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

The apparel and lifestyle industry in Thailand faces fierce competition from both domestic and international players. The entry of new brands with contemporary images and competitive pricing, along with the growth of e-commerce, has provided consumers with a wider range of choices. Price competition, promotions, and digital marketing activities further intensify the market landscape. If the Company fails to maintain brand differentiation or effectively reach customers, it could directly affect sales and market share.

To address this risk, the Company has pursued strategies to strengthen its competitive advantage by expanding a diverse range of distribution channels, including Company-owned retail stores, points of sale in modern trade outlets, mobile shops, and online platforms, in order to create a seamless O2O (Online-to-Offline) experience. In addition, the Company's expertise in quality control and production ensures products meet high standards at appropriate prices, reinforcing long-term competitiveness.

1.2. Risk from changes in consumer behavior

Modern consumers have complex and rapidly changing demands. Influences from social media, seasonal fashion trends, as well as increasing awareness of environmental and sustainability issues, may cause certain fashion products to fall out of demand. If the Company fails to adapt promptly, it may lose sales opportunities and customer loyalty.

To mitigate this risk, the Company has developed responsive mechanisms to address shifting consumer behavior. The marketing, sales, and design teams work closely together to gather insights, regularly analyze both domestic and international fashion trends, and utilize a Customer Relationship Management (CRM) system to better understand customer behavior and deliver products and services that match their preferences. These initiatives enable the Company to adapt quickly and maintain product relevance in the market.

1.3. Risks from the Company's growth strategy

The Company's growth depends on its ability to expand product lines, develop new brands, and increase distribution channels. If these strategic initiatives do not proceed as planned. For example, if new products fail to gain traction or investments in new stores do not generate expected returns, it could impact long-term revenue and sustainability.

To manage this risk, the Company has established a close monitoring and evaluation system for its strategic initiatives, supported by Enterprise Resource Planning (ERP) to integrate all business processes and enhance management transparency. The Company also recruits specialized talent to oversee strategic projects and places strong emphasis on careful investment decision-making by thoroughly assessing risks, returns, and alignment with the business plan before execution.

1.4. Risk from economic fluctuations

Both the global and Thai economies are subject to volatility from various factors, such as trade tensions, rising energy prices, high household debt, and political uncertainties, which may lead consumers to reduce spending—particularly on non-essential goods such as apparel. This may result in declining sales. At the same time, overproduction could lead to excess inventory, higher costs, and pressure on the Company's cash flow.

To mitigate this risk, the Company monitors key economic indicators on a regular basis, such as GDP growth, inflation, and consumer confidence indices. In addition, the Company conducts frequent sales data analysis to adjust expenses in line with sales performance across different periods, ensuring financial stability even in times of revenue decline.

Inventory management is also actively maintained by adjusting procurement budgets for products and raw materials based on sales forecasts and economic conditions, ensuring inventory levels remain aligned with fluctuating demand. Furthermore, the Company negotiates with suppliers to secure more flexible terms, allowing adjustments in order volumes as necessary.

2. Operational Risks

2.1. Risk of relying on few major customers

The Company has major customers who are modern trade retailers. Although the Company has long-standing relationships and regular purchase orders from these customers, excessive reliance on this group poses risks in terms of bargaining power. If these customers change their purchasing policy, reduce order volumes, or alter trading terms, it could directly impact the Company's sales and revenue.

To mitigate this risk, the Company has set strategies to reduce dependency by expanding its own retail stores (Free Standing Shops) and strengthening its online channel (www.mcshop.com). The Company also organizes sales promotion activities in locations that directly reach consumers, thereby reducing dependence on large customers and creating a more diversified customer base in the future.

2.2. Inventory Management Risks

Uncertainty in consumer demand and fluctuations in fashion trends may result in inventory levels that do not align with actual demand. This could lead to excess inventory and higher storage costs, or stock shortages that result in lost sales opportunities.

The Company systematically manages inventory, starting from product design, raw material procurement, production, and distribution. Sales data analytics are used to improve demand forecasting accuracy. In addition, the Company has expanded sales channels and marketing activities to help clear excess inventory and maintain appropriate stock levels on an ongoing basis.

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

Cotton is a key raw material in the Company's operations. Its price is subject to volatility in the global market, which may impact fabric costs and overall sourcing expenses. To address this risk, the Company closely monitors raw material price movements, maintains regular communication with suppliers to stay updated on market conditions, and secures advance orders of raw materials to meet production needs. Furthermore, the Company implements cost-reduction measures in production and adjusts sales promotion plans to align with changing costs, thereby mitigating the impact of raw material price fluctuations.

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

The Company relies on sourcing raw materials and finished goods from key suppliers both domestically and internationally. Excessive reliance on a limited number of suppliers creates risks. If these suppliers encounter production issues, quality concerns, delayed deliveries, or unexpected price increases, it could disrupt the supply chain, prevent the Company from meeting market demand in a timely manner, and directly affect sales and reputation.

To mitigate this risk, the Company adopts a "Supplier Diversification" strategy by increasing the number of sourcing partners from multiple locations, both domestically and internationally. For example, denim fabrics and finished apparel are imported from China, Vietnam, and other regions, alongside maintaining long-standing relationships with existing suppliers. The Company also allocates order volumes appropriately to avoid overdependence on any single supplier and conducts periodic quality and performance assessments to ensure consistent standards.

Strategic supplier relationship management is another key approach. The Company fosters long-term partnerships with major suppliers and co-develops new products with them to enhance supply chain flexibility. These initiatives help mitigate the risk of raw material shortages, strengthen bargaining power, and enhance competitiveness in the fast-changing fashion market.

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.

