Risk Management

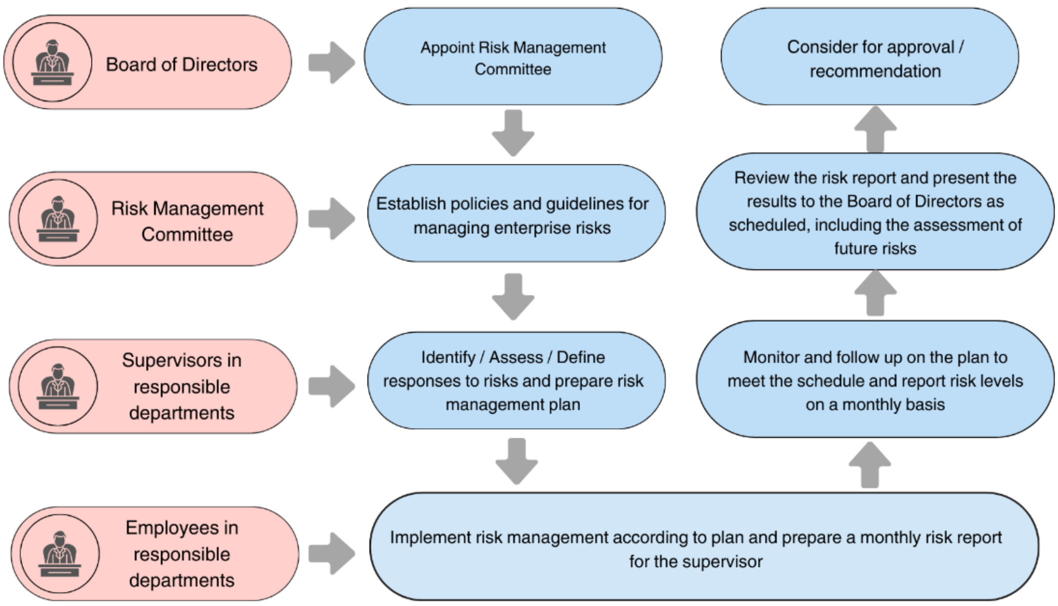
Risk Management Policy and Plan

Risk management is an important part of good corporate governance and supports a business to achieve its objectives. To efficiently manage risks, it is essential to consider various risk factors that are existing or likely to occur in the future to help identify risks and potential obstacles and be able to prepare support plans or adjust strategic directions on time to mitigate impacts and reduce the risk to an acceptable level. In its awareness of potential risks to the organization, the Company has a Risk Management Committee responsible for setting enterprise risk management policies and guidelines. The committee reports on the results of risk management operations and presents them to the Board of Directors twice a year to review the performance of the risk management process and provide advice to increase operational efficiency to ensure a more comprehensive approach to risk management.

1. Risk Management Process Structure

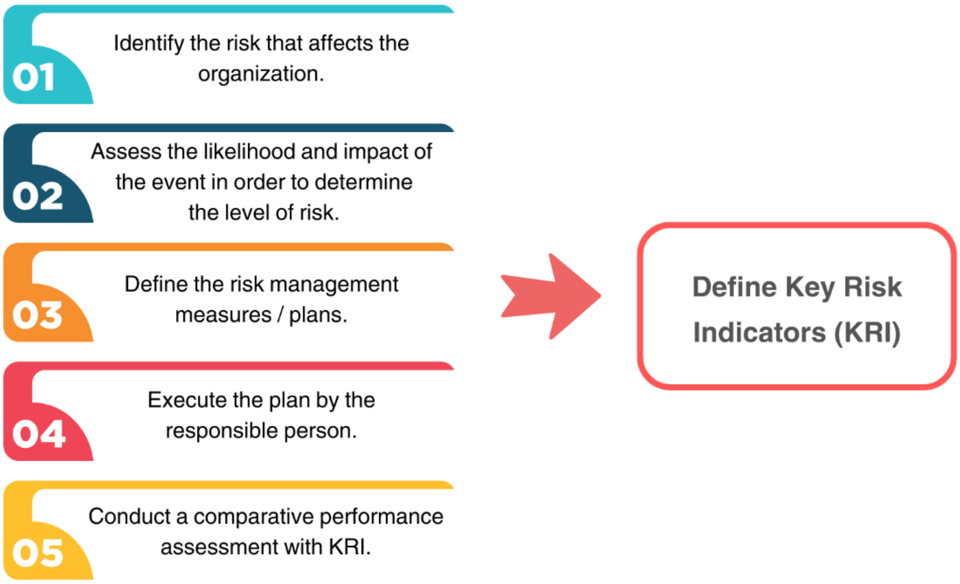
The Company recognizes the importance of risk management which must be practiced in all departments across the organization in order for systematic risk management to be achieved. Therefore, the Company has established a risk management process structure that involves the Board of Directors, the Risk Management Committee, supervisors, and employees in the responsible departments. Roles in risk management are defined in accordance with the following processes:

