

Risk Factors

The Board of Directors and Management of S & J International Enterprises Public Co., Ltd. recognize its responsibility to ensure having Good Corporate Governance in order to maximize benefit of the shareholders of the company. This has been assigned to the Risk Management Committee to govern risk management to ensure that managing of the company has adequate and continuing system. However, there are risk factors that may occur and effect to the company and stake - holders that should be considered as follows:

1. Risk of business

1.1 Risk from depending on key account customer

The company produces cosmetic products according to customers' orders. Currently, there is one key account customer who ordered products of the company more than 30% of the total sales. The company always has a good relationship with this customer from the very beginning and mutually develops business proactively and release new products in order to meet the customer requirement and enable to create satisfaction increasingly. This is to ensure that business performances of both parties are maintained in long term. If the company loses the key account customer, it will effect the company revenue and profit.

Risk Management

- Develop new and existing products together with customers in order to respond to customer's various needs.
- Improve efficiency in the production line in order to reduce costs and gain ability to compete with others in term of pricing and quality of goods.
- Maintain a good relationship with customers by consistently meet their satisfaction with good service.
- Expand number of new customers who have potential and high purchase volume either from domestic or foreign in order to increase sales volume and profitability for the company that will result the increment of remuneration for share-holders, executive officers, employees, company's customers as well as company's suppliers in addition to reduction of risk of business and increment of company's liquidity.

2. Risk of monetary

2.1 Credit risk exposure

As of December 31, 2017 the company had net trade accounts receivables equal to 673.7 million baht, or equal to 16.6% of total sales. The company had an average collection period in 2017 equal to 69 days and debtors less than 3 months amounting to 669.2 million baht, or accounting for 99.3% of net accounts receivables. The company may have risks in collecting debt from trade accounts receivables. In case that the trade accounts receivables are unable to arrange payment according to terms and conditions of payment and the company do not receive the debt in full amount then may affect to the company's capital.

Risk Management

- Implement credit management by applying the analysis of financial status and customer's quality assessment system for reviewing and setting up the credit line and terms of each customer in order to enhance the efficiency of credit lines.

- Monthly meetings between accounting and customer service departments were held regularly to follow up the quality of debtors.
- Resulted in regular follow up on collections jointly by accounting and customer service staff. At the same time, management closely monitors and regularly evaluates credit risk exposure including having Credit Trade Insurance in case of viewing risk exposure.
- The company has the policy to set allowance for doubtful accounts for customers whom are suspected of bad debt and expose them in the notes to financial statements.
- The company will request to having tools to prevent financial risks, such as letter of guarantee from a bank or letter of credit, etc., as well as new customers to pay money in advance before starting operation.
- To expand customers base giving its distribution and more number of customers of which the company did not lock into the base of any trade receivables group.

2.2 Risk of financial support to subsidiaries

The company has a policy of supporting subsidiaries in order to ensure they have liquid financial structures. The support is given by either lending them a fund for their working capital or providing them loan collateral.

Risk Management

The company lends and / or provides loan collateral only for affiliated companies with the approval of the board of directors or shareholders meeting from time to time depending on size of credit line (in accordance with the Notification of Capital Market Supervisory Board Re : “Connected Transactions”)

2.3 Exchange rate risk exposure

There were no foreign currency borrowing as of December 31, 2017 but there was some importing and exporting in form of foreign currency as disclosed in remark of financial statement No. 27 The company may be exposed to the fluctuation of exchange rates. However, the company will mainly purchase raw materials locally. Ratio of raw materials purchased from foreign was approximately 26.2% of total raw materials and in case of exporting accounting for 53.6% of total sales in 2017.

Risk Management

- The company opened FCD (Foreign Currency Deposit) account.
- Arranging the forward exchange contract in order to protect the company from risk of fluctuation of foreign exchange rate and to acknowledge a fixed cost and selling price in Thai Baht. The forward exchange rate is the rate set on the company’s analysis and decision as the proper rate at the certain time.
- Furthermore, the company closely monitored and managed foreign currency income and expenditure to be in line with the money market, in order to effectively manage money, and reduce exchange rate risk exposure.
- Company has a policy of buying and selling the goods in the same currencies.
- The company’s compliance activities were examined and reported by internal audit.

3. Risk of investment

The company had jointly invested in Saha's group of companies. Investments were spread out into various business types with the purpose to build up value added equity for the company. The company had no control over decision making, and depends on each the company's Board of Directors.

