Risk Management

Risk Management Policy and Plan

The Company has established a risk management policy, which covers the establishment of a consistent framework for the Company's risk management process to be implemented throughout the organization and ensures that the responsibilities for risk control are appropriately identified.

The Company's risk management process is linked to policies, strategic plans, and business goals by analyzing and evaluating risk factors affecting the organization in terms of the likelihood and severity of impact to create enterprise risk management (ERM) in five main areas: strategic risk, operational risk, financial risk, regulatory risk, and social, environmental, and corporate governance (ESG) risk, which may affect performance, employees, customers, partners, corporate reputation, society, and the environment. This also includes consideration of emerging risks and risks that will seriously damage or disrupt the business. In this regard, the Company sets up a risk management plan, defines risk indicators, and sets up a risk management working group, which reports directly to the Risk Management and Sustainable Development Committee. The working group consists of executives and representatives from various departments to follow up and report the results to the Risk Management and Sustainable Development Committee as required.

Besides, the risk management policy requires all departments to be responsible for risk assessment, defining key risk indicators (KRIs), and identifying risk prevention and mitigation guidelines or possible losses. This also includes regular monitoring and evaluation of risk management, along with preparing reports on risks according to the operational framework and risk management procedures. Moreover, every unit is involved in the decision-making, strategic planning, plans, and operations of the Company. The Company will review its risk management policy at least every year. In the meantime, a full risk management policy has to be disclosed on the Company's website.

Risk factors for the Company's business operations

Risk factors that may significantly affect the Company's business, financial position, operating results, business opportunities, and the Company's guidelines for prevention and management of risks can be summarized as follows:

1. <u>Strategic risk</u>

1.1. Risk from intense competition

Factors affecting the competition in the apparel and lifestyle product distribution business include the entry of new competitors both domestically and internationally with new products and brands, competitive prices, sales promotion, advertising, public relations, competition in increasing distribution channels to reach consumers more easily, and the use of media and online channels to reach consumers.

However, the Company has a policy to maintain its strength in reaching consumers through continuously increasing distribution channels across the country. With its own retail stores, sales points in modern trade, the use of mobile units, and online channels via www.mcshop.com to focus on creating broad brand awareness of the Company, seamless connections between offline and online stores, and increased competitiveness.

Furthermore, with a long-time experience in the production and procurement of products, the Company gains expertise in quality control and production costs, whether it is produced in its own factory or outsourced to other manufacturers. This enables the Company to effectively compete with various competitors because the products are well recognized for their quality and price.

1.2. Risk from changes in consumer behavior

The Company's products are in the fashion and lifestyle product groups, which may be affected by changes in consumer tastes and lifestyles. The Company maintains good collaborations between marketing, sales, and design departments to continuously explore changes in consumer behaviors, as well as studying and monitoring fashion trends, both domestically and internationally, for presenting new products to keep up with the needs of consumers at all times.

The Company has implemented CRM (Customer Relationship Management) to build relationships with customers and manage membership benefits. This provides faster access to consumer insights into changing behaviors.

1.3. Risks from the Company's growth strategy

The Company's business plans and strategies focus on increasing product diversity and strength, as well as innovation and new brands to meet the needs of consumers of all groups, ages, and lifestyles, an increase in distribution channels to reach customers in all areas nationwide, a reduction in production costs, and an expansion of supply base to other sources with lower costs.

The Board of Directors and the Company's management prioritize the implementation of the above business plans and strategies by recruiting personnel with experience, knowledge, and the ability to take responsibility for effective monitoring and measurement. This is in line with the implementation of an ERP-Enterprise Resource Planning in order to comply with the planned strategy.

1.4. Risk from economic fluctuations

The company faces strategic risks due to economic fluctuations. These fluctuations may lead to a decrease in consumer spending, particularly on non-essential items such as fashion, resulting in lower sales. Furthermore, economic downturns can severely impact revenue, causing overproduction, increased operational costs, and excessive inventory levels.

To mitigate these risks, the company closely monitors economic trends such as GDP growth, inflation rates, and consumer confidence indices. Additionally, the company conducts regular sales data analysis to adjust expenses in line with sales performance, ensuring financial stability even during periods of reduced revenue.

Moreover, the company manages its inventory by adjusting purchase budgets based on sales forecasts and economic conditions to align inventory levels with changing demand. The company also negotiates flexible terms with suppliers to enable adjustments in order quantities as needed

2. <u>Operational Risks</u>

2.1. Risk of relying on few major customers

The Company has 10 major customers. The first customer is a modern trade store, which is a customer who has long relationships and continuous purchase orders. Nonetheless, the Company perceives a risk of relying on large customers and limited bargaining power. Thus, there is a policy to reduce such risk by maintaining good relationships with such customers and promoting more sales of the Company's brands through its free-standing shops by focusing on opening a retailer that sells its own branded products, reducing the level of dependence on large customers in the future.