Risk Management Process Structure



2. Determination of Key Risk Indicators (KRI) and Risk Assessment Criteria

To ensure continuous and effective risk assessment throughout the process, the Risk Management Committee has established key risk indicators (KRI) in order to monitor, inspect, and assess risks every quarter. The risk indicator assists in determining whether a risk is high, medium, or low, thereby, enabling more comprehensive risk management.



In addition, the Company has conducted a risk analysis by considering the type and degree of impact and the likelihood of that impact to derive a criterion for the overall level of risk, which is having three levels, ranging from low to high. The Company considers low and medium levels of overall risk to be acceptable. For high risks, additional risk mitigation plans will be prepared for managing such risks to reduce, including assigning responsible persons and scheduling a time frame for completion, as well as monitoring the process as described above.

In 2023, the Company was aware of the fluctuations in the global economy, which may pose a risk to the business or organization. Therefore, the Company had reviewed and monitored existing risks and analyzed additional new risks in consistent with the risk management guidelines. Due to the uncertainty of the global economic situation, geopolitical conflicts, and rapid changes in weather conditions that have expanded impact on the environment and, hence, may create risks affecting the Company's business operations in the future, the Company had prepared a total of 6 risk plans, as follow:

1. Enterprise Risk
2. Emerging Risk
3. Customer Risk
4. IT and Technology Risk, Personal Data Protection Risk (PDPA)
5. Supply Chain Risk
6. Social, Environmental, and Governance Risk (ESG Risk)

The Company reviewed and considered the level of risk and analyzed the likelihood of occurrence and its effects, including risk level indicators for use in monitoring and measuring risk management to ensure efficiency throughout the organization.

Risk Factors for the Company's business operations

The Risk Management Committee has reviewed all aspects of risks with relevant departments in order to define measures to prevent and reduce the likelihood of occurrence, of which the following key risks have been considered.

1. Enterprise Risk

Importance and Rationale

Enterprise risk is essential as it reflects the organization's policies, corporate governance, culture, and environment. These are basic elements that are vital in establishing a sustainable business direction through an appropriate organizational structure for planned business operations.

Impact Assessment

Rapid technological advancements and consumer behaviors that are changing according to the demographic structure in many countries that are entering an ageing society show changes in trends of products and services, which may increase, decrease, or gradually disappear over time. As a result, the Company has scheduled a review of its organizational structure, business strategy plan, and key personnel to stay up to date with the potential changes.

Measures/Plans for Risk Management and Determination of Risk Indicators

The Company has reviewed the organizational structure across all departments and noticed that the operations could efficiently respond to customer needs and proceed according to the business plan in both the short and long term regarding sales revenues, development of new products and establishment of an innovation center to support research work at the level of innovation that creates a competitive edge for the company. In terms of important personnel, the Company has developed a succession plan that is monitored by the Human Resources department and the Company's directors closely and continuously.

2. Emerging Risk

Importance and Rationale

The global geopolitical conflict has begun to arise noticeably from the Russia-Ukraine crisis in 2022 which has shown no signs of ending. Furthermore, towards the end of the year, there was a crisis on the Red Sea in the Middle East, which is a global transportation hub connecting Asia and Europe. These two major events have had an inevitable impact on the global economy, leading to rising energy prices, supply chain disruptions, and slowdowns in investment in key industries in many countries. If the situation continues to prolong, it will have a widespread impact on the economy, society, and environment.

In terms of finance, the increase in the US policy rate has affected exchange rates, trade, and financial markets, particularly the import-export sector, which has increased business costs, resulting in inflation spreading worldwide. This has led to a decrease in consumer demand and purchasing power and also the movement of investors into high-yield markets, which has had an immediate impact on the economy.