The company received return on investment in form of dividend payment. If any investing company incurred loss, reserve for loss on impairment would be recorded in company's profit and loss account. Hence, structure of the aforementioned shareholding will not be effected in the records.

4. Risk from investing and operating abroad

The company has investment at UK in form of service of marketing and distribution of raw materials and packaging. (More details of investments in foreign in the topic 11 investment in subsidiaries in the notes to financial statements for the year ended December 31, 2017). In 2016, the company had income from foreign entities accounting for 6.68% of total sales revenue.

Operating results of foreign companies may be affected by the economic recession. Changes in government regulations such as tax rate, wage, trade measures. quota imports and exports, changes in currency exchange rates, political changes which may affect revenue and earnings from continuing operations in a foreign country does not meet the target.

Risk Management

To prevent risks that may occur, the company has set a clearly policy on investment and create a system to monitor and control operations. Including the appointment of its representatives. Managing Director and financial executive to manage operations in foreign countries. Also, monitor the operation of a foreign company. The meeting was held in Thailand at least once every month to consider the results of operations and joint planning and operational goals.

5. Risk from the Free Trade Area (FTA) policy

According to the Free Trade Area policy, resulted in relatively high competitive in price with other countries that have low cost such as China and Vietnam. This provide opportunity to the company to reduce cost of products as well. However, overall operating results of the company is in the best criteria and according to target.

Risk Management

- Corporate products : new innovative products are continuously being researched and developed 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 satisfaction of target consumers to corporate's products continuously in order to respond to consumer need and to give them confidence and value for money when buying corporate's products.
- Having good, long relationship with trading partners will enable the company to create channel of distribution both in terms of number and variety.
- Executive officers and employees are consistently developing their knowledge and competency in management and operation in order to make customers satisfy with company's products and services.
- The company has been able to reduce import duties by procuring products or materials from free trade zones countries, such as China. Hence, the company has been able to control production costs more effectively.

6. Risk from Compliance

6.1 Risk of being sued by the consumer due to quality and may be subject to damages under the Product Liability Law.

With reference to the promulgation of liability for damage caused by unsafe products or Product Liability Law. The law requires that all operators are required to share liability to the victim for the damage caused by unsafe products. Either damage is caused by the willful act or negligent operator or not. However, the company have not received any complaints from customers, whatever last year.

Risk Management

- Having product liability insurances.
- Having product quality inspection process before delivery to customers to ensure quality products to its customers.
- Having set up target of the work claimed by customers must be zero (Zero Claims).

6.2 Risk of being sued by Act of offenses related to computer AD 2007

Current and future computer crime is becoming complex and increase the severity of the impact more. Due to crime computer is currently working in a manner “Organized Crime” is made in the organization and is attacked for-result and aims clearly called “Targeted Attack”, which mainly focuses on interest financing such as attacking internet banking system or credit card system including to “Hack” a network of various companies to steal data

Act on the offense of computer AD 2007 was enacted to serve as the tool for dealing with threats in computer networks. Whether it's theft and destruction or damage of any action causing such damage. This may affect the confidential information and the image of the company.

Risk Management

- Back up data as well as a Fire Wall System in the prevention of theft of electronic data. There is also protection of the data from within the company from outside such as formula, financial data and etc.
- Knowledge training including notification policies and regulations for the computer including key summary of the announcement on the screen (Desktop) every time using Internet to all employees to acknowledge and recognize the importance of the Computer Act.
- Has the preparation of a guide for emergency and disaster from risks of information system crashes.

7. The risk of accidents or natural disasters.

The risk of accidents or other natural disasters such as fires, floods, earthquake, plague, etc., may result in damage to property of the company and some people within the organization. Operation of the company may be ceased which will affect revenue as well as profitability of the company.

Risk Management

- Prepare emergency plans to manage in case of flood or disaster to enabling to carry on business continuously.
- Provide insurance to protect assets of the company that may be damaged by flood or disaster in order to protect financial loss.
- The company's compliance activities were examined and reported by internal audit.

Dispute

1. The cases which may have the negative impact on the company's assets or its subsidiaries a higher number of 5 percent of the shareholders' equity as of December 31, 2017.
- None -
2. The cases that affect the business of the Company or its subsidiaries significantly but can not assess the impact numbers.
- None -
3. The cases that do not incur from the normal business operations of the company or its subsidiaries.
- None -