2.2. Inventory Management Risks

Since the Company has to produce a variety of products in large quantities, combined with unstable demand for such products, the Company may have more or less inventory compared to market demand and may be unable to develop and distribute products in a timely manner.

To effectively meet the needs of consumers, the Company has set up a working group with the objective of planning and controlling the level of inventory to be appropriate, starting from product design, raw material ordering, production, storage, and fast delivery of products to every point of sale. Besides, the Company has established a standard of production time and new product development to set the standard for operating according to the specified time and less operational time. However, the Company increases its distribution channels to sell more products, such as by organizing some events in areas that reach more customers, and to reduce the inventory to the criteria specified by the Company.

2.3. Risk of renewing the store lease contract

The Company distributes the products through its own distribution channels, such as stores with lease contracts. Most of them have a lease contract for a period of about 3 years. Therefore, the Company has a risk of not receiving lease renewals or of increasing rental rates and service fees.

However, some lease contracts give the Company the right to renew the contract after expiration with a rental rate adjustment. Since the past period, the Company has strictly complied with the lease contract, and it has never been terminated by the lessor. In addition, the Company's stores also help attract customers for services at the shopping centers, which can be beneficial between the shopping center operators and the Company. Therefore, the Company believes that it will receive good support for contract renewal from the lessor in the future.

2.4. Risks from fluctuations in raw material prices

In the Company's business operations, cotton is considered a key component of the primary raw materials. Cotton prices can fluctuate based on global market conditions, which may impact the cost of raw materials and the Company’s procurement costs. To mitigate this risk, the Company has implemented measures to reduce the impact, such as closely monitoring raw material price trends, maintaining communication with suppliers for timely updates, and placing orders for raw materials in advance to meet production demands. Additionally, the Company has undertaken cost-reduction initiatives in production and adjusted promotional strategies to align with changing costs in order to minimize the effects of raw material price fluctuations

2.5. Risk of over-reliance on any particular raw material manufacturer

The Company's business operations are exposed to the risk of overreliance on a major supplier for its raw materials. This can negatively impact the company's operations if unexpected events occur, such as disruptions in the supplier's production, changes in policies, or sudden price increases. Such disruptions may hinder the company's ability to procure raw materials in the required quantity and quality within the specified timeframe, leading to product shortages and affecting sales.

To mitigate this risk, the Company maintains close relationships with its suppliers and has contingency plans for sourcing raw materials from alternative sources. The Company is actively developing new products with other domestic and international suppliers to increase its options for raw material procurement and reduce its dependence on a single supplier.

2.6. Risk of Product Quality and Timely Delivery

The company faces operational risks stemming from potential quality control lapses and delays in product delivery. These issues may arise from inadequate supplier audits and insufficient quality control processes, resulting in substandard products and delayed shipments. Such occurrences can lead to lost sales and damage to the company's reputation.

To mitigate these risks, the company has established a mandatory supplier audit process for all domestic and international suppliers. This comprehensive audit includes assessments of production capabilities, performance history, and adherence to industry standards. Additionally, the company has revised its quality control manuals to ensure detailed and product-specific procedures align with company requirements.

3. Risk on Regulations

3.1. Risk of compliance with personal data protection laws

For business operations, the Company needs to collect, use, and disclose the personal information of stakeholders, such as customers, employees, and business partners, both domestically and internationally. Thus, the Company is concerned about compliance with relevant personal data protection laws, for example, the Personal Data Protection Act (PDPA). If the Company is unable to fully comply with the personal information protection laws, it may demand fines or monetary reparations for the victims, which may affect the Company's profitability. The Company is aware of this risk and appoints a working group and representatives from each department for gap analysis while setting policies and procedures related to personal data in accordance with the law. Representatives from each department are responsible for ensuring that the working process is in accordance with the established guidelines. The Company also provides training for employees at all levels, including new employees, to enhance their knowledge and understanding of each working process. relevant laws and practices.

3.2. Risk of infringement of the Company's intellectual property rights

The Company found that there are counterfeit products or imitations of the Company's trademarks by posting sales on Facebook pages or E-Marketplaces such as Shopee, Lazada, etc. Currently, the nature of intellectual property infringement has changed from using the "Fake (100% similar)" to "imitation (similar but not 100%)". The imitation prosecution requires a greater burden of proof, for example, the proof for the public's misunderstanding of imitations belonging to the Company, and there must be an expert witness from the Department of Intellectual Property to confirm that it is similar to the trademark of the Company in business operations. The Company has measures to report criminal cases against intellectual property infringers to DSI in order to focus on suppressing manufacturers and large merchants, as well as to report criminal prosecutions against intellectual property infringers to the police to suppress small merchants. Also, the Company has filed complaints against Facebook and E-Marketplace to close any pages that sell counterfeit products and join in the signing of an MOU on the protection of intellectual property through the Internet with the Department of Intellectual Property and platform providers such as Lazada, Shopee, etc.

