

# Risk Factors

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#### 1. Risk Related to the Nature of Business

- 1.1 Risk from the Acquisition of Land for Future Developments

The Company does not have any policies regarding assets or vacant land not ready to develop but the Company uses a method of purchasing sufficient land located in a potential area for development within the framework of 1-2 years, provided that such purchasing is meet the Company's plan of project development and target of presale and revenue. Before purchasing any land, the Company considers the possibility of property development and whether it is consistent with the Company's plans and customer targets. The Company focuses on land sales and purchase agreements by making deposits and appoints transfer of land ownership within a time period of 1 to 2 years when the time is appropriate to begin a development project. As a result, the Company does not hold onto any land that is not ready for development unless the Company sees that that land has a high growth potential for future developments or the land price is at a low cost level that is able to give a higher return on investment than capital costs.

In this regard, the Company has possible risk from the acquisition of land for future developments. The Company has been developing property near rail transit stations in Bangkok and its vicinities. Therefore, the Company has an additional risk regarding the ability to obtain land near rail transit stations for future development due to the high competition of purchasing this land from other developers. Land prices may also increase which will significantly affect the return on investment, financial statements and the Company's future business operations.

However, as of December 31, 2016, the Company made agreements to sell and purchase land for future developments in order to develop 17 new projects in the next 1-2 years. The Company believes that the acquisition of land that is not aligned with the Company's capabilities during this 1-2 year period may directly contribute to risk and could increase development costs due to the expense of stocking land. If the Company is able to acquire land with appropriate land costs or has the potential to contribute a higher return from project development than land holding costs, the Company will consider the purchase of land for future developments.

In order to manage this risk factor, the Company has been studying long-term possibilities to define a plan for appropriate land purchases. This includes appropriate timeframes for purchasing land and developing projects and appropriate land costs for different types of real estate developments for different location in order to be consistent with the Company's business plan and its financial liquidity. The Company will chose and purchase land by focusing on land that has high growth potential and acquisition of land that has little competition with other developers in order to acquire inexpensive land with a low down payment when compared to future development opportunities. This could create higher returns from real estate development than long-term land holding costs.

The Company has good relationships with brokers and agents. Thus the Company believes that it is possible to acquire land with high growth potential that will result in good profit in the future.

#### 1.2 Risk from having One Main Source of Revenue (Real Estate Development for Sale)

Today, the Company's main revenue comes from the sales of real estate development with a focus on condominium building projects. Therefore, the Company may have risk if there is an excess supply of condominiums in Bangkok and its vicinities. This happens when the number of condominium units available is more than customer demand. It happens when the purchasing power of the main customer target group is greatly affected because the interest rate has the tendency to increase. The loan to income ratio also has the tendency to increase. This risk also includes changes in consumer behavior that may prefer other types of residential projects such as single detached houses, town houses, etc. The Company has not developed any other types of residential projects other than condominiums and this could significantly affect the Company's revenue and operating results.

However, before investing in any new project developments, the Company thoroughly studies the possibility of investment by carefully planning product design, project location, sales price per unit, market demand, cost for investment and the expected return from investment. The condominium market still has the tendency to grow and the demand for condominiums is increasing at the moment. The Company will regularly follow news and information updates in order to analyze the country's economy and consider any other factors that could contribute to condominium business risks. In addition to this, the Company is looking for business opportunities to develop other types of real estate development that have potential growth and are able to yield a long-term appropriate return from recurring income.

In 2016, the corporation plans to begin investing in horizontal types of residential developments such as a project with single detached homes and twin houses under the management of Origin House Company Limited. Moreover, the Company is currently planning a hotel business development project in Sriracha, Chonburi under the management of Origin One Company Limited in collaboration with Intercontinental Hotels Group (IHG) in order to build the Company's long term stability.

#### 1.3 Risk from Construction Costs and Wages Increases

The cost of land is not the only significant factor affecting real estate development businesses, the cost of construction is another significant factor. The cost of construction is comprised mainly of construction material costs and worker's wages. The construction material prices adjust according to the supply and demand of world markets and domestic construction together with situations like increasing minimum wages. This affects the Company's future cost of construction.

In order to reduce the cost of construction risk, the Company procured hiring contractors with credibility. A turnkey contract was used to make a construction agreement. Contractor companies are responsible for acquiring the main construction material for the project developments which is included in construction costs. The Company will not be affected if the main material construction cost increases. In the case that the main construction material costs increase by more than 10%, the contractor company could negotiate with the Company in order to increase construction costs. The Company is responsible for purchasing countable construction materials and high price construction materials such as elevators, furniture and air-conditioners. If these costs increase, they may affect the gross profit of the Company. Moreover, the Company signed a sale and purchase contract with the manufacturer directly and this can lower the risk of future price changes.

