

# Internal Control and Risk Management

## Risk Management

To support the Board of Director in managing the good corporate governance with optimal risk, in consistent with the situation that keeps changing over period of time, the Company recognizes the importance of risks that may occur and affect the business operation. A Risk Management working group has been established to track and set guidelines on how to manage and maintain risks within the acceptable level. The Risk Management working group consists of the Managing Director, who chairs the Committee, Executive Vice Presidents and Senior Vice Presidents and from 8 departments as Committee members, who cover major risks within the Company. In 2020, the process is as follow:

1. Set risk management policy for the Company according to international standard by focusing risk management on 5 aspects: strategy, operation, finance and related regulations, and risk related to the change in business environment (Emerging Risk).
2. Review major risks at the corporate level. The process includes the analysis, assessment, and summary of Corporate Risk Profile by taking into account the dynamic of external factors with regards to economic, social, and climate change, and innovation technology that impact consumers' lifestyle and behavior amidst of competition with both the existing peers in the same industry and the new entrances. Set Key Risk Indicator as the precaution reminder for risks and monitor risk management plan effectively.

## Internal Control

In the Board of Directors Meeting No.1/2021 on February 22, 2021, the Board of Directors has reviewed the sufficiency of the internal control system with the Audit Committee and Top Management according to the 5 aspects of 17 COSO principles. It is concluded that the internal control system of the Company is sufficient and appropriate for the operational objective and good corporate governance. Key summaries are as follows:

## 1. Control Environment

The Board of Directors and the management support organizational culture that upholds morality and ethical business values and ensure that the operation meets the visions and missions. The Company also fosters internal control that is proper and beneficial to internal control policy compliance as set out below:

- 1) The Company formulates good corporate governance, the code of ethics, regulations, internal control policies, and anti-corruption policies as practice guidelines for the Board of Directors, the Management and associates. All associates are expected to be honest in adhering this policy. Similarly, Organizational structure, the boundaries of authority and the responsibilities of a job position are appropriately outlined to ascertain enough, effective and efficient performance and follow-up processes and to avoid conflict of interest against the Company.
- 2) The Company's Board of Directors is the experts at the Company's retail business with the valuable competencies. Besides, they are independent from the Management and they oversee the overall operation and develop internal control activities. The Board of Directors also monitors the establishment of clear and measurable business goals as the practical guidelines for executives and associates. This is to ensure the achievement of the designated targets.
- 3) The Company establishes the clusters and sectors' organizational structures so that the Company's administration achieves effectiveness and all cluster alignment. The formulated areas range from suitable reporting lines, authorization and responsibility. This is to ensure the Company's objective fulfillment and imbue associates with awareness of roles, authorization, duties and responsibilities.

4) Apart from key role succession, the Company determines the qualifications of a job position as recruitment and human development criteria. Standard and transparent appraisal ensures fair remuneration and effective staff motivation for outstanding performance. Competitive benefits help retain associates.

## 2. Risk Management

To boost the confidence in target accomplishment, both in short and long-term dimensions, the Board of Directors and the Management highlight the importance of risk management by appointing the Risk Management working group. The duties are to monitor the Company's risk management to ascertain appropriateness and effectiveness. The following administration guidelines are as follow:

- 1) As guided by the COSO Enterprise Risk Management, the Company executes risk management companywide by launching risk management policies that are acknowledged by the Management and associates at all levels. As risk management is part of our organizational culture, the financial report meets the established accounting standards and is reviewed by external certified public accountants. This is a testimony of our risk-related activities.
- 2) The Company's scope of risk profiles is fully implemented at the organizational, business function and unit levels. Risk management involves investment and processes by taking into account changes posed by both internal external factors. Risk management guidelines seek to ensure that risks are curbed at an acceptable degree. On top of this, yearly risk review helps fulfill the attempt and risk management activities must be responsible by all business units.
- 3) Key Risk Indicators (KRI) tracks the progress of evolving changes in risk factors, assesses the possibility of corruption activities in various forms and assists in preventive actions. Communication is imparted amongst associates across rankings for acknowledgement and compliance.

4) The Company closely monitors the latest external news and situations in a bid to assess changes in operational models and emerging trends that could affect the Company's targets. Related suitable measures are on hand in advance to deal with a challenge.

