

2. Risk Management

2.1 Risk management policy

I.C.C. International Public Company Limited realize that effective and efficiency in risk management is a key role in enabling the company towards prosperous and sustainable future, particularly amidst nowadays ever changing and keen competition atmospheres within which the company operate. Globalized commerce are ever developing, abetted by advanced logistics and communications technologies. How to make the best out of those fine opportunities are quite a challenge. While we are getting used to the aforementioned, the company now need to be ever ready for all sorts of possible disruptions, be it, futuristic technologies, climate change, complexed geopolitics, not to mention changes in norm and value of future generations albeit to a lesser degree.

In an effort to mitigate unexpected counter-intuitive, whether from within or without, I.C.C. International Public Company Limited's Board of Directors has now tasked its Sub-board Risk Management Committee with the following responsibility:

1. To constantly identify present as well as for foreseeable business risk, operation risks, logistics risks, financial risks (including returns as well as justifications on investments), technologies risks as well as Human Resources risks.
2. To recommend to the Board of Directors available optimum short term and long term solutions.
3. To recommend to the Board of Directors to recruit a small number of permanent staffs internally or externally dedicated to this Risk Evaluation Support Unit as needed to conduct useful and constant evaluations of all assets. This unit is subject to oversight by the Risk Management Committee.
4. The Risk Management Committee meets at least once a month. The Committee Chairman may meet as often as needed time the Risk Evaluation Support Unit, he may request any member of the committee and or other senior executive to attend relevant meetings.
5. The Risk Management Committee submit report to the Board of Directors on quarterly basis.

2.2 Risk factors on business operation

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 well as due management of the cost of products 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 the demand of customers and not having the desired products in the store, or fluctuation of purchasing power followed the spreading of COVID-19 resulting in product management risks in all sales channels, which impacted on sales targets and market opportunity, exacerbated by the rapid change in online marketing, has required the production planning to be more flexible so as to always be prepared to meet the variant challenges both in terms of fashion and production volume.

- Preventive Measures

1. The Company introduced the Quick Response Management System or QRMS to enhance its potential in stock management efficiency, resulting in more effective monitoring and management of stocks on a daily basis in every store and rendering effective data analysis, more precise picture of market demand and product movement in order to mitigate opportunity loss. It also helped with the preparation and the update of the latest news to make sure that only the most accurate and up-to-date information was used for analysis with the product management plan, in order to ensure availability of products in market demand, as well as the ability to modify production plan 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 to avoid the loss of sales opportunity when there was customer demand, but no desired products available.

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 accelerate expansion of 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 selection 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 cooperated with various market places for online sales and simultaneously 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

4.1 Changing of Technology

Risks from changing customer behavior derived from the rapid spreading of COVID-19 making the Company to adjust the supply chain system including the products in response to customer behavior in the new normal time. To this end, technology is utilized to satisfy customer demand and facilitate their convenience in their online shopping via enhanced online access by utilizing social media such as Facebook, Line, Youtube, Instagram, Tiktok and others. Moreover, the spreading of COVID-19 has rushed the payment behavior of customers to the cashless society due to their scares about touching money which may be contaminated carrying diseases resulting in utilizing more digital currency to pay the price of products and services via mobile banking applications, e-payment, credit cards and etc. The spreading of COVID-19 did not only cause the preceding situations, but also led the products display to the Internet of Things including a new variety of virtual experience where the Company had to develop the knowledge base and capabilities of its personnel to be more tech-savvy so as to provide timely and appropriate response to changing customer behavior.

4.2 Hygiene Precautions

The COVID-19 pandemic situation has caused precautions of social distancing, travelling and home-quarantine, resulting in the decrease of lavish spending, while normal goods are purchased in less frequency but in much more quantity in each time of purchase. In the meantime, there was significantly, inter alia, increase of spending on health-related products.