#### 1.4 Risks from Projects currently being Developed and Future Developments

As of December 31, 2016, there were 30 projects open for sale, 14 of which were completely developed. The total value of these projects was 8,120,000,000 Baht. The other 16 projects are currently being developed and are open for sale. The total value of these projects was 17,755,000,000 Baht.

The business performance of the Company depends on the success of projects currently being developed including future developments. The success of the Company's project developments depends on many factors such as sufficient funding, the economic situation in a politically unstable country, regional economies, global economies, changes in taxes, financial policies in Thailand, the supply and demand of condominiums and the expansion process of the rail transit systems. It also includes other factors that impact the customer's trust and purchasing power such as interest rates, the price of oil, etc. Therefore, there may be some risk if the project currently being developed and future project development is not successful. This could have negatively effect to the Company's business operations, financial statement and the company performance significantly.

#### 1.5 Risk from High Competition in the Industry

Competition in the condominium building market tends to be higher because of the limited growth of the market and the amount of products remaining in the market is quite high due to sale situations that have not yet recovered. Moreover, there are many real estate developers. However, the Company's main competitors are the listed developer companies on the Stock Exchange of Thailand, many of whom focus on condominium building projects near rail transit systems.

According to the circumstances mentioned above, the Company still has a unique strategy by focusing on being the first mover in real estate developments in new locations that have high growth potential and have low competition. The Company studies and analyzes the possibilities of real estate development in different location intensively. As a result, the Company can acquire land at lower prices and lower marketing expenses than in a highly competitive location. The Company is able to define the market price as the price leader. At the same time, the Company uses strategies of unique development with clear selling points that meet the customer's needs. The Company is competent in its communication ability by creating customer awareness of its outstanding projects and clear brand image. These strategies combined with the Company's potential in other aspects make the Company

highly competent in the midst of high competition and lower the competitive risk.

#### 1.6 Risk from Loan Approvals and Mortgage Interest Rates

As of December 31, 2016, the Company had total liabilities in the amount of 4,014,900,000 Baht. The Company had interest bearing debt in the amount of 2,576,700,000 Baht. This was equivalent to 64.18% of the Company's total liabilities. If the interest rate increased or decreased by 1.00%, it would increase or decrease the Company's interest rate expenses by about 25,800,000 Baht. If consideration is made regarding the Company's interest bearing debt, the interest bearing debt to shareholder equity ratio would equal 0.94x due to loan contracts from financial institutions for the Company's development projects. The Company tends to need loans for development projects. On December 31, 2016, the Company had 16 projects being developed. The total value of these projects was 17,755,000,000 Baht. Though mortgage interest rates tend to be stable, the interest rate may increase in the future and this may negatively impact project development costs, profits, and Company performance in significant ways.

The Company has to maintain important financial ratios throughout the duration of the loan contract, such as the interest bearing debt to equity ratio and the debt to equity ratio. Therefore, if the Company is unable to comply with regulations pertaining to loan contract, the outcome will significantly affect the Company's financial status and performance.

Due to the Company's capability to accumulate funds through the initial public offering of additional common stock, the Company's financial ratios such as the debt to asset ratio and the interest bearing debt to asset ratio became lower than the bank creditors specified. Moreover, when the Company became a listed company on the Stock Exchange of Thailand, this will increase channel funding sources through capital markets and/or money market to accumulate fund at a lower costs.

#### 1.7 Risk from the Ability to Pay the Company's Mortgage Interest

If calculation of cash flow from business activities before deducting interest payables and corporate income taxes (cash basis), and interest coverage ratio (ICR) is considered, it will be negative. This is because the cash flow from business activities before deducting interest payables and corporate income taxes in the real estate business is accounted in financial investments under the cost of real estate development and land deposit. This is consistent for the duration that the Company was expanding. There were real estate development transactions which included an increase in land deposits for new projects. The interest coverage ratio for the past 3 years continued to have negative results because the Company is continually expanding its business. However, the Company's business performance increased from 550,200,000 Baht in 2014 to 2,010,100,000 Baht in 2015. This was an increase over 265.34%. In 2016, the Company's revenues from real estate development sales were over 3,153,100,000 Baht.

Regarding the risk management plan, the Company studied long-term possibilities of development projects to define development plan which are suitable for financial liquidity. The Company has never had an overdue payment and interest payable to any financial institution and/or bills of exchange.

