

Risk Managememe

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 effectiveness.

Risk Management

Corporate risks are systematically managed through various 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 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

Risks Facing Businesses

HARN analyzes internal and external risks that affect business, various trends economic, social, political, technological, industrial, competitor, including important goals and strategies of the organization and others to arrive at corporate risk factors, grouped as follows:

1) Risk from Loss of Distributorship Status

HARN is a distributor of valves and fire extinguishing system equipment, air-conditioning system and sanitation system, refrigeration system, and digital printing systems including 3D printing systems and Internet of Things systems, containing various products. HARN is a world-renowned products distributor, and the top three brands have sales accounting for 44% and 52% of the total sales revenue in 2022 and 2023 respectively. Therefore, if HARN loses its position as a distributor of major brand products, it may adversely affect HARN's income.

Being appointed as a brand distributor is an important factor in HARN's business. As a distributor of two partners has the characteristics of established representative age and no representative age limit. However, for most of the brands distributed by HARN, it has not yet officially entered into distributorship contract with the brand owners. If the company is losing the rights to sell these brands, it may cause significant impacts on the total sales of the company under whatever circumstances, for example, trade partner entering joint venture with another company or trade partner discontinuing business, etc. Since 2011, HARN's brands had never been revoked since being authorized as the distributor. Nonetheless, over more than 60 years, the company had good relationships with suppliers, customers and adheres to ethical trading conditions. Therefore, the Company has been trusted with the manufacturing that owns the brand and has been appointed as distributor.

HARN has distribution coverage of over 60 brands, as well as a large customer base of over 5,400 customers, with the image of professional distributor of the complete engineering products and rich business experience, as well as developed and improved its distribution channels to cover changing target customer groups. 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. Furthermore, HARN also has a policy to reduce the risks and the damage arising from the loss in becoming a distributor, by selecting high-quality goods and goods, new technologies constantly emerging, and also the development of brands under HARN trademark in some products to meet the needs of customers.

As can see, HARN's sales have grown in an orderly manner, coupled with Hahn's efficient distribution channels and strong sales team. As a distributor, products can create sustained sales growth, including the application of IoT technology to the company's products. Become a distributor that meets customer needs and continuously create added value for products. Believe that the brand owner will continue to designate HARN as the distributor. Therefore, it is classified as an organizational level risk and evaluated to be controlled at a satisfactory level.

2) Risk from Brand Owners Implementing Marketing by Themselves

If a foreign brand owner intends to enter the Thai market without going through HARN, there may be the risk of losing the agency right of the brand and the risk of competing with such brand owner companies.

However, HARN firmly believes that this kind of risk is unlikely, because HARN has won the trust of the owner brand company to create good sales in Thailand. In addition, the owner of the brand must consider the value of investing in and selling the product itself. In addition, the distribution of products in the construction engineering system for fire protection system, air-conditioning system and sanitary system, refrigeration system, Digital Printing system and biological 3D printing, must be able to offer a broad variety and comprehensive solutions, can fully meet satisfaction customers, due to customers will consider the convenience of ordering goods from dealers who have the required goods. HARN, as a multi-brand dealer, has a team proficient in goods, maintains good relations with customers for a long time, and has a strong customer base in many industries, which can help reduce the risk of sales decline when any brand owner enters the Thai market. 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.

3) 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 (PDPA), laws on cybersecurity, and laws whose interpretation is unclear, causing a discrepancy in compliance as well as its HARN image and reputation.

To ensure that HARN's operation complies with the laws, regulations, announcements, rules, and the public sector's directives that bind businesses to be enforced in the future, include operation context as well as changes. HARN has determined the acceptable risk level of the organization, communication with management and employee to raise awareness of the workplace rules, as well as set goals to monitor and prevent risks of violating laws and regulations related to business operations. Operate in line with the corporate governance code and adequate internal control by performance reports are to the Risk Management Committee.

4) Business Disruption Risks

The management and control of safety risks for its operations by setting long-term goals to control incidents that cause losses and affect lives, property, and the environment. Targets for accidents that cause injuries to employees and contractors until work stoppage must be zero. Defined work standards equivalent to international standards and creating a safety culture for employees and contractors through imparting knowledge and activities to raise awareness of safety are fundamental to the organization-wide and continuous improvement of operations.

Domestic and international operations are likely to be affected by operations interruption from human errors, catastrophes, threats of political instability, together with terrorist activities, epidemics. Therefore, values Process Safety by focusing on systematically managing and controlling operating risks through the introduction of engineering technology and sophisticated international standards, to lower the likelihood and impacts of such threats. HARN has safety, health, and environmental management standard and the business continuity management system standard to prevent disruption and prevent value-adding activities under business chain from being disrupted. In addition, HARN also review, improve and develops connection business management with human resource preparation plans, work from anywhere, and information system preparedness plan to ensure a practical connection between business units.