- Preventive Measures

1. The Company focused on the selection of products to be in line with rapid change of customer demand, as well as its efforts to expand the market base to reach out to potential customers who may not have ever used certain categories of products, aiming at prospective markets and customers by innovative design of products so as to suit and attract new groups of customers such as those who prefer innovative wear, i.e., teenagers. For those who are regular customers, the Company has encouraged them to use the products more frequently and to access new experiences by classifying them in accordance with their behavior and utilization of social media.

2. The Company also focused on research into consumer behavior, which was changed hastily from both technology and the COVID-19 pandemic, 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 online communications channels in accordance with customers' changing media consumption behavior. Furthermore, the Company also built understanding with customers of all ages and lifestyles by creating more variety of interesting contents to boost online sales, which also gave customers more choices. The customers could buy products easily and around-the-clock without leaving home for stores.

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. The Company has focused on improvement and development of its modernization systems including its E-Commerce website www.iccshopping.com to facilitate easier access and transaction. Furthermore, its partnership with Tiger Distribution and Logistics Co., Ltd., whose long experience in warehousing and timely delivery of goods nationwide through its efficient distribution mechanism, provides consumer confidence to online customers that they will get safe and fast service.

6. The COVID-19 pandemic situation has impacted on many businesses since digital media play a major role in changing consumers' behavior of spending, well-being and lifestyles. Their way of life and spending habits differ from the past. Retail businesses need to adjust and upgrade their strategic framework to cope with the rapidly changing technology. To this end, the Company has developed its strategic structure along with adjusting new marketing strategies to be in line with change and competition, as well as focusing on creating brands in digital media and linkages with its online business partners such as Lazada, Shopee to connect both online and offline while developing products particularly suiting all sale channels.

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. Risks from reduction in the number of tourists

The products for which the Company is import and distribution agent are products in demand among Chinese, Russian and Middle Eastern tourists. The reduction in the number of tourists from the COVID-19 pandemic situation inevitably impacts on the sales of the Company especially in those provinces which are tourist destinations.

- Preventive Measures

1. Adjust sales promotion plans to focus on domestic customers in replacement or foreigners who live in Thailand, or other groups of tourists who were still able to enter the country.
2. Collaborate with department stores in jointly setting plans to attract higher numbers of those tourists who residing or doing business in Thailand to visit our shops or sales outlets.
3. Use various online media preferred by tourists when they were able to come back to travel in our country again.

7. Risks to environmental impact

Having realized the ongoing potential problems that may affect the environment, the Company therefore considerably develops its manufacturing process and extends conservation and sustenance of the environment all the time.

- Preventive Measures

1. Reduction of use of plastic in packaging, reduction of wastes and control to decrease number of plastic in every year. For example, the Company selected to produce giant size powder where to reduce using of plastic in packaging from previously 3 pieces used, now only 1 piece used. In addition, the Company also launches the campaign for reduction of using plastic by means of a refill; it is to reuse its previous package.
2. Development and manufacture of eco-friendly products thereby the formula of sunscreen has been modified to become with no any chemicals that are harmful to coral reefs aiming for prevention of coral bleaching and not destroying the environment under the sea. Currently, there is publication to encourage people's awareness of data and information about sunscreen which indirectly damages coral reefs with some chemical mixture. Additionally, the vegan formula nourishing skin cream has not been tested on animals but only tested on plants. In that connection, neither animals nor ecology are destroyed. The Company always continually develops its products and protects the environment simultaneously.

8. Outdated Products

The Company is a major distributor of fashion products, the popularity of which changes rather quickly. In 2021, the Company has inventories in the amount of THB 2,673.42 million or 37.25 percent of current assets and 7.99 percent of total assets, with a turnover rate of 210 days, which may be at risk of becoming obsolete if not sold in a timely manner, rendering an increase in management costs and requiring the setting of allowance for obsolete or impaired products which causes a decrease in net profit and liquidity. However, the Company has a management policy to prevent long-term inventories by improvement the merchandise process from the purchase whereby slow-moving products are released through acceleration of sales promotion activities.

