

## 2. Risk management

### 2.1 Risk Management Policy

Asian Phytochemicals Public Company Limited realizes the importance of risk management, therefore, it applies risk management throughout the organization in accordance with the COSO Enterprise Risk Management Framework (COSO ERM) guidelines. Since it is a small company, the risk management committee has not yet been set up. The Board of Directors has established an adequate risk management system by establishing a risk management working group consisting of the executives of each department responsible for assessing risk factors, planning and determining risk management measures, assessing risk factors that may affect the Company's business operations as well as providing regular monitoring of the risk management of various departments within the organization of the Internal Audit Department and report the results to the Board of Directors and the Audit Committee of the Company. In this regard, risk management is assigned to be the responsibility of all executives. Including instilling risk management as part of the operation until it becomes a culture in the organization.

### 2.2 Risk Factors to the Company's Business Operation

#### Business Risk

- The risk of personnel with specific expertise

In terms of the academic respect, most of the products that the conglomerate produces and sales recently are from the research and development led by Professor Dr. Pichaet Wiriyachitra, this makes the risk of relying on the knowledge and expertise of the staff. In addition, Professor Dr. Pichaet Wiriyachitra also served as a Chief Executive Officer (CEO), who is directly responsible for determining the policies, directions and marketing of the Company. In the future, if the staff is changed it may affect to operations of the Company.

However, Professor Dr. Pichaet Wiriyachitra is the founder and major shareholder of the Company, thus it is expected that the Company may be able to persuade him to work in a long run. Besides, the Company has formed a research and development team which involves experts in various fields related to our products, and established Thai Mangosteen Research and Development Center. Also, the Company has cooperated with several of research agencies to jointly conduct research and further develop the products continuously without relying on only one person or agency. In addition, we have allocated budget to the research team to participate as an owner and motivated them to stay with the Company in a long period.

Besides, in case there is product research and development related to new raw materials of which the research team has no knowledge, the Company will hire other organizations with such expertise such as the university and other research departments to conduct the research. It was anticipated that it would take less time and fewer costs for the Company to conduct the research and development by itself while reducing the burdens of the personnel. However, all the formulas obtained from the research and developments of Professor Dr. Pichaet Wiriyachitra and other researchers as well as outside organizations which are in the present or will be in the future belong to the Company. Meanwhile, records of the

entire formulas are kept in the Company's safety box and two Executives hold one key each. At present, the Company has already applied for the patent registration for all the formulas and products.

As for the management, the Company has appointed the director as the one who sets up business policies and directions, and the Executive Committees as the administrator who is responsible for the policies from the Board and shareholders. Furthermore, the Company has prepared the adviser Board to consult such over fields as marketing, research and development, CSR (Corporate Social Responsibility), etc. Such Board consists of ones who have expertise in such fields. The Company has always considered those with additional talent to participate in the business management to give advice about management so that the business can go forward effectively.

- The risk of the business channels

One part of the Company's income has been from direct marketing. However, due to direct sales channels on advertising, the Company has re-adjusted the distribution channels to a sales channel through a sales agent since the end of 2019.

In 2020, 2021 and 2022, the Company has sales revenue through sales agent at 24.17, 32.88 and 30.74 percent of the total revenue but such business is very competitive with several of entrepreneurs. In addition, many direct distributors or agents can work for any entrepreneurs depending on the structure and return on sales (ROS). So, the better offers can persuade the distributors and agents to change their mind

As mentioned, we have focused on the good structure of ROS for the agents. So, the policy of remuneration is in the same level as in other company. It has a remuneration structure that motivates sales Agent. There are also other types of returns such as giving special prizes to members who make sales up to a certain level and the Company believes that the credibility of the product can give consumers confidence and satisfaction to buy in the long time. The increase in sales revenue in this channel has continued to increase coupled with research and development is a variable that puts the risk of reliance on sales agent to become stable. It is a part of the Company's continued growth.

But for greater growth, the Company has a policy to increase the percentage of sales in other channels such as BIM Health Cente, the Company has received an increase of sales proportion through BIM Health Center around 30.58 percent of the total revenues in 2019, is 46.95 and 48.42 percent in 2020 and 2021 respectively. Dropship channels around 11.25, 8.62 and 7.78 percent of total revenue in 2019, 2020 and 2021 respectively. Moreover, the Company has establishing a joint venture, Bim Health Center Co.,Ltd. to set up a BIM Health Center for consumers who need advice on how to use BIM health care products correctly and effectively by medical scientists, which has the proportion of distribution of 2.34 percent, 3.01, 3.63 and 4.06 percent of total revenue in 2019, 2020 and 2021 respectively.