<u>Impact Assessment</u>

The Company sources 70% of its products from abroad, both directly and indirectly. This involves the use of foreign currencies such as USD, GBP, and EURO to pay for products, which can increase business costs, as well as interest rates and product delivery that may be delayed. The Company has viewed this as a risk that requires additional management for emerging risks in all aspects. It has considered 5 emerging risks, namely

1. Geopolitical conflicts
2. Increases in interest rates on deposits and loans
3. Exchange rate fluctuations
4. Increases in the price of crude oil around the world
5. Changes in government policy.

<u>Measures/Plans for Risk Management and Determination of Risk Indicators</u>

The Company has a working group to manage exchange rates and regularly track the direction and movement of exchange rates. The Company manages income and expenses in the same currency (Natural Hedge) and protects against exchange rate fluctuations by entering into forward foreign exchange contracts (Fixed Forward Rate) with risk indicators that there is no loss from the exchange rate. The operating results have shown that the Company did not incur any loss from foreign exchange. The Company has sufficient cash flow from operations and, therefore, does not need to borrow from financial institutions. Hence, there is no risk from interest rate fluctuations.

The follow-up with trading partners and customers to assess the impact of the economy on each trading country to determine if it impacts planned sales orders or not. This includes conducting a risk assessment 3-6 months in advance and keeping track of orders and product delivery to be in line with the plan, with risk indicators that customer orders are as the plan and orders from trading partners can still be delivered as usual.

Changes in government policies that are likely to adjust the minimum wage. The Company has prepared a plan to assess the impact on costs and calculate the potential impact on an annual amount.

The assessment of emerging risks in every issue found that these risks have been managed and monitored by relevant departments and have a report or a response plan already prepared. Therefore, the risk is at an acceptable level.

3. Customer Risk

<u>Importance and Rationale</u>

Since the COVID-19 pandemic, there has been a shift in consumer product purchasing behavior. Consumers have noticeably become more cautious in their spending habits. The frequency of purchases and size of products impact their buying decisions. As a result, trends in the cosmetics market require strategic adjustments in terms of marketing channels, sales methods, appropriate sizes and prices, and most importantly, innovation that meets consumers' needs to be competitive in their target market.

Impact Assessment

The increasing competition in the cosmetics market may cause customer sales not to meet the target, particularly the Company's major customers in the country and in the United Kingdom. If the customers are unable to adjust their marketing strategies in a timely manner, this could impact the pre-planned ordering schedule with the company and cause income and profits not to go as planned.

Measures/Plans for Risk Management and Determination of Risk Indicators (KRI)

The Company plans to expand its customer base both domestically and internationally to reduce dependence on major customers. This includes creating additional new product groups based on the macro-level growth direction of the cosmetics market and compared with the Company's strategic product groups, as well as developing innovative products that differentiate from competitors, which are expected to generate sales for the company in the long term.

The Company had set sales and profit targets as indicators and had a continuous monitoring plan. It was observed that during the first half of the year major customers had placed a large number of advance orders. This resulted in sales and profits exceeding the target, of which the total orders for the first half of the year covered sales from major customers for the entire year. Consequently, orders in the second half of the year were lower than planned. Nevertheless, the Company's sales and profits for the entire year surpassed the set targets.

Regarding the plan to add new customers, which is still not going according to the set plan, the Company has, therefore, developed additional strategies to reach new customers both domestically and internationally, including countries that have not previously done business together, through a range of channels to increase coverage. As a result, the risk is still at a moderate level that requires constant monitoring.

4. IT & Technology Risk and Personal Data Protection Risk (PDPA)

Importance and Rationale

The Company has improved its digital technology to be more modern and to meet the needs of business competition. This includes updating hardware and changing work system programs to have a work process that is appropriate to the business in order to work and store data more efficiently. The Company has also upgraded its cyber security system to ensure that it is adequate and appropriate for its needs.

Impact Assessment

Upgrading the ERP system from SAP ECC6 to SAP S/4 HANA requires planning and management by a team that has a thorough understanding of the entire process. If this operation cannot be executed as planned, this may result in the use of a budget exceeding the plan set. Furthermore, any threat, theft, or breach of company information can have a widespread impact, from various work systems to user's computers. This can cause one or more processes or the entire system be disrupted to the point of causing severe damage.