9. Investment

The Company invests in businesses of a total of 115 affiliated and other companies in the proportion of shares held of not more than 50 percent of the registered capital of such company and 3 companies of which its equity is more than 50 percent of the registered capital, which are considered subsidiaries of the Company. Investment is in the form of cross or reverse shareholding between affiliated companies, with the Company having no control over the invested company and their management is completely under the direction of the respective board of directors of each company.

The management and decision making with regard to the Company's investment is in the form of joint investment in related businesses, or in businesses which are mutually beneficial to each other, including as an investment to diversify risks.

The Company receives a return on investment in the form of dividends. If any invested company suffers a loss, the Company will record an allowance for loss on impairment of investment in the income statement of the Company. The said shareholding structure does not affect the recognition of the Company's revenue sharing and does not make any difference to the financial statements.

The Company has measures to prevent investment risks by appointing a person who is in a joint venture company or is in a company that does business related to the invested business, as focal point of the investment to monitor the financial statements and information regarding the invested company's situation to know if there are problems and report to the Company and the shareholders in the group once a year, as well as to immediately report any unusual or critical events so that solutions may be collectively found. In addition, the Board of Directors and Executive Committee meetings are regularly convened to review the operating results of the businesses in which the Company invests, with a focus on businesses which are suffering loss and finding remediation of the losing transaction for sustainable profit in that business.

10. Loans and guarantees

As of December 31, 2021, the Company has loans to 2 joint venture companies amounting to THB 126.50 million compared to THB 176.00 million in the year 2020, a decrease of THB 49.50 million, due to repayment of the loan.

As of December 31, 2021, the Company has obligations to guarantee loans to 9 companies in the amount of THB 401.19 million compared to THB 540.72 million in 2020, with the amount of guarantees decreasing from 2020 by THB 139.53 million. Such guarantees are extended according to the joint venture agreement and are proportionate to the Company's shareholding.

11. The Outbreak of Corona Virus 2019 (Covid-19)

The outbreak of Corona Virus 2019 (Covid-19) which was starting from the end of December 2019 to the end of year 2021 and the epidemic continues spreading across the country. Whether in some countries, they have been provided the Covid-19 vaccinations, however, including the tourists to few travel across the countries, travel and business sectors have an adverse effects and the economics has been declined, which is resulted in the reduction of customers' purchasing power and for the Company this pandemic has also had a significant impact on sales revenue, the Company and its subsidiaries continuous measures of cutting down inefficient operational costs, non-contributed costs to the growth of sales and personnel costs, along with utilizing existing personnel more effectively.

12. External market competition

According to the revolution of technology, the enterprises aim to approach customer in each individual for establishing a direct business to customer not connecting through an intermediary. The significant factors which may effect to the future business operations as follows:

- 1.1 Supply Chain Structure reduces the cost of goods sold competitive points.
- 1.2 The changing in customers behavior that Company has to know about the Deep Customers Insight.
- 1.3 The restructuring of organization to be more agile, effective and readiness for customers requesting.

13. Risks from Uncertainty of Payoffs Obtained As Expected by Investors

The share prices may fluctuate depending on the various factors uncontrollable by the Company, for instance:

- Variations in accordance with the policies, rules, regulations, or conditions affecting the producers' industries;
- Economic conditions, crises, and unusual situations such as the COVID-19 pandemic, the oil price war, etc.

These factors may cause the share prices to value below the prices purchased by the investors and/or above the prices sold out by the investors, and thus the investors may risk from the uncertainty of the payoffs/compensations that would be obtained as expected by the investors.

14. Risks from Capabilities of Dividend Payments Not As Expected by Investors

Capabilities of dividend payments made by the Company depend on the various factors which include but not limited to the investment budgets and capital reserves for business expansion, payment for investments in investment funds, and cash flows obtained from work operations; with respect to this, in case the mentioned factors affect the capabilities of the payment of annual dividends and/or interim dividends, the Company may risk to pay the dividends at a rate less than expected by the investors. Nevertheless, the Company has a policy on the payment of annual dividends of 0.20 baht per share (equivalent to 20 percent of the par value), mainly depending on the Company's business performance and the economic circumstances.