Risk Factors

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, there will be sales and marketing opportunity repercussions.

- **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 any 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.

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 initiated a policy of inventory management through the balanced control of order placement. This proactive policy has been initiated in order to balance the purchasing management corresponding to the volume of sales and stocking in response to sufficient saleability and not overstock unnecessarily. This will also result in the sale of only freshly manufactured products to customers.

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.

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.

4. Risk from the change of consumer behaviour

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.

- **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.

5. Risk from the government's FTA policy

According to the government's Free Trade Area policy, custom tariffs of the ASEAN countries were scheduled to fall to duty-free status per agreement for the first time in 2010. The cosmetics are also on the list for liberalization. Thai entrepreneurs hence, should brace for the impacts of this new tariff rate, together with reducing the production cost in order to tackle this new standards.

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 sale 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. Repercussions from Accounting Standards

6.1 The effect of normal operations of the company

According to the IAS No. 36 on the Loss from the Impairment of Assets, the company suffered losses of Baht 4.87 million from the impairment of investment as shown in the Statement of comprehensive income.

According to the IAS No. 40 on the Accounting for Investment in Debt and Epuity Securities, the company gained and unrealized profit from the adjustment of marketable securities of Baht 3,236.94 million registered as of December 31, 2011, compared with Baht 2,523.78 million as of December 31, 2010, and increase of Baht 713.15 million as shown in Shareowners' Equity in the Statement of financial position.

With the above two transactions combined, the company made a profit of Baht 713.15 million from adjustment in marketable securities, representing Baht 708.28 million higher than the loss of Baht 4.87 million from impairment of investment.

6.2 The impact issued of new and revised Thai Financial Reporting Standards (TFRS) are effective for accounting periods beginning on or after January 1, 2011 as follows :

- Presentation of financial statements
- Accounting for property, plant and equipment
- Accounting for investment properties
- Accounting for employee benefits

Detail for a new accounting policies that the impact with the company are included in the note to the financial statement no. 3.1 to 3.4 Pages 127-128

7. Investment

The company has invested in the business of other 142 affiliated and other companies at a shareowning ratio of not over 50% of registered capital of each particular company. Shareowning is in a crisscross or reverse manner among the affiliated companies and the company has no authority to take control of any business in the invested companies. The business administration of these companies depends on each company's Board of Directors.

The company's management and making decision in business investment is in the manner of joint-ventures in related business or business synergy and also of risk diversification investment.

The company makes a profit through investment in the form of dividends. In case any investing company suffers a loss, the allowance for loss from impairment of investment accounted shall be in the statement of income. Such a shareholding structure does not affect the company's share of income and shall not contribute to any differences in the financial statement.

The company has adopted preventive measures against investment risks by appointing individuals within the joint-ventures or parties within investment-related businesses as investment caretakers to monitor and audit the statements and circumstantial information of the investing companies, so as to stay abreast of current problems and to report to the company and shareowners annually and promptly in times of unusual situations or crisis in order to find proper solutions.

In addition, the Company Board of Directors and Executive Committee hold regular meetings to supervise the operation and performance of the invested businesses, focusing on businesses with losses and finding measures to reverse transactions that cause loss in order to procure sustainable profit in such enterprises.

8. Loan and guarantee

The company has a policy to mitigate the risks of both facilities and to encourage affiliated companies to be able to stand on their own feet. Provision of loans has been reduced by which all loans shall be directly sought out from financial institutions by each company. Additionally, the number of unnecessary guarantee facilities has been reduced by allowing the responsible affiliated companies to guarantee the credit lines in place of the company.

As of December 31, 2011, the company has provided loans totaling Baht 244.00 million to two Saha Group companies and related companies, including the guarantee facilities to ten companies totaling Baht 151.72 million with total amount of Baht 395.72 million. Compared with the year 2010 the total amount of these facilities is Baht 416.24 million, an decrease from recieved loan of Baht 20.52 million.