4. Financial Risks

4.1 Risk of late payment receivables

In business operations, the Company may encounter financial risk when the debtor is unable to make the due payment. This may affect the Company's liquidity of working capital. The Company thus sets some measures to assign its officers to taking care of each debtor by interacting and building good relationships between the Company and the debtors to know the feasibility and ability to pay debts, which makes the prospect of the debtor who may have problems paying debts and set measures to take care of the joint solution for outstanding debtors. In this regard, the Company's management team conducts an assessment of the debt repayment period and the financial status of each debtor, then considers that the allowance for doubtful accounts is sufficient and appropriate.

5. Social, Environmental, Corporate Governance Risk (ESG Related Risk)

5.1 Climate change risks

Climate change is an issue that is beginning to affect everyone and becomes increasingly active both globally and nationally. Climate change can bring a variety of risks in many dimensions, both current and emerging risks. The Company has assessed the impacts caused by climate change in the following areas:

5.1.1 Risk of main raw material shortages in the future due to climate change

The clothing industry relies heavily on cotton fibers in the production chain. However, cotton is a plant sensitive to climate change, while the increasing temperatures lead to the need for more water in cultivation. The effects of global warming may cause the risk of a cotton fiber shortage in the future. According to a non-profit group, "Forum for the Future", it is predicted that by 2040, half of the world's cotton-growing regions will face "high or very high" climate risks from droughts, floods, and wildfires, which could shorten cotton production and impact business operations. Thus, it is necessary to find alternative raw materials, and it will cost the Company to find substitutes to reduce its dependence on cotton in the future.

5.1.2 Operational risks from climate change

The Company is at risk for its business operations to be affected by various disasters and environmental imbalances, such as an increase in global temperature or a higher sea level, which may cause a higher level of severity and flooding problems, and then affect the Company's merchandising at the point of sale. The factory may not be able to produce its products, or the warehouse may be unable to receive or deliver goods. Moreover, such problems may affect the income of customers in some areas. The Company may be unable to open stores in flood-prone areas, which negatively affects sales. The Company has taken the risk of flooding as one of the factors in choosing the location for opening new stores while preparing a crisis management plan for its factories, warehouses, and points of sale.

5.1.3 Risk of legal changes from climate change

The Company has a risk for its business operations due to adapting to a low-carbon society, such as the Carbon Tax Law, which is now enforced in other countries. Despite having no effect on the Company at present, Thailand may enact the carbon tax law in the future. Then, the Company may have more operating costs when complying with any new laws related to greenhouse gas emissions. Additionally, being a listed company on the Stock Exchange of Thailand with more attention from both domestic and foreign investors on climate change, the Company is obliged to disclose the information, and there are more costs, such as the cost of auditing the disclosure of information from third parties and the cost of preventing and managing such risks.

5.1.4 Risk of social change from climate change

The Company has a risk to customers behaviors due to the alertness of greenhouse gas emissions, which may affect the changing demand for products and services. The Company may have more expenses related to the development of products and services to meet the needs of consumers who are interested in environmentally friendly products, including more investment to reduce dependence on energy that causes greenhouse gas emissions.

The management of risks caused by climate change

1) Improve products and services to meet the needs of customers who demand more environmentally friendly products. There are products that use fibers to replace cotton, such as hemp fibers and fabric fibers made from recycled fabrics, including the use of materials such as zippers, buttons, and rivets made from recycled materials under low-energy processes with fewer chemicals and water, as well as the limited use of natural resources, etc.

2) Apply the concept of the Circular Economy by promoting the most efficient use of resources from production, consumption, and waste management through reduction, reuse, and recycling processes.
3) Improve and promote employees' awareness of more effective energy and resource consumption.
4) Take environmentally friendly technologies into consideration for future investment projects to manage greenhouse gas emissions according to the Company's strategy. The Company has initiated the installation of solar cells to generate electricity at the head office and new warehouses, including the project to change machinery and electrical equipment to reduce energy consumption at the factories and the head office.

5.2 Risk from Human Rights Violation

In business operations, it is inevitable for the Company to involve different individuals, such as customers, suppliers, employees, shareholders, investors, communities, etc. Human rights issues are sensitive and can be linked to other issues, which may have an impact on business operations. In some cases, it may affect the reputation and image of the Company, lead to legal actions, cause the Company to pay fines or expenses for compensation and remedy, and affect the Company's sales. For example, if employees are dissatisfied with the Company's operations, there may be a strike, or when customers are dissatisfied with the Company, this may cause them to decide not to use services, resulting in a decrease in sales, etc.

