

## 1. Manufacturing Risks

Corporate dependence on a few major suppliers

The company only has 1 or 2 major suppliers in each product category. Should the circumstance arise when the suppliers cannot supply the company with products of a specified volume and according to the requested schedule, this can affect sales and marketing opportunity.

### - Preventive measures

1. Each brand has made an interface agreement with its suppliers to guarantee the volume and timing of product delivery. Those suppliers are manufacturers with ISO 9001 quality management accredited policies, whose credibility and corporate enterprise will be seriously affected in cases of delivery failure.

2. These suppliers have been established with a policy of mutual support and reliance. They are all companies in the Saha Group and have the goal of mutual reinforcement and competitiveness. Also, they have a close tie and relationship, that go back a long way, with an organization that provides consistent and continuous work plans, making them able to anticipate possible factors that may affect production and thus be able to jointly plan for timely solutions.

3. Better teamwork has been developed between suppliers and merchandise departments to form a “one body” model by using zero base thinking method in different meetings such as target planning, placement of orders, raw material and manufacturing planning, including the capability in adjusting and plans to comply with certain situation. As a result, there is more accuracy in volume and time assessments, as well as a promptness of mutual solutions-finding in such occurrences as product undersupply due to excessively rising sale.

4. The Company conducts research with the target customers, including the counter-sale agents, who are close to the customers before launching of particular products so as to respond to the needs and remain consistent with consumer behaviors as much as possible.

5. The Company divides the production of goods in different lots in order to observe and monitor the market response trends on a regular basis in order to ensure timely adjustment in its production lines.

6. Production Factor: As most of our raw materials are produced with high technology, while the cosmetic raw material industry in Thailand has currently possessed only some certain level of technology. Additionally, some kinds of these raw materials produced in Thailand are not as good in quality as those imported. This is the reason we have to import some raw materials from other countries such as USA, Japan and Germany. Moreover, the small amount of order prevents us from direct import, so we have to purchase from import agents. As a result, importing raw material has been monopolized by specific group. The fluctuation of exchange rates and import taxes are also a risk factor that we should be aware of.

## 2. Risks from in-store inventory management

Currently, outlets are faced with overstocking of merchandise superfluous to customer need or under-stocking when supply falls short of demand, or even there are no merchandises that meet customer need. This impacts on sale volume and marketing opportunity.

### - Preventive measures

1. The Company has made use of IT to enhance its potential in management and administration by installing the Quick Response Marketing System (QRMS) for effectively managing goods and inventory. With QRMS, the Company is able to monitor sales and inventory on a daily basis throughout all stores. The data obtained is used to analyze market demand and monitor the flow of goods, in order to maximize sales opportunities and perform accurate and fast delivery that promptly responds to market need. It is also used to effectively adjust production plans, product manufacturing and sales management.

2. The Company has built up the Auto Replenishment software to maximize the functional and effective application of QRMS in in-store inventory management. This Auto Replenishment system processes the data on sales in each SKU and each retailer-store by statistical calculation, so as to predict daily in-store replenishment according to relevant product demand in appropriate volumes. So, the storefront has a balanced stock and in proportion to its sales, with no overstocking and a minimum loss of sales opportunities.

3. This year, The Company has set a proactive policy and measures to control purchase orders so as to maintain sufficient inventories for sales and avoid unsold inventories. Freshness of products will be assured. The efficient management will be maintained from end to end, starting from research on product development to meet the customer demand. The research will also cover such issues as orders of goods in different patterns and colors, marketing approach for continuous growth in sales, arrangement of marketing campaigns when sales are lower than targeted, due to changes in the market or any unexpected incident, including changes in a system for sales and orders of goods.

4. Management of old-fashion stock left in the stores or shops has been improved with the system to clearly identify the status of products in QRMS (Quick Response Management System). This can also give more flexibility in managing this kind of stock.

5. The Company increases swiftness in product delivery and distribution to shops in order to reduce the stock of goods at each shop, for a greater balance of stock of goods for sales and minimization of loss in sales opportunity.

