

1. Production Risks

In terms of the potential risk factors which may impact on business operation, the Company recognizes the importance of closely monitoring and systematically formulating and implementing risk management plans to cover the following aspects:

Risks relating to production to ensure the quality of products and production timeline as set by the Company.

- Preventive measures

The Company selects suppliers with operation management which have attained ISO 9001 accreditation to be confident that our business partners have the required management systems, capabilities and ability to comply with the production policy set by the Company to ensure that the manufactured goods achieve all set targets. These companies were all established with the objective to mutually support one another under the umbrella of the Saha Group, thereby strengthening each other's business operations and enhancing their potential and competitiveness, as well as collaborating immediately to resolve any problems or challenges which may arise.

2. Product Management Risks in Stores

These are risks pertaining to the imbalance of stock management not being in line with consumer demand or not having the desired products in the store, which impacted on sales targets and market opportunity.

- Preventive measures

1. The Company introduced appropriate IT systems to enhance their stock management capabilities, namely the Quick Response Management System: QRMS, resulting in more effective monitoring and management of stocks on a daily basis in every store and rendering effective data analysis to obtain more timely and accurate picture of market demand and product movement in order to mitigate opportunity loss and ensure availability of products in market demand, as well as modify production plans accordingly for optimum efficiency.

2. The Company has created an Auto Replenishment system, by adapting the QRMS to effectively and efficiently manage stocks at all stores to ensure that stocks can be replenished in accordance with customer demand in terms of desired products and their volume to ensure that stocks at all stores coincide with sales.

3. Risks Relating to Sales Channels

The Company's business is conducted through main sales channels which have limitations in terms of area size and number of branches.

- Preventive measures

1. The Company policy is to further expand sales in Discount Stores, including modification of its sales and order placement systems especially for this sales channel in accordance with the demand and purchasing power of target clients of Discount Stores. This strategy is applied to all product categories through development of products with both quality and pricing that appeal to target clients, especially for apparel with the main emphasis on fashionable design and colors.

2. The Company policy is to accelerate the increase of sales channels, especially in E-Commerce of which online customers have rapidly increased. In the past year, the Company has partnered with Lazada to provide online sales. In addition, it has expanded its outlets under ICC direct management in the Specialty Store model, to enhance sales potential in addition to the sales channel in major department stores nationwide.

4. Risks Relating to Changing Customer Behavior

Risks from changing customer behavior derive from the pace of such change being so rapid that products cannot keep up.

- Preventive measures

1. The Company focused on developing product diversity in response to the quick pace of change in consumer demand, as well as its efforts to expand the market base to reach out to potential customers who may not have ever used certain types of cosmetics or other categories of products before, and to encourage those who are regular customers to use the products more frequently.

2. The Company also focused on research into consumer behavior on a consistent and continuous basis by organizing focus groups to which customer groups are invited to attend small seminars, so that the information derived from all aspects of their views can be used for further product development and creation of new products which better respond to customer demand and are best suited to consumer behavior in all age groups and all lifestyles, both in terms of function and fashion.

3. The Company increased its communications channels to promote better understanding among customers of all ages and lifestyles by expanding its online communications in accordance with changing media consumption behavior. Furthermore, the Company also added to its online sales channels, for example, via eThailandBEST.COM and Lazada websites, in order to offer additional options for customers to purchase products.

4. The Company is dedicated to creating quality products at appropriate pricing in more targeted response to specific consumer groups, thus building positive impressions in their hearts and minds. At the same time, the Company also continuously generated measures to stimulate the market by capturing the interest and attention of target consumer groups in its effort to maintain and expand its customer base, including adoption of a strong Customer Relationship Management system in the form of His and Her Membership.

5. Risk from the Government Sector's Free Trade Policy

The Government's free trade policy advocates 0 tariff in compliance with the ASEAN Free Trade Agreement of which cosmetics is also covered, rendering Thai companies having to ensure their preparedness, including adjustment in capital costs based on the required standard. Such development has resulted in fierce market competition although the impact on the Company should not be much since the tariff base for the import of cosmetics is currently at 5%. Moreover, the Company is at an advantage in terms of its production technology.

6. Obsolete Inventories

The Company engages in the business of selling a wide range of fashion products whose popularity among consumers may change rapidly with fashion trends. In the Year 2017, the Company's inventory was in the total amount of 3,426.79 Million Baht, or equivalent to 49.64% of Current Assets and 14.72% of Total Assets, with inventory turnover cycle rate of 163 days which presented a risk of unsold products becoming outdated and classified as obsolete inventories, thereby resulting in additional administration costs, as well as possibly requiring allowance for obsolete or impaired inventories which would cause the Company's net profit and liquidity to decline.

The Company maintained its policy to decrease inventories, accelerate sales promotion of unsold products, use application of effective information technology systems in analyzing sales information and customers' demand in each sales channel resulting in the continual decrease of inventories in the Year 2017 in the amount of 260.93 Million Baht, or equivalent to 7.08% of total inventories of the previous year.

7. Investments

The Company has invested in a total of 120 affiliated and other companies, of which its equity does not exceed 50% of the total registered capital (of each company), mainly being cross-holding or reverse-holding of shares within the affiliated companies. The Company has no management control over such aforesaid companies, each being under direct control and management of their respective Board of Directors. In addition, there are 4 subsidiaries of which the Company's shareholding exceeds 50% of total registered capital. The number of subsidiaries increased by one company (as per Notes to the financial statements page 170)

Nevertheless, the investment management and decision is in the nature of joint ventures in related businesses or mutual benefits and interests, as well as diversification of risks.

The Company receives returns on investment in the form of dividend. In case of any loss suffered by these invested companies, the Company would post allowance for diminution in value of investments in the Company's statements of income. As such, the aforesaid shareholding structure does not affect recognition of revenue sharing of the Company as represented in the Financial Statement.

The Company has investment risk preventive measures by appointing persons in the invested companies or in the related business of such invested companies, as the central point for monitoring and reviewing the financial statements and business situation of such invested companies. The appointed coordinator should report to the Company and Shareholders on an annual basis and immediately inform stakeholders in case of abnormal developments or crisis in order that joint efforts can be made to achieve remediation. Moreover, the meetings of the Board of Directors and the Executive Board would regularly review the financial performance of each invested companies, focusing on those suffering loss to address the problems and take corrective action to resolve any losses and achieve sustainable profits.

8. Loans and Guaranties

As at 31 December 2017, the Company has provided fixed-term loans to a total of 4 joint venture companies, in the amount of 255.70 Million Baht. Compared to loans in 2016 which amounted to 339.50 Million Baht, this was a decrease of 83.80 Million Baht due to loan repayment.

As at 31 December 2017, the Company provided loan guarantees to 12 joint venture companies totaling 333.08 Million Baht, compared to 259.17 Million Baht in 2016, an increase from the previous year by 73.91 Million Baht, which resulted from the decrease of loan guarantees to 2 companies amounting to 19.00 Million Baht, increase of guaranteed amount to 1 company of 17.29 Million Baht, and provision of loan guarantee to 1 additional company in the amount of 75.62 Million Baht of which the borrower is engaged in the real estate development business and the transaction aligned with obligations under the joint venture agreement in proportion to the Company's equity.