## 3. Control Activities

Our effective and efficient control activities lessen a risk of unsuccessful objective achievement as set out by the Company and ensure that risks will not exceed an established threshold as detailed below:

- 1) Based on good internal control principles such as policy formulation and practice guidelines, the Company maps out control activities in written forms that fit the Company's business characteristic and job functions. Segregation of duties and approval authorization are systematically dispersed to groups of personnel, approvers, those who record, keepers etc. to generate check and balance.
- 2) The Company has devised safety measures of information system through automatic control tools for key priorities such as User Permission to ensure an effective conformity between job positions and ERP access performance rights. In addition, the system is well updated with prompt inspection and maintenance to be taken by relevant associates upon receiving an irregular notification.
- 3) A transaction executed by major shareholders, directors, executives, and related people is traced by the Company's cautious policy and undergoes a predefined approval process responsible by a third party. The Company's highest advantage is on top of this practice. Similarly, the Company has provided a follow-up measure on a regular and constant basis to ensure that subsidiaries adhere to the given strategies. Policies and working processes are also scrutinized so that they operate as planned.

## 4. Information & Communication

The Company places an importance on quality information and communication which are central to effective internal control as illustrated below:

- 1) Correct, detailed, and timely information are key to our decision making and a critical discussion at a meeting where internal and external sources are taken into

account. The Company insists that only proper and verified information is used. In addition, information security classification, important documents and controlled documents are under supervision of soft wares that gather and process input in all areas to lessen an overlap while expediting a report to the Management.

- 2) The Company appropriately communicates with the Board of Directors, the Management, associates and stakeholders. Important documents related to the Company's financial results and meeting handouts are prepared for the Board of Directors in advance of a meeting so that they are equipped with enough information analysis before making a decision. Our internal communication is disseminated through various channels ranged from the Intranet, an e-mail, mobile application, an orientation that hands over key messages to new associates. In addition, ACG Service Application has been developed to offer a wider range of internal communications for our associates, which is accessible from anywhere at anytime.
- 3) A website, an e-mail, or social media, including Facebook, act as the Company's communication tools that address external stakeholders. The Company assigns task to a special working unit with particularly overseeing constant key message communication with stakeholders. Besides, our whistleblowing system fosters associates and stakeholders' confidence over transparency, morality, fairness and confidentiality within a reasonable timeframe. More information is available in the corporate governance section.

## 5. Monitoring Activities

The Company employs monitoring and assessment of the adequateness of internal control and improvement process for the purpose of effectiveness and efficiency. The following are our practices:

- 1) The Company evaluates internal control both at the organizational and process levels. In this, employees perform a yearly appraisal. Furthermore, the Internal Control Department from external ensures adequateness and appropriateness, provides some advice on improvement and presents the Audit Committee with reviewing results. This aims to achieve the independency

of audits' performance and result reporting. Trainings and professional development of audit-related knowledge are also provided to internal audit team.

- 2) In case of fraud, the Management must immediately report a case to the Board of Directors. A similar prompt action also concerns a suspected serious corruption, an unlawful practice and any other irregularity that can significantly affect the Company's reputation and financial position. Within a timely manner, an issue summary and a solution are required to be ready for the consideration of the Board of Directors or the Audit Committee.

In 2020, the Company found no major mistake related to internal control that could significantly derail the key organizational objective accomplishment, nor significant error with regards to a transaction that could lead to a conflict of business, corruption or violation of securities and exchange laws, regulations of the Stock Exchange of Thailand or laws involving the operation of the Company.

Mr. Natthaphong Tantichattanont, who is the certified public accountant no. 8829 of KPMG Phoomchai Audit Company Limit, as the external auditor of the Company's for the year-end on December 31, 2020, as well as the auditor approved by the Office of the Securities and Exchange Commission, has given her comment on the assessment of the efficiency of the internal control of the Company's accounting by reporting that no significant weak point arose.

## 6. Head of Internal Audit

On February 24, 2020, the Audit Committee Meeting No.1/2020 has appointed Ms. Boonnee Kusolsopit from BK IA&IC Company Limited to be the Head of Internal Audit, since she has experience in internal audit for the Company and experience in similar business. She has passed the Certified Professional Internal Audit of Thailand (CPIAT) test and has been trained in related internal audit courses such as Audit Standard, Information Technology Auditing, Risk base Audit, etc. In addition, she has a good understanding of the Company's operation. As a result, it is appropriate to appoint her to perform such duties. The Audit Committee is responsible for approving the appointment and removal of the Head of Internal Audit.