2.7. Brand Perception and Image Risk

Brand image and reputation are highly valuable assets but are vulnerable to external factors such as negative social media trends, product quality issues, or failure to respond to consumer preferences for sustainability. If the Company cannot maintain consumer trust, it may lose customers and sales.

The Company therefore adopts a proactive brand management strategy by closely monitoring online sentiment, maintaining transparent communication, and conducting Brand Scans to analyze and define brand positioning more clearly.

2.8. Human Capital Management Risk

Attracting and retaining talented employees is critical to business continuity and competitiveness. Today's labor market is highly competitive, while employee expectations are shifting toward skill development, work-life balance, and corporate culture alignment with personal values. These challenges may pose risks to the Company in retaining high-potential employees, particularly in specialized roles and next-generation leadership positions.

To address this, the Company applies a comprehensive people management strategy, including building a Talent Pipeline for critical positions, developing leaders through the New Generation Leadership Program (NGL), preparing succession plans, and fostering a strong corporate culture that emphasizes values, accountability, and inspiration at all levels. These efforts aim to build employee engagement and reduce the risk of losing key talent in the long term.

2.9. Business Interruption Risk

Threats to business continuity are increasingly complex and unpredictable, ranging from natural disasters such as floods and earthquakes, to new epidemics, global political instability affecting supply chains, or technological disruptions such as IT system failures or cyberattacks. Such events may result in revenue loss, increased costs, and reputational damage.

To manage these risks, the Company has developed a Business Continuity Plan (BCP) covering all key operations, including headquarters, factories, warehouses, and retail outlets. Regular drills are conducted to ensure effectiveness. In addition, the Company has insurance coverage for natural disasters and business interruption, along with investments in reliable IT systems with fast data recovery capabilities. These measures help ensure that the Company can continue operations even in unforeseen circumstances.

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

The Company recognizes the significance of climate change, which has impacts at both global and national levels, and has assessed two main categories of risks: Physical Risks and Transition Risks.

5.1.1 Physical Risks

5.1.1.1 Acute Physical Risks

- **Floods and natural disasters:** The Company's factories, warehouses, and retail outlets are exposed to risks of flooding and natural disasters, which may disrupt production, product transportation, and sales in affected areas. The Company has therefore incorporated flood risks as a key factor in site selection for new branches and has developed crisis management plans to prepare for such events.
- **Heatwaves and rising temperatures:** Increases in temperature and extreme heat events may affect working conditions in factories and the health of employees, as well as impact production efficiency and logistics operations.

5.1.1.2 Chronic Physical Risks

- **Risks to key raw materials:** Cotton, which is a key raw material in the apparel industry, is highly sensitive to climate conditions. Rising temperatures and drought may reduce cotton yields, creating risks to supply chain security in the future. According to the *Forum for the Future*, by 2040 half of the world's cotton-growing areas could face high or very high climate risks from droughts, floods, and wildfires.
- **Water scarcity and natural resource depletion:** Long-term climate change may lead to reduced water availability and limited natural resources, impacting production processes and increasing operating costs.

5.1.2 Transition Risks

5.1.2.1 Regulatory and Policy Risks

- **Carbon regulations and taxes:** In the future, Thailand may impose carbon taxes or other greenhouse gas reduction measures, which would require the Company to adjust production processes and incur higher compliance costs.
- **ESG disclosure requirements:** As a listed company, MC Group is required to disclose environmental, social, and governance (ESG) information. The preparation and verification of such information entails additional compliance costs.

5.1.2.2 Market and Social Risks

- **Changing consumer behavior:** Consumers are increasingly aware of the impacts of climate change and demand environmentally friendly products. In response, the Company invests in developing products that use cotton substitutes such as hemp fibers, fabrics made from recycled materials, as well as zippers, buttons, and rivets made from recycled components. The Company also focuses on energy-efficient production processes, minimizing chemical use, and reducing water consumption.

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 2025.

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, 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.

<u>Climate Change Risks</u>

- 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 5.1.1.2)
- 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 5.1.2.1)
- 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 5.1.2.2)

<u>Digital Transformation Risk</u>

Adapting to the digital era is a key determinant of competitiveness. Failure to adopt new technologies in a timely manner may lead to the loss of business advantage, inability to meet consumer expectations, and increased operating costs from outdated systems.

The Company has been implementing continuous Digital Transformation initiatives, such as developing an O2O Platform to connect online and offline channels, investing in a Data Lake and Business Intelligence Dashboard to leverage data-driven insights for business decisions, as well as enhancing digital skills across all employee levels. Furthermore, the Company has promoted a culture of adaptability through Change Management to ensure a smooth transition to digital operations and mitigate risks from internal resistance.

At the same time, the emergence of Artificial Intelligence (AI) and advanced automation presents both opportunities and risks. If the Company fails to develop and integrate AI into its business processes

promptly, it may fall behind competitors who effectively apply these technologies in consumer behavior analysis, product development, supply chain management, and operational efficiency. Conversely, improper use of AI without adequate governance could result in risks concerning data accuracy, ethics, and stakeholder acceptance.

The Company therefore places great emphasis on closely monitoring AI trends, investing in technology infrastructure, and building AI literacy among employees to ensure effective and responsible adoption. Examples include the installation of AI Cameras in stores to analyze customer behavior and enhance operations, as well as the use of AI-powered CRM Personalization to deliver tailored offerings to customers. These not only improve efficiency and sales but also create opportunities for cross-selling and upselling strategies, driving continuous business growth.

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 knowledge-sharing sessions to ensure employees understand the risk analysis process and are aware of potential risks. In fiscal year 2025, the Company supported the dissemination of E-Learning materials through the course "BMD1010: Value and Resilience Through Risk Management" offered by the Stock Exchange of Thailand, to enhance risk management knowledge for directors, executives, and employees.