Measures/Plans for Risk Management and Determination of Risk Indicators (KRI)

The Company has established a plan to enhance the SAP S/4 HANA system and resources management across IT and related departments by hiring a consulting company and setting up a working group to collaborate with the needs of each department appropriately. This working group will jointly assess each step of the process to be carried out as planned by organizing follow-up meetings with the consultant throughout the project's duration. The indicators for the SAP S/4 HANA system improvement are defined as a time and budget as per the plans of each department. The performance remains on track as per the plan.

In the area of cyber security, preventive measures include installing firewalls to prevent cyber-attacks and regularly monitoring and upgrading new versions of the program, installing anti-virus programs on all computers, limiting the use of portable storage devices such as thumb drives and personal email, and managing the server to ensure the backup at all times. Given these upgrade plans or improvement measures during the specified period, there was no report of cyber-attacks. Hence the risk is considered at a low level.

The Company has established a personal data protection working group, which will be responsible for formulating policies and guidelines in compliance with the personal data protection laws, as well as coordinating and managing requests to exercise the legal rights of data owners, creating guidelines for departments involved in personal data to adapt for use, and defining measures for the preservation and destruction of personal information by law. Hence the risk is at a low level.

5. Supply Chain Risk

Importance and Rationale

Given the economic fluctuations at a macro level in terms of the currency value causing the depreciation of the baht, the rise of oil price, and the geopolitical crisis in Russia, Ukraine and the Middle East, the Company was affected in the part of imported products, both directly and indirectly, where the price increased due to exchange rates and increased transportation costs. As approximately 70% of total purchases are imported products, hence the cost of products tends to increase.

Impact Assessment

If the global oil situation continues to be uncertain due to conflicts in Russia, Ukraine, and the Middle East that cannot be resolved in the near future, this could directly affect trading partners whose production relies on energy from Russia. As a result, there may be increased prices for raw materials or packaging, as well as delayed deliveries, causing disruption of the supply chain.

Measures/Plans for Risk Management and Determination of Risk Indicators (KRI)

The Company set a strategy to purchase raw materials that are commonly used in various products and are regularly and continually required, where the offer to purchase is in the appropriate proportion with the prices, along with managing the raw materials inventory according to the quantity desired for use, finding new sources of raw materials in Asia to reduce dependence on existing trading partners or partners in Europe, reduce expenses and delivery time. All these must work to collaborate throughout the supply chain to manage price and inventory levels in the appropriate quantities.

Regarding exports, the Company has secured a contract with a shipping line company for the goods exported under the agreement that the Company is responsible for paying the freight charges for the export container ships by specifying a freight charge rate for the entire contract duration. This agreement will help the Company obtain a lower price than the market rate or spot rate and also reduce the risk of sudden price fluctuation, for example, in such cases that the cruise line increases prices due to higher market demand.

The Company has set indicators and arranged to monitor fluctuations in prices of major raw materials groups in assessing the risk levels, including regular checks on export expenses. From these actions in various areas, the risk of price fluctuations and supply chain expenses are low.

6. Environmental, Social and Governance Risk

Importance and Rationale

In 2015, the United Nations (UN) announced 17 Sustainable Development Goals (SDGs), which serve as a guide for the development of Thailand and the world. To conduct business sustainably, the Company needs to prioritize the environment, society, and governance, which impact the ability to generate profits, compete, build its image, and achieve the organization's sustainable growth.

Impact Assessment

If the Company does not prioritize the environment, society, and governance, it may suffer from a loss of market share and a lack of confidence in the company, resulting in damage to its image and finances. Ultimately, the Company may be unable to sustain its operations.

Measures/Plans for Risk Management and Determination of Risk Indicators (KRI)

The Company gives top priority to conducting business sustainably. It complies with environmental and labor laws, including human rights protection and fair treatment of all stakeholders, and establishes an environmental policy. There are clear announcements and communications within the organization. The Company complies with ISO 14001 standards and is certified by an official certification body with the continuation of annual renewal. Furthermore, it has expanded the scope to business partners, with inspections scheduled annually, regarded as the main criteria that all business partners must comply with.

The Company has set indicators that its business operations and those of its trading partners must not be disrupted due to labor issues, human rights, and discrimination. It was found that the Company's and its trading partners' business operations run smoothly in conformity with the specified guidelines. There were no reported complaints. Hence, it is considered a low-risk level.