## Head of Internal Audit's Profile

Title	Detail
Internal Audit (Outsource)	: BK IA&IC Company Limited : 84/77 Soi Charoenkrung 80, Bang Kho Laem, Bang Kho Laem, Bangkok 10120 : Tel. 083-299-5959 : E-mail : boonneebk@gmail.com
Head of Internal Audit	: Miss Boonnee Kusolsopit
Educations	: Master's degree in MBA (Executive), Burapha University : Bachelor's degree in B.A. (Mass Communication), Ramkhamhaeng University : Bachelor's degree in B.A. (Accounting), Rajamangala University of Technology Krungthep
Certificates	: Endorsed Internal Auditing Program, Chulalongkorn University : Graduated Diploma (Auditing), Chulalongkorn University
Trainings	: Fraud Risk and Control in The New Normal Age (Federation of Accounting Professions) : Financial Statements in Covid-19 pandemic for management, accountants and auditors (Federation of Accounting Professions) : How to Audit during Covid-19 crisis (The Institute of Internal Auditors of thailand) : Risk Management in Crisis (The Institute of Internal Auditors of thailand) : A case study of fraud for future fraud investigations (The Institute of Internal Auditors of thailand)
Work Experience	2547 - Present : Director - BK IA&IC Company Limited 2546 - Present : Auditor & Consultant - K&A Audit Company Limited 2545 - 2547 : Auditor & Consultant - A Accounting & Tax business Company Limited 2538 - 2546 : Head of Internal Audit - AMC Company Limited

## Risk Factors

In 2020, the world economy and Thailand were adversely affected by the outbreak of COVID-19, so the company has careful surveillance and monitoring so that the business can continue and minimize the risk to an acceptable level.

### 1. Risk in the business operations

The group has a business expansion plan by investing in the showroom and service center of Honda in accordance with the strategy on the branch expansion to cover all regions. The investment in the branch expansion of each showroom and service center can make the ACG group to have a risk from the improbable operations as planned, e. g. the revenue from sales and services do not meet the projection as calculated. While

the company has a cost, land lease, depreciation cost and fixed financial cost, if the branch operations in the future do not comply with the established plans, it may have an impact on the operations of the ACG on the net revenue and profit are reduced.

The Company has prioritized this risk issue using circumspection in a branch expansion by making a project feasibility study to analyze the financial status of the ACG, the investment budget and remuneration from the investment, including the time for the return on investment. The selection of a location of each branch shall consider the market suitability based on the potential and marketing gap, location of the showroom and service center. It includes the size and the budget on the suitable investment of each location.

Moreover, The ACG depends on the business operation as a dealer and service of Honda car brand by purchasing the goods from Honda Automobile (Thailand) Ltd. ("Honda") as the manufacturer to the ACG. Honda shall consider allocating the goods depended on the market condition and the number of goods in existence, also it shall consider helping on sales promotion, customer service, including the allocation of spare parts to the dealer at its own discretion for each one. The customer service included the allocation of spare parts to the dealer at its discretion to each distributor, and Honda shall approve a branch expansion in the future of the ACG. It includes approval to open a branch for all dealers based on the candidates with potential and complete qualifications. However, the selection of the dealer has no limitation on creating a competitor under the same brand. That said, each area can have more than one dealer depending on the size of the market and various factors at the time. The whole things have the risk to impact the business continuity significantly.

In the past Honda would set the standards for the operations of the "dealer," including the assessment of the work product of the dealer to measure the sales standards and service of each one. They include satisfaction on providing the service and compliance with the plans or marketing target jointly planned. In addition, the company also set up its own business operations to make the ACG to receive 3d the evaluation score at the good level and received a reward on such the assessment continuously.

The ACG has received approval from Honda in the expansion of eight showroom and service centers, which approved as mentioned above. The ACG had to present to the Honda group in the stages later.

Furthermore, since Honda car is the main goods of the group, so if there is a problem from the goods, so Honda shall recall it and can have an impact on the revenue and reputation of the ACG group. Nonetheless, from the experience of dealership and the service centers of Honda car brand over 28 years, it has never had such an event to impact the ACG.