It also strengthened its growth by jointly investing in joint companies, Hisold Digital Co., Ltd. to expand distribution channels through digital media

- The risk of product replacement

Beauty products, cosmetics and dietary supplements are the replaceable products with similar features, for example, slimming products are now available numerously. Most of them have similar properties; help consumers lose weight and keep in good shape. Therefore, there are choices for the consumers.

The Company realizes the similar properties of the products in beauty, cosmetics and dietary supplements industry. So, we aim to clarify the differences of the products to the consumers, beginning from publication of research to

show that our products are more effective than others, as well as the shared experience and satisfaction of the users. Moreover, the Company focuses on training our sales agent to have better understanding about the properties of products so that they are able to help consumers comprehend the differences between our products and other products.

- The risk from the impact of other non-standard products on the market

There are manufacturers and distributors of cosmetic products and dietary supplements that have less quality, causing consumers to get less benefit from the product as claimed, or suffer from the harmful effects of using such non-standard and ineffective products. This caused, the Food and Drug Administration to have strict inspection and detection, which resulted in consumers panicking. Some consumers did not trust the products on the market. APCO is also affected by the panic and this strict regulation in advertising and public relations. Therefore, the company focuses on public relations to make consumers understand, that its products are of high quality, made from reliable sources, with research results that show its effectiveness and share experiences from real users to confirm the effectiveness of the product to build trust in the product and continue to use the product repeatedly.

#### The Risk of Climate Change

- The risk of supplying raw materials

The main raw materials of the Company are Garcinia and mangosteen. These are agricultural materials which bear fruits once a year and yield depending on climatic conditions of the year. So, if climate is unusual like floods or drought, we may face a shortage of raw materials. Garcinia is a plant cultivated in the south, including 3 southern provinces which may cause problem for logistic.

The Company realizes that the natural condition cannot be controlled and it affects the supply of raw materials. Therefore, we decide to purchase them in a large quantity, and each production and purchase will cover the sales of least two years. As they are dry-processed and maintained in suitable conditions, they can be stored for longer than 10 years whereas their essential compounds do not decay. For the procurement of such raw materials, the Company also has local agents who supply mangosteen and garcinia in the eastern and southern part of Thailand.

#### The Risk from the Epidemic Situation of the Coronavirus (COVID-19)

The epidemic situation of the coronavirus 2019 (Covid-19) that has spreaded all over the world has caused a heavy impact on all sectors around the world. Every country has taken strict measures to contain the outbreak. Many businesses have had to suspend operations temporarily, causing APCO to be affected by the supplier's slightly delayed of the product.

Regarding the safety and occupational health risks of employees, the company has provided measures and guidelines to prevent the spread of COVID-19, by checking the temperature before entering the company area, suggesting and educating employees on how to prevent infection through internal communication channels, including enhancing the immunity of employees with the company's products.

However, as consumers have taken more care of their health in the epidemic situation, and have time from work from home, as a result, businesses in health and beauty care products have not been affected much by the situation.

The Risk of a Shareholder with more than 50 percent of the Company's Shares.

As of March 14, 2022, the Wiriyachitra family has 391,309,778 company shares, representing 65.23 percent of the shares sold by the Company. The Wiriyachitra family became the major shareholder that controls the majority in the shareholders meeting. Unless the law or the Articles of Association requires a resolution of no less than three in four of the general meeting of shareholders, such as increasing cost of capital to sell or transfer all or part of such a shareholder, the Company may not be able to gather the votes to determine the balance of the shareholders present.

The Company is aware of such risks. So, the Company has established in accordance with the principles of good corporate governance by arranging for the Board of Directors who are third parties to hold the position of Independent Directors and Audit Committee 3 persons from the total number of 6 persons and 1 Independent Director acting as the Chairperson of the Board of Directors to serve as checks and balances of the Board of Directors and Executives of the Company. Moreover, the Executive and the Board of Directors have a policy by taking into account the shareholders' best interests, the scope of authority of the Board of Directors, the Executive Committee and the Audit Committee clearly. If the Company is required to make transactions with persons who may have conflicts of interest, we will take steps to approve the transaction and the rules of the Stock Exchange of Thailand regulations. The person who may have a conflict will be excluded from voting on the transaction.