#### 1.8 Risk from Undertaking Business Under Stringent Laws and Regulations

Changes pertaining to laws and regulations happen sometimes in Thailand. These changes could be a factor that influences the business operations of the Company. Changes that could impact costs and the Company's development project expenses are changes to land allocation regulations pertaining to the Condominium and Building Control Act (land area, the width of sidewalks, public utility areas, delivery and public utility transfers to condominium juristic person, establishment of community rules, analysis and submission of the environmental impact assessment report and the submission of the high rise building inspection report). In addition, changes to regulations

and laws regarding zoning, city planning and redevelopment, roadways, rail transit station systems and expressways could also contribute to risks.

Even though property tax policies are not yet in effect, these policies are currently being revised and considered by the government. If property taxes are in effect, they could affect project development costs due to an increase in land prices resulting from property taxes.

Besides this, there are measures that determine the amount of an approved loan compared to the value of the guaranteed loan (Loan to Value: LTV ratio) for mortgage loans under 10,000,000 Baht. For high rise buildings or condominiums, the LTV ratio is 90%. This measure took effect for sales contract agreements beginning on January 1, 2011. This measure will affect the customer's power to purchase. However, this mortgage loan policy could change at any time due to the country's economic situation and government policies.

The Company has been studying and following updates regarding laws and regulations. Regular analysis of the market situation helps prepare the company to handle any changes that could affect business development operations and ensure that the Company will not be affected or only be affected slightly by changes to laws and regulations.

#### 1.9 Risk from an Unstable Economy, Politics, Natural Disasters, Money Markets or Other Macro Factors

Corporate industry could be affected by an unstable economy from within or outside the country, including concerns about future political situations. This impacts consumer's purchasing power and trust. However, the trend for Thailand's economy in 2017 is that it has a tendency to grow and is expected to expand by 3.1-4.1% from an expansion of 3.2% in 2016 (source: Fiscal Policy Office, dated January 31, 2016). The economy continues to be driven by the continuing growth of public sector expenditures, especially from the increase in the expenditures budget for 2017 which amounts to 190,000,000,000 Baht. Also from new transportation infrastructure investment projects for 2017 such as a double track railway and a sky train in the city, motorway projects and airport development projects. The agricultural income improved in line with the price of commodities on the world market. In addition to this, the export industry showed growth indicators which followed the economies of joint venture countries. The service sector is predicted to continue to expand because of an increase in the number of tourists.

The residential market situation was rewarded as a result of utility developments and transportation in different locations, especially the progress of construction on the new line and line extension of the rail transit system. These were major factors in the expansion of consumer demand for residential in the areas near the new, upcoming rail transport lines.

The Company considered different macro risk factors before undertaking new development projects. The Company has placed products that go along with the needs of customers and their purchasing power. The Company has looked for appropriate times to invest in each location through both marketing and promotion.

## 2. Risk from Management

#### 2.1 Risk from the Influence of Major Shareholders on Company Policies

After the public offering of common stock, the Jaroon-ek family (Mr. Peerapong, Mrs. Arada Jaroon-ek and Toon Peerada Company Limited) has 70.0% of the total issued shares of the Company. In 2016, the Jaroon-ek family sold some shares to small private investors and funds and their remaining equity is 66.149% of the total issued shares. However, the Jaroon-ek family still has positions with the Company's executives and directors and they have the authority to sign for the Company. This could result in almost complete control of the Company's management, casting of votes in the shareholders' meeting, appointing committees or proposing agenda items that

require a majority vote from the shareholders' meeting. This excludes resolutions for agenda items pertaining to the Company's laws and regulations. These resolutions need a three-fourth vote from shareholders for approval. Therefore, there is a possibility that the Jaroon-ek family could control the casting of votes in the shareholders' meetings and this could cause other shareholders to be unable to have enough votes to review and balance the major shareholders' proposed agenda items.

According to the Company's management structure, the Company is comprised of a board of directors, an audit committee and an executive board. Each committee has a scope of operation and regulations that they must follow in order to be transparent in management and be able to be investigated.

On December 31, 2016, there were 5 independent committees in which 3 committees have the position to audit in order to monitor the performance of the board of directors. The Company is comprised of 10 different committees. Eight of these committees do not have members from the Jaroon-ek family and therefore the committees have a certain level of power to control and the power to propose agenda items in the shareholders' meetings. The Company has regulations and guidelines regarding connected transactions or any transactions related to committees, major shareholders, internal controls and personnel. This includes people that have conflicts of interest and these people are not able to approve of an agenda item and they are not able to cast a vote during that agenda item which could reduce this risk.

### **3. Risk from being a Listed Company on the Stock Exchange of Thailand**

3.1 Risk from Shareholders Owning a High Volume of Shares and if a Major Shareholder is able to Sell their Shares in the Future, this may Affect the Company's Share Prices.

After the initial public offering, the Jaroon-ek family (Mr. Peerapong, Mrs