Personnel Health and Safety, had regular provision of news and information along with easy access and continuously monitoring the number of infected people, including people at risk, continuously announcing measures and guidelines from relevant government agencies to determine measures and guidelines to prevent and reduce the risk of infection in HARN's work areas.

Risk control results in 2023 are at a controllable level without deaths or accidents from operations, and not affected by threats that significantly affect HARN's costs.

5) Manpower and Competency Capacity Risks are Insufficient for Business Growth

HARN had the introduction of technology and new innovations to drive business operations. If unable to groom an adequate supply of skillful and experienced personnel in time, this could harm its businesses and long-term goal achievement. Therefore, HARN has adjusted staff recruitment and development to be in line with the vision, strategy, and direction of the organization and align with the New Normal. With human resources department is responsible for developing the potential of employees with competency through various training courses, including employee's competency development of each business to ensure the provides training and in-depth skills of each business. In addition, has created learning media, increased communication channels and build relationships within the organization to address all age groups' needs, modified the work for more flexibility, including increasing welfare schemes' diversity to meet employees' needs while supporting compliance with the human rights in the workplace.

In addition, HARN has laid down a structure supporting work and allocated personnel required to meet the needs of each business unit. At the same time, personnel management proceeds through the mechanism of career path management. Each career path features a manpower review where key positions are identified along with individual development plans to develop specialized skills for each career path as well as leadership development and promotion of overall learning. These moves ensure that HARN will constantly command an adequate supply of quality executives and employees.

In 2023, the results from the survey of employee engagement, happiness, and satisfaction with work had an average of 81.26%, an increase of 0.72% compared to 2022 with an average of 80.54%. However, HARN is aware of the importance of improving the organization's overall to be more consistent with the demands of employees.

The employee turnover rate in 2023 had an average of 12.93%, which was achieved to the target of no more than 14% per year and decreased by 3% when compared to 2022, which had an employee turnover rate of 13.33%, with the rate of recruiting new employees for vacant positions in 2023 having an average of 13.26%, lower than the target of not less than 18% and decreasing 17% when compared to 2022, with a recruitment rate of 19.69%. However, the current number of employees to the require workforce is 94.50%, which is still at a controllable risk level. HARN is committed to creating a happy, enthusiastic, innovative working environment, and continuous development, as well as reviewing current qualifications and compensation structures, compare with compensation in the labor market at the same level annually.

6) Personal Data Protection Act (PDPA)

Personal data is a risk that must be properly managed as it may fall into the wrong hands. Failure to safeguard personal data also negatively affects the business credibility. HARN recognizes the importance of safeguarding personal data of our employees, customers and stakeholders, which have been collected, used, disclosed, and transferred.

HARN's personal data protection policy aims at enhancing the data security standard as so to comply with the Personal Data Protection Act (PDPA), e.g. establishing a personal information working group, and setting up a cookie and consent management database, training and communicate personnel within the organization, regularly check whether the operation complies with the above policies, etc.

7) Volatility Exchange Rate Risk

Fluctuations in the exchange rate, directly and indirectly, affect the costs of products. As the prices of fire protection system products, air-conditioning and sanitation system products, refrigeration system products, digital printing system products, and biological 3D printing system, refer to the prices of foreign manufacturers, However, the fluctuation of exchange rate will affect HARN's gross profit to some extent, Tender offer and payment for products are primarily denominated in US dollar, Pound Sterling and Euro currency, while most products are almost entirely for local distribution in Thai baht.

However, its import volume in 2022 and 2023 made up 76.24% and 76.19% 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 99.17% and 99.21% of product procurement of foreign currency respectively.

To ease risks of baht fluctuation, HARN has the exchange rate management policy, including risk management requirements of maybe impact the financial condition as the follow:

- Require a pre-opened foreign exchange trading limit with financial institutions to prevent such risks. The contract value covers all existing of product procurement of foreign currency. HARN balances its purchasing forward foreign currencies its foreign-currency product procurement invoice in each ordering cycle, including while managing its foreign-currency deposits in USD, GBP, EUR, JPY and AUD for smart repayment from customer in foreign currencies.
- Also continuously monitor the trend in the change of the currency for evaluation and to manage the risks from the exchange rate closely.

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.

To ease risks of foreign currency fluctuation, in 2022 and 2023, HARN has purchasing forward foreign currencies for smart repayment and commercial transactions total Baht 654.97 million and Baht 536.53 million, or 97.46% and 92.29% 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 2022 and 2023 which recorded foreign exchange gains of Baht 0.11 million and Baht 2.97 million, respectively, it is therefore classified as assessment the risk control at a satisfactory level.

