieve Net Zero GHG Emission in 3 main areas: 1) GHG mitigation, 2) climate change adaptation and 3) Finance. Meanwhile, it is focused on the standpoint and its commitment to engaging with the global community against climate change. Also, the philosophy of sufficiency economy is implemented as an important guideline for the country's development towards the "BCG Economy Model" of sustainable economic development.

HARN has set measures to control and reduce the impact of direct and indirect greenhouse gas emissions in compliance with the country's strategic direction, as well as one-third of the long-term goals of the organization. There is a clear goal to reduce greenhouse gas emissions and make progress towards carbon neutrality in 2040, and emission Net Zero by the year 2050. It has the implementation of various projects to control the amount of greenhouse gas emissions, such as reforestation and forest conservation projects to increase greenhouse gas storage, etc.

Emerging Risk

Since 2019, the spread of the COVID-19 virus has impacted life and health, causing the overall economy of the country and the rest of the world to slow down. This has also affected the supply chain since manufacturers and shippers in foreign countries have been closed while working from home due to COVID-19. Thus, the import of goods for distribution or delivery to customers has been unlikely. HARN's imported goods from foreign countries accounted for 2.80 times the purchase of domestic goods. That said, HARN has adjusted its supply chain management plan to prevent business interruption, by increasing the number of orders per time, choosing an alternative delivery channel for faster transportation and finding new transportation channels, e.g., land transportation from the People's Republic of China, etc. HARN has controlled this risk at a satisfactory level, with no penalty or complaints due to delayed product delivery in 2022.

Investment Risks for Shareholders

- None -

Risks Facing Investing in Foreign Securities

- None -