Risk Management

Risk Management Policy and Plan

Risk Management Operational Guidelines

S&J International Enterprises Public Company Limited has continuously implemented enterprise risk management across its subsidiaries to promote sustainable business practices. The company's risk management structure is aligned with each subsidiary's growth. The Board of Directors has established a Risk Management Committee to effectively supervise, support, and enhance risk management processes all the companies, fostering a risk-aware corporate culture. Executives and employees at all levels are involved in developing risk management plans, with regular monitoring and review conducted to ensure that risks remain within acceptable limits. The Risk Management Committee reports on risk management to the Board of Directors as scheduled. It receives guidance and recommendations, which are subsequently implemented to mitigate risks and assist the organization in achieving its business objectives.

In 2024, the Board of Directors emphasized the conduct of sustainable business. Therefore, they have introduced an analysis of emerging risks that may arise from unforeseen changes. This analysis considers risks stemming from external and internal factors, including global economic and political volatility, shifts in social structures, and advancement in technology and innovation, all of which could alter risk factors.

The company has developed a comprehensive risk management plan covering seven key areas, which are Emerging Risk, Financial Risk, Customer Risk, IT & Technology and Personal Data Protection (PDPA) Risk, Supply Chain Risk, Environmental, Social, and Governance (ESG) Risk, and Enterprise Risk. The company regularly reviews and reassesses risk levels, analyses the likelihood of occurrences from new perspectives, and evaluates potential impacts based on current circumstances and near-future projections. It determines key risk indicators (KRIs) for each issue, which are used to monitor and measure risk management across the organization effectively.

Risk Factors to the Company’s Business Operations

The Risk Management Committee has considered all aspects of risk in collaboration with relevant departments to establish preventive measures and risk mitigation strategies. The committee has identified and assessed the following key risk factors.

1. Emerging Risk

<u>Background and Rationale</u>

Geopolitical conflicts have become increasing challenging, with tensions becoming more evident since the Russian-Ukraine crisis in 2022. This conflict has continued to escalate, contributing to the Red Sea crisis and highlighting Russia’s significant role in the global energy sector. These developments have expanded the scope and influence of major economic, political, and trade power countries. Countries with economies tied with these nations have been impacted in various ways, such as rising production costs driven by energy and transportation factors.

In Thailand's economic landscape, the government has announced a policy to adjust the minimum wage in 2024 to address the rising cost of living. This minimum wage adjustment would directly affect production costs, potentially reducing competitiveness, particularly for companies competing with other countries such as China and other ASEAN countries.

Based on this updated risk assessment, the company anticipates an impact on production and raw material costs leading to higher expenses. This poses a competitive disadvantage in the current cosmetics market.

<u>Risk Management Measures/Plans and Risk Indicators (KRI)</u>

The company has collaborated with key suppliers importing raw materials from oversea to manage raw material costs. This includes negotiating long-term demand volume forecasts with manufacturers, enabling them to plan production at an optimal cost. Additionally, the company works on managing transportation costs across the supply chain by aligning import volumes with freight rates and delivery schedules. Simultaneously, efforts are being made to source raw materials locally or from nearby regions while maintaining quality and standards.

In the scope of production, the company has improved the tools and machinery in the production process, enhancing efficiency and increasing production output, while adhering to the planned production schedule. Additionally, energy management has been optimized through the use of natural resources by installing solar rooftop systems in the factories and adjusting work shifts to a two-shift system to reduce electricity consumption.

Based on this updated risk assessment, the company has successfully mitigated risks to an acceptable level. However, due to the high volatility of external factors, the company will continue to maintain quarterly monitoring measures to stay responsive to ongoing changes.

2. Financial Risk

<u>Background and Rationale</u>

From 2022 to 2024, exchange rates experienced significant volatility, primarily due to the U.S. Federal Reserve interest rate adjustments and widespread inflation in multiple countries, particularly economies in European countries with a decline in purchasing power. These factors have contributed to currency fluctuations as economies adjust to changing market dynamics.

The company conducts sales and purchases worldwide, primarily in US dollars (USD), Pound Sterling (GBP), and euros (EUR). Therefore, the company has managed exchange rate risk to ensure it can exchange currencies at optimal rates. This enables the company to forecast revenue and expenses in Thai Baht in advance, benefiting business planning and supporting sustainable growth.

In managing financial risks, the company has also managed revenues from all key customers to align with the management of its financial position, ensuring liquidity in working capital and supporting investments for business expansion.