Furthermore, if there is an incident that Honda has to decide to cancel a production and sales of goods in Thailand shall have a continuous impact on the future business operation significantly. Nonetheless, Honda was established in Thailand since 1983 and had the growth rate all along. Japan considered Thailand as a country with potential on the production and purchasing power of the consumers, so they decided to build a production base for car and spare parts to support the growth of the Honda car consumers sold in Thailand and exported to other countries. There is no other essential reason to cause Honda to terminate the production and sales of its goods in Thailand in a near future. And the risk from not renewing the dealership contract and service of Honda car or terminated from a breach of the agreement of the dealership agreement

Honda Maliwan Ltd. is a subsidiary and is a contractual party with Honda Automobile (Thailand) Ltd. by the contract appointing the dealership and service of Honda is for year-to-year (The current contract expires on 31 December 2021). The contract has the limited term that may cause a risk to ACG, in the case the contract is not renewed, or there is a change of the terms and conditions in the contract that may result in the company cannot continue the business.

In the past the ACG has operated the business under the contract with Honda for a long time and the company management has experience on the business management for a long time, so the ACG has expertise on the business management and knowledge on the operations from setting a business policy, personnel training and selling of the goods under the framework and contractual conditions of Honda excellently all along. It has received an award from the evaluation of the operations as a Honda dealer with the good operating results, efficiency and is consistent with the target and guidelines of Honda on the operations and customer satisfaction.

Since Honda is a leading brand at the world level and one of the top leaders of Honda car in Thailand, which gives priority to the care of customers very much, so the high standards on selecting the dealers. Thus, to qualify as a Honda dealer must have been selected very well.

Although the term of contract is year-to-year, but it is a policy of Honda to treat all dealers in the whole country, the ACG is confident that it still can be renewed of the contract in the future due to no breach of contract to cause a breach of the contract appointing the dealership and service as such.

In 2020, the Thai automobile industry has been affected by the COVID-19 outbreak, resulting in the interruption of both domestic and international supply chains. In addition, the economic disruption has resulted in a decrease in purchasing power of public sector. From this incident, the Company has seen a risk of investing in only one subsidiary. Therefore, the Company is always searching for opportunities in other businesses to diversify the risk.

The company established Autoclik by ACG Company Limited as a new subsidiary in the year 2020. It is expected to be opened in the first quarter of 2021. The new subsidiary business is parts selling and urgent repair and maintenance services for all car brands (FASTFIT). This is an expansion of our customer base to all car models and brands. The investment in this subsidiary will reduce the risks mentioned above from having only one subsidiary company.

## 2. Financial risk

Overall, Thai and worldwide economy in year 2020 is decelerating from the last year from the COVID-19 outbreak.

As of 31 December 2020 the ACG has borrowed money from a financial institution as the principle in doing the business. The group has a debt burden that is short-term and long-term loans from financial institutions totaling 408.50 million Baht, divided into the short-term loan with a financial institution of the promissory note (P/N) with the contractual term of three months for 320.00 million Baht. The long-term loan to be due within one year for 28.70 million Baht, which will be due by the end of May 2021 amount 12.50 million Baht, and long-term loan remains 59.75 million Baht. As a result, on 31 December 2020 the company has the liquidity ratio equals to 0.95 times and the debt ratio to equity equals to 1.00 times (calculated from the total debt). In 2018-2020, the company had the financial costs of Baht 28.39, 27.82 and 25.79 million respectively.

In a scenario that the business operations with the sales and services do not meet the set target the dependence of the capital from a financial institution can cause a risk to the financial stability and the ability to repay the interest and principal from the financial institution. It includes a breach of some conditions, which may affect the business operations of ACG significantly.

Moreover, the company group has the short-term loan ratio about 78 percent out of the total loan for use in buying goods and investment in a new branch. In the case the company is not renewed of the loan or the bank recalls the short-term loan may affect the company group to lack financial liquidity or working capital. However, the company still has good relations with the three financial institutions all along, and has never defaulted on the interest repayment. Thus, the group is confident that it shall be supported from the financial institutions continuously. Moreover, the group can find a capital source from other financial institution or can request for a long-term loan due to there is a piece of land that is free from being used as a guarantee.