### 3. Distributional Risk

The Company operates mainly via department stores as its major distribution channel and a number of discount stores as the minor channel. The latter have the prospect of expansion in Bangkok and in other provinces.

#### - Preventive measures

1. The Company has a policy of expanding sales into discount stores by means of producing new products specially-produced for this channel, which is aimed to meet the requirement and purchasing power of the discount store target group. This method shall be mainly implemented with the cosmetics products. The new measure also includes the launch of new brand with price and quality appropriate with the target group, especially the apparel group which is fashion-conscious in style and color.

2. Distribution channels have been enlarged by expanding more outlets managed by ICC in the form of specialty store in order to reduce dependence on major department stores.

3. The Company expands distribution channels to reach more customers, such as sales via TV Shopping, online shopping and catalogue sales, etc.

### 4. Risk from the change of consumer behaviour

1. Consumer behavior has now considerably changed. Brand loyalty is diminishing while new and modern technology systems that globally provide more rapid and broader communication including other new kinds of business and service are playing an important role in consumers' spending. Consumers are strongly inclined towards "mainstream consumerism". Political uncertainty makes consumers more cautious in spending and this results in more vigorous market competition. An impact of the global economic deceleration on our country has also eroded consumers' purchasing power. As a result, ICC has to launch marketing campaigns in order to spur demand in the market.

2. Nowadays, access to the media is very rapid, consumers are able to access information immediately through mobile equipment such as smart phone, tablet, etc. Decisions to purchase products are ever changing, as consumers will search for information before making decision to buy. This is totally different from the past when customers only received information from single media before making decision to buy something. As a result, the Company has to manage to add more different media channels both offline and online to provide customers easy access to information.

#### - Preventive measures

1. Quality products at reasonable prices have been consistently developed in response to the increasingly changing demands of specific target groups. This helps create the company's good image among consumers. Moreover, attractive marketing campaigns influence consumer purchases and must be directed to the specific target groups to retain the existing customer base and expand it to potential markets. A strong customer relations management system has also been established under the name "His & Her Membership".

2. Product diversification has been made to serve the rapidly- changed customers' need and also to expand market into new customers who have never used some kinds of cosmetic products. This practice helps increase frequency of product usage by existing customers as well.

3. The Company emphasizes the conduct of consumer behavior research on a regular basis given the fact that consumer behaviors have changed very rapidly. Recognizing such fact, the Company organizes Focus Group seminars, attended by several groups of customers who will provide their comments on products and the level of appreciation, including their actual needs before and after the product launch, and the Company will compile useful information from consumer behavior research for new product development. This will enable the Company to respond to the needs and remain consistent with the consumer behaviors in every life spans and lifestyles, in both functionality and fashions, based on the best product quality and worthiness.

4. The Company increased communication channels by adding more online channels in order to meet the changing behavior of customers on media consumption. Additional online distribution channel such as eThailandBEST.com was also introduced so that customers can have more channels to purchase products apart from buying through the counter sales.

## 5. Risk from the government's FTA policy

The Government's free trade policy allows us to enjoy free import duties according to the Free Trade Agreement among ASEAN countries. This also includes the cosmetics products to comply with such Agreement. Therefore, Thai companies must be prepared ourselves in every aspect including adjusting the product cost to meet such standard.

### Effect

Marketing competition has become more intense. However, the Company is unlikely to be severely affected because the former tariff rate for the imports of cosmetics was at only 5 percent. Then, the elimination of tariff rate is expected to affect the Company only slightly. Also, the production technology will help maintain our comparative advantages over rivals.

### - Preventive measures

1. Corporate products : new innovative products are continuously being researched and developed for the market, with support from the country's major manufacturers (subsidiary companies in the Saha Group) and with the full-scale development of materials from industrial sources, as well as with extensive research and development that has resulted from the recognition of international standards. At the same time, the Company has put more emphasis on consumer research and has conducted frequent surveys of market response and target consumer satisfaction with corporate products, so as to respond to consumer need and demand and to give them confidence and value for money when buying corporate products.