<u>Risk Management Measures/Plans and Risk Indicators (KRI)</u>

The company has established a Foreign Exchange Management Committee with a monthly agenda to monitor exchange rate risk management and formulate currency strategies. The committee analyzes global currency trends based on economic situations and employs appropriate financial tools and instruments to manage potential exchange rate volatility. The committee works in collaboration with relevant internal departments to forecast revenue from sales and expenses for raw materials and services in all foreign currencies in advance every quarter. This allows for an assessment of both positive and negative impacts and the duration of potential volatility. Additionally, the company sets criteria for assessing and accepting volatility and management approaches to align buying and selling activities, which can be adjusted according to the circumstances of each period.

To manage revenue from key customers, the company has assigned the sales department to monitor the economic conditions of the countries where it conducts business to assess potential economic risks that may lead to a decline in key customers' sales and impact their ability to make timely payments. Accordingly, the company will develop a financial risk management plan for these key customers.

The company continuously oversees financial risk management throughout the year and allows for adjustments at any time. As a result, the risk level has been mitigated to a moderate and acceptable range. However, it remains a challenge that requires the implementation of additional urgent measures to further mitigate potential risks.

3. Customer Risk

Background and Rationale

The post-COVID recovery of the beauty industry has shown consistent growth annually, with expansion across all product categories, including skincare for the face and body, as well as a leap rebound of the makeup market. This significant growth has intensified competition, attracting new entrepreneurs and contract manufacturers to enter the industry to meet market demands quickly. This also brings certain risks, such as short-lived product popularity and shifting consumer preferences, influenced by global fashion trends or social media worldwide.

As competition in the cosmetic market intensifies both domestically and internationally across various dimensions, it directly affects the company's customers. If customers do not promptly adjust to new demands for products, marketing communication with consumers, or distribution channels, the company will continually be affected when the purchasing volumes do not meet the targeted plan.

Risk Management Measures/Plans and Risk Indicators (KRI)

In the first quarter, the company assigned both domestic and international sales team to analyze customers, focusing on the growth strategies of all customers across all product categories to reflect and provide the company's upcoming sales trends. As a result, three key measures have been established.

1. Measures for monitoring the growth of key customers according to the plan.
2. Measures to drive sales growth of the second customer group by developing new products that align with the customer's business plan and are competitive in both quality and cost.
3. Measures to acquire new customers with sales growth comparable to or exceeding that of the second customer group by introducing new innovative products that can generate sales to a large group of customers over the long term.

The company has set a target to monitor all three measures on a quarterly basis. It has consistently refined its strategies to reach new groups of customers by participating in Beauty Exhibitions in international markets, collaborating with customers on marketing plans, and optimizing the supply chain to ensure faster product delivery. While these initiatives have led to growth in certain customer segments, the results were still below the target threshold, keeping the risk level high. Therefore, the company needs to further enhance its customer acquisition measures and improve responsiveness to customer needs in order to reduce risks to an acceptable level.

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

Background and Rationale

In the past, the company conducted its business on a legacy SAP database system that stored all departments' corporate data and used various data management tools, making it difficult for cross-departmental data access, and additionally, leading to data redundancy, increased storage costs, and heighten the risk of errors. As this business information is crucial for improving operational efficiency, customer experience, and increasing organizational profitability, the company has planned to upgrade its data management system to SAP S/4HANA Cloud. This new system integrates key business functions and supports new business models, enabling faster business transformation. However, this system migration requires collaboration across all departments and external consulting teams to ensure alignment with the project timeline. Therefore, the Risk Management Committee has assigned the IT department to assess the risk in case that the system migration does not proceed as plan, its impact to operations across the organization, as well as the risk of unforeseen costs exceeding the allocated budget.

At the same time, technological threats are increasing across all businesses, posing risks to hardware, software, and data security. Organizations face potential cyberattacks that could lead to unauthorized data exposure, data manipulation for personal gain, or data being rendered unusable. These threats can disrupt business operations.

Risk Management Measures/Plans and Risk Indicators (KRI)

The company has established an SAP 4S/HANA Committee that works collaboratively, from the executives who provide guidance and make decisions on core processes, the consulting team working closely with the IT department to monitor progress of each step, and department heads who oversee and inspect the actual system implementation. The project has been in progress since the first quarter of the year, ensuring that the system migration to the new SAP S4/HANA adheres to the planned schedule with a low risk.

Regarding technology threat management, the company has installed Firewall and Anti-Virus security systems and has measures in place to restrict device connectivity, ensuring that devices connected to the company's equipment are approved by the IT department. Additionally, a roadmap has been established for further security enhancements, including considerations for cyber insurance and compliance with PDPA, making the IT & Technology risk at a low level.