For a financial covenant in the loan agreement, due to the subsidiary company has borrowed from a commercial banks since 2015 with a condition that it needs not cause a debt obligation or burden for the debt-to-equity ratio exceeding 3.5 times in 2017-2018, and not exceeding 2.50 times for 2019. Also it has to maintain the debt service coverage ratio (DSCR) by no less than 1.1 times (calculated from the profit before interest expense, income tax, depreciation and amortization divided by current portion of long-term debt plus entire interest expenses) The conditions on the financial ratios by the bank are referenced to the annual financial statement of each year of the subsidiary company.

However, as of 31 December 2020 the core company had the D/E and the DSCR equals to 1.00 times and 2.08 times respectively, which means it can maintain the ratio according to bank conditions due to the better operation results. Nonetheless, if in the future the subsidiary cannot maintain the financial ratios in this requirements, it is confident that the financial institution shall give leniency on such the matter as in the past due to the subsidiary has not defaulted on the interest and principal and still has the guarantee with the financial institutions.



### 3. Other risks

Due to the COVID-19 outbreak, the Company has issued preventive measures as follows:

- All staff are required to wear masks and provided of disinfectants to clean their working area and customer service area, the Company also produces mask for distributing to employees, customers, as well as donating to hospitals.
- Control the entry and exit of persons inside and outside the Company, everyone must be screened their body temperature with screening system under the condition that their body temperature must not higher than 37.5 degrees Celsius. If anyone fails to follow any abovementioned requirements, he/she will not be allowed to enter into the Company's premises.
- All staff are divided into teams and the working areas are separated to follow the Social Distancing rule for preparing in case an employee is infected.
- Promote, announce, provide knowledge and understanding including various guidelines about hygiene care for employees.

#### **The risk from depending on the large shareholder with the power to set the managerial policy.**

At present the Rangkakulnuwat family is the major shareholder of the company or 74 percent of the paid-up capital, Mr. Phanumast and Mrs. Hathairat Rangkakulnuwat are still almost completely able to control the resolution at the shareholder meeting, regardless of on the appointment of the directors or the resolution on other matters to use a majority vote of the meeting. However, only the matter that the law or regulations of the company requires to receive three-fourths (3/4) of the votes in the shareholder meeting, e.g. the increase of the capital, capital reduction, sales or transfer of the business partially or entirely, etc. Thus, other shareholders cannot gather the votes to audit and apply checks and balances when the major shareholder proposes.

Nonetheless, the board of directors has appointed four independent directors with three audit committees and one chairman out of the total of 9 directors to attend the board meeting to audit and use the checks and balances of the board and the management. It includes the consideration

on approval of the various items before presenting to the shareholder meeting is for confidence to the shareholders that the management inside the company shall be transparent.

Moreover, the ACG has depended on Mr. Phanumast Rungkakulnuwat as the CEO, who is the major shareholder of the company and has managed the business all along. If the ACG loses the main management may cause damage to the company. Nevertheless, Mr. Phanumast and family as the major shareholder is expected the company to be still able maintain the management with the company in the future.

#### **The risk from the investment in other company**

The company is a holding company, currently investing in Honda Maliwan Co., Ltd., which is the core company and doing the business of sales and service in the automobile industry and the related businesses at the ratio of 99.74 percent. In the end of the year 2020, the Company has invested in Autoclik by ACG Company Limited, which business is to sell parts and provide urgent repair and maintenance services for all car brands (FASTFIT), at the ratio 99.00 percent.

While the company has not operated other business by itself results in the operating results of the company depends on the operating results of subsidiary entire, and the dividends come from them. Thus, if the subsidiary has good operations will result in the company having good operating result as well. However, on the other hand, if the subsidiary has poor operating result, it will send a negative impact to the company as well.

However, the company realizes the risk from the investment in such the subsidiary, it shall analyze the possibility and consider the potential of the future project, including the risk factor from the investment in a new branch and present the investment plan of the subsidiary to the company board consider, including an advice to reduce the investment risk that can happen. In addition, in the supervision of the subsidiary the company shall send a director or the management with the suitable qualification and experience to the business as the representative in the management of the business of such the subsidiary to designate the important policy and control the business operation of such the subsidiary.