8) Risk from Impairment of Goodwill

HARN has 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 there is impairment of goodwill which then affect HARN's net profit and loss, equity and debt to equity ratio.

However, The executive conducted the impairment test of goodwill of the two business is Refrigeration Business and Digital Printing Business, by estimated the expected free cash flow in future or "Realizable Value" 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, 2023. Also, complied the financial reporting standards was audit by the certified public accountant.

9) Risk from Corruption

HARN is committed to conducting business with honesty, transparency, and fairness in accordance with the principles of good corporate governance. Regardless of whether the business activities are within the country or oversea for the government agencies or private companies. HARN will comply with the relevant law and regulations, as well as never accept to all forms of corruption directly and indirectly.

Protect from the illegitimate activities i.e. products import, customs clearance, product offer, sales auction, and/or high value project installation services, as well as internal processes which may result from neglected operators, i.e. procurement, control of goods or assets, facilitation bribing, bribing or being asked for bribing from government officials, improper disbursement of expenses, or incorrect accounting, etc., Therefore proceed as follows:

- Prepare and announce the policies and guidelines for anti-corruption. In order to request cooperation from executives and employees throughout the organization to adhere to the same approaches and consistent with HARN's risk management process and communicating to internal and external stakeholders. As well as promoting the encouragement of trading partners to join in implementing anti-corruption measures.
- 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.
- Define the management structure, appropriate roles and responsibilities, provide the channels for complaints and whistleblowing in transparent and fair manner, as well as an adequate and appropriate internal control and audits from external independent auditors. Directly report to the Audit Committee for proposal to the Board of Directors quarterly., including have internal monitor to quality standards ISO 9001:2015 every year.
- Announced the intention as member Thai Private Sector Collective Action Against Corruption (CAC) since March 21, 2017, with a certified for member CAC on quarte 3/2018 and certified for CAC recertification first time on quarte 3/2018.

In 2023, there were no complaints or reports of corruption, not any violations of ethical and code of conduct. The results of corruption risk control are controllable.

10) Emerging Risk

10.1) Cybersecurity Threats Risks

Cybersecurity threats are rapidly on the rise these days, it will continuously impact the operation confidence, and image of the organization in several aspects, for example: data theft. being extorted for ransom, loss of image and reputation, as well as business disrupted.

HARN is realize the dangers of these mentioned threats. Therefore, the policies and information technology development plans have been prepared, plans and investments have been provided to develop information technology systems in compliance with international standards to prevent and decrease the risks from potential cyberthreats. AS well as continuous development of information technology personnel, provide adequate and suitable internal control and audits from external independent auditors for the operations. Moreover, provide the communication, notification, enhancing knowledge and understanding, as well as cultivating caution in all personnel in the organization. In addition, defining the permission to access information, suspend inappropriate use, setting up the network to set up a data backup center to support emergencies, and prepare the plan to respond with cyber incidents, Test the system and practice the information system recovery plan. In order to ensure the risks can be managed effectively and reduce potential impacts on the organization and business opportunities an and continually meet customers' and stakeholders' needs.

10.2) Climate Change Risks

Reflections from important issues in the meeting of member countries 28th United Nations Climate Change Conference (COP 28) from November 30 - December 12, 2023 in Dubai, United Arab Emirates. which focuses on accelerating the move to triple the renewable energy by 2030 to prevent the global average temperature from rising over 1.5 degrees Celsius and transition from the fossil fuels usage. Thailand is more aware of global warming and the government has improved its action plan to reduce greenhouse gases according to the participation goals schedule in 2030 to cover all economic sectors. In order to transition to carbon neutrality and Net Zero GHG Emission.

However, HARN's strategic business plan in regards to sustainability in the environmental dimension declaring the clear position and goal to aim for carbon neutrality by 2040 and Net Zero by 2050, which has been conveyed to executives and employees to adjust the operations to be consistent with HARN's goal.

HARN has defined the measures to control and decrease the impacts with plans covering current business operations and future investments to support climate change. With a plan to reduce greenhouse gas emissions directly and indirectly in Scope 1 and Scope 2, by increase the proportion of electrical energy and expand the proportion of corporate car to be electric cars. This will reduce the purchase of electrical energy and reduce the procurement of fossil fuels, as well as considering projects to achieve the long-term greenhouse gas emissions reduction goals, i.e. forestation, etc.

In addition, HARN has management procedures to maximize the resources, campaigns to encourage employee's engagement to reduce environmental problems. reduce the waste, waste segregation, and utilize the renewable resources etc.

Investment Risks for Shareholders

- None -

Risks Facing Investing in Foreign Securities

- None -