2. The Company has the advantage of a cost-effective production line, giving it the ability to create the specific marketing activities and innovative communication to better reach target consumers, with cost-effective advertising and PR budgets.

3. The Company has had a long and lasting relationship with its trading partners, giving it better access to distributional and sales channels both in terms of number and variety.

4. The Company has installed on-line computer systems at every sales counter throughout the country, so as to process sales on a real-time basis. As a result, it is possible to manage sales nationwide with an effectiveness, speed and accuracy in product management that answers customer demand at any given outlet and in any region.

5. The Company has been able to capitalize on the lowering of import duties by procuring products or materials from countries within free trade zones, such as China. Hence, the Company has been able to control production costs more effectively.

## 6. The effect from Accounting Standard

The Financial Performance of the Company is accordance with the new accounting standard, International Financial Reporting Standards (IFRS) which is implemented in many years before, and there has no effect to this Financial Statement of the Year 2015.

## 7. Obsoleted Inventories

The Company engages in the business of selling many kinds of fashion products where the customers command their direction in rapidly. In the Year 2016, the Company having the inventories in amount of 3,687.72 Million Baht, or equivalent to 51.29% of Current Assets and 18.32% of Total Assets, and having 172 days of inventories' operating cycle day. There was a risk

of unsold Obsolete Inventories which could not sell within the target date, that might be increased the administration costs and has to reserve for doubtful accounts of Obsolete Inventories or impairment of the Assets and resulted in a decrease of Net Profit and Liquidity management.

The Company is remaining the decrease of Inventories Policy, accelerating of sales promotion on unsold products, analyzing of sale information through information technology system and customers demand in each selling channels. Resulting in the decrease of inventories of the Year of 2016 in the amount of 132.74 Million Baht, or equivalent to 3.47% of total inventories of the previous year.

## 8. Investments

The Company was invested in affiliates and other companies in the number of 122 private companies. The Company holds shares does not exceed 50% of total registered capital (of each company), which being the cross holding or reverse holding within the affiliated companies. The Company has no control over such aforesaid companies because each entity must direct control and manage by the Board of Directors of such entity. Beside that there are 3 subsidiaries which hold share by the Company more than 50% of total registered capital.

Nevertheless, the investment concept will be based on the ground of co-investment in related business or common beneficial, includes diversify of the risk obtained.

The Company receives the returning in a form of dividend. In case of unprofitable in any invested companies, the Company will reserve for the loss of such investment impairment in Profit and Loss Statement. Therefore, the aforesaid holding structure does not affect to the realizing of revenue sharing or differencing from current Financial Statement.

The Company has provided the risk preventive action of the investment activities by appointed the coordinator who is employed by invested companies or in the related business of such invested companies, for monitoring the investment funds, reviewing the financial statements and updating the current business situation of such invested companies. The appointed coordinator should be reported to the Company and Shareholders in yearly basis or addressed immediately in case of abnormal or crisis incidents, for the purpose of providing mutual remediation. Including but not limited to, the Board of Directors' Meeting and Shareholders' Meeting will regular schedule and review the financial performance of each invested companies and will find a corrective action plan to resolve any losses and sustainable profits.

## 9. Loans and Guaranties

As at 31 December 2016, the Company has provided term loans to Subsidiaries, Associates, related person and joint venture company for the purpose of providing financial support in proportion with its investment in totalling 4 companies, in amount of 339.50 Million Baht. In the Year 2015 in amount of 283.00 Million Baht, increase from the Year 2015 in amount of 56.50 Million Baht, which resulted from addition loans in amount of 74.50 Million Baht and decreased of loans repayment in amount of 18.00 Million Baht.

As at 31 December 2016, the Company had burden of Guaranties in 11 affiliated which is 222.22 Million Baht, increase from the Year 2015 in amount of 36.95 Million Baht, which resulted from a decrease of guarantee amount 2 Million baht and 3 addition guarantee payments in amount of 38.95 Million Baht. The debtors engage in the business of drug retailers, food supplements, cosmetics, properties, filing, depository, distributions and contact center services and E-Commerce one stop service which align with contractual obligations under joint venture or shareholders' agreements.