5. Supply Chain Risk

Background and Rationale

Rapid changes in economic, trade, financial, and political factors are among the key contributors to supply chain risks. The Red Sea crisis, the economic slowdown in Europe, interest rate adjustments by central banks, and geopolitical tensions between the U.S. and China have all directly affected manufacturing operations, leading to increased production costs due to rising energy prices. Extended shipping routes also increase raw material costs, while the delivery time is also prolonged.

Risk Management Measures/Plans and Risk Indicators (KRI)

The company has established volatility criteria for raw material prices, grouping them based on purchase volume and value to implement appropriate management measures. Particularly for extract-based raw materials with price increases, the company will seek alternative sources within the Asian region while maintaining quality standards at a lower or stable cost. For highly volatile materials such as palm-based ingredients, the company will establish a long-term purchasing plan during the optimum price period or collaborate with suppliers to estimate the annual purchase quantities and negotiate the lowest possible prices.

At the beginning of 2024, shipping delays arose as vessels had to reroute around the Cape of Good Hope, extending transit times by at least 15 days. In response, the Supply Chain department had worked proactively, collaborating across the entire supply chain, including customers and suppliers, to assess product demand and delivery schedules. Suppliers were encouraged to maintain sufficient inventory in Thailand to meet usage cycles, while orders were placed 30 days in advance. Additionally, the company sought new manufacturers in the Asian region to reduce transportation time and mitigate increased expenses.

To ensure export targets are met, the company has signed an additional contract with a second carrier, bringing a total to two main shipping lines, increasing the number of container availability for exports. Additionally, the company has negotiated with strategic shipping partners to reduce or waive surcharges imposed due to longer shipping routes. As a result, freight costs decreased in Q4, but the overall annual average cost per container remained higher than the target.

The company has set key indicators and monitored price volatility of key raw materials to assess risk levels, as well as continuously reviewing export expenses. Through these measures, supply chain cost and price fluctuation risks are at a moderate level. The company will implement further cost reduction measures to ensure product costs remain competitive.

6. Environmental, Social and Governance (ESG) Risk

Background and Rationale

Environmental, Social, and Governance (ESG) risks are critical to the organization’s sustainability. Poor risk management in these areas could impact the company’s ability to drive business both in the short and long term. Recognizing the importance of ESG risks, the company has conducted risk assessments both internally and across key suppliers, ensuring sustainability throughout the supply chain. Any entity that operates with negligence to ESG practices could potentially impact the company.

<u>Risk Management Measures/Plans and Risk Indicators (KRI)</u>

The company remains committed to ensuring sustainability throughout the supply chain. Hence, it requires all key suppliers to operate with transparency, uphold business ethics, implement corporate governance plans, and comply with labor laws. They must treat employees and contract workers fairly, while supporting human rights. Additionally, all key suppliers must adhere to environmental laws and regulations and clearly support environmental conservation in the organization, from senior management to operational staff. The company will conduct supplier assessments according to plan through on-site inspections at suppliers' workplace or factories or remote audits via the Zoom communication tool, including document-based assessment for suppliers located overseas.

The company has set key indicators that its own operations or those of its suppliers must not face disruptions due to labor issues, human rights violations, or discriminatory practices. The assessment found that the company and its suppliers are operating smoothly in accordance with established guidelines, with no complaints reported. Therefore, this is classified as a low risk level.

7. Enterprise Risk

<u>Background and Rationale</u>

Enterprise risk reflects the company's policy in managing the organization, strategic business plans for both short and long term, human resource management, and the development of employee capabilities in alignment with business direction. It also includes fostering a strong organizational culture with a clear vision to ensure that employees at all levels can effectively adapt and work effectively in today's world.

<u>Risk Management Measures/Plans and Risk Indicators (KRI)</u>

Business strategy is a key priority for the company. Therefore, the company conducts an annual review and adjustments of its strategies to ensure effective implementation across all departments. The company aims to drive growth through both existing and new customer bases, develop innovative products that differentiate from competitors, and expand product categories to cater to a more diverse customer group. Additionally, the company implements cost strategies by setting organization-wide goals to enhance efficiency in production throughout the supply chain and in management areas, including human resources, finance, and information systems.

The company's executives of all departments restructure their units at least once a year, enhancing skills, knowledge, and capabilities through hands-on experience, learning from business partners or external organizations to expand their competencies within their respective responsibilities. At the same time, department executives collaborate with human resources team to recruit qualified candidates to fill vacant positions, ensuring the continuity of operations throughout the year.

The management of the organization, both at senior and mid-level, possesses the capability to oversee and take responsibility across all key dimensions. The organization operates as expected. Hence, the risk is at a low level.