The Company has considered business processes throughout the value chain to ensure that there will be no impact or human rights violations on trading partners, business alliances, employees, and all groups of stakeholders. The Company has established a human rights policy that reflects the organization's commitment to conducting business on the basis of respect for human rights. The Company's directors, executives, and employees at all levels are required to treat all stakeholders with equality, as well as complying with international human rights principles, while creating a safe working environment for a good quality of life among employees, including having channels for opinions and suggestions from employees and all groups of stakeholders.

The Company had no violations of human rights in the past fiscal year of 2024.

5.3 Cyber Security Risk

Technology currently plays an important role in business operations. The Company is therefore at risk of cyberattack, which may affect its operations, financial status, or reputation. To reduce such risks, the Company has taken some management measures, as follows:

- For system security, the Company has developed and modernized computer systems, both hardware and software, including network systems to protect against new forms of attacks, while migrating SAP programs to the cloud, and adding and installing cyber security equipment such as web application firewalls, anti-virus, anti-malware, patch updates, offsite data backups, and penetration testing regularly.
- For personnel, the Company provides knowledge on cybersecurity through training and communication, such as education via email and newsletter, to raise awareness within the organization.
- Additionally, in the fiscal year 2024, the company obtained ISO 27001 certification for its Information Security Management System, which will significantly enhance the company's ability to manage the security of its information assets.

Risk of Corruption

The Company upholds ethics and integrity as fundamental principles in conducting business and will not turn a blind eye to any actions that might lead to corruption and collusion. Even if such actions are beneficial to the Company, including instances of corruption, requesting, or offering contracts to gain unwarranted benefits, overlapping interests involving money, assets, or other benefits that are not appropriate for government or private individuals, whether directly or indirectly, to induce or neglect the performance of duties. For example, forcing assets, tampering with reports, seeking, or demanding valuable items from business-related parties, etc.

In this regard, the Company has implemented preventive measures that can help reduce the risk of corruption within the organization. This includes establishing policies to combat collusion and regulations regarding giving or receiving financial support, gifts, rewards, and charitable donations. The policy of refraining from accepting gifts is also in place, and these policies are communicated to stakeholders of the Company. Risk assessment for corruption is conducted, along with the appropriate design and implementation of internal control frameworks to mitigate risks. Moreover, efforts are made to foster awareness and values that oppose corruption among the Company's personnel. Additionally, the Company has joined a network and received certification from the Thai private sector's collective action against corruption (Collective Action Coalition Against Corruption or CAC) and promotes partners to participate in the CAC network as well.

Emerging Risks

The Company is aware of emerging risk factors that may have significant impacts on business operations in the future. The Company has therefore analyzed potential risk issues, including the impact on the business and the operation of each risk factor. It has set measures to reduce risks and continuously monitor any emerging risks, both in the medium and long term, to reduce the impact of emerging risk factors and help the Company achieve its goals according to the strategy and direction as defined. However, emerging risks have been discussed and described as risk characteristics as well as supporting measures in the previous topic, as follows:

- For the risk of main raw material shortage in the future due to climate change, which is the risk that future cotton yields and prices will be affected by climate change. (See details in Risk Statement Section 5.1.1)
- For the risk of legal changes from climate change, which is the risk impact of future legislation related to climate change. (See details in Risk Statement section 5.1.3)
- For the risk of social change from climate change, which is the risk that consumers' purchasing behaviors will change due to climate change awareness. (See details in Risk Statement section 5.1.4)

Promotion of Risk Culture

The Company prioritizes raising consciousness and awareness about the importance of risk management among executives and employees at all levels. Therefore, it encourages the creation of a risk culture throughout the organization. To be able to effectively apply the risk management system to business operations, the Company laid the foundation for systematic risk management through the actions of sub-committees and risk working groups to be able to identify risks or business opportunities in time for the occurrence of the event. The details are as follows:

- Review the risk management policy annually, including the communication of up-to-date contents of the risk assessment and management manual to all levels of executives and employees in different departments throughout the organization so that the management and employees are aware of the determination of risk appetite and the possibility of risk occurrence, the impact of risks, the importance of risk management, and participate in shared risk responsibility, including incorporating risk management policies as part of their operations, using a guideline for making decisions, and setting plans.
- Require integrated risk considerations, along with formulating strategic and business plans, including a process of transferring risk appetite to the lines or departments that oversee the organization's important projects.
- Encourage the integration and coordination between departments by assigning a risk champion from each department to represent the department in coordinating and monitoring the implementation of risk management plans.
- Provide training and lectures by qualified speakers for employees to understand the process of risk analysis and be aware of potential risks. In January 2023, the Company invited experts to educate directors and executives on sustainable development, ESG trends, and global warming. The speakers illustrated the examples of risks and adaptations of various companies both domestically and internationally to understand the risks and new risk management approaches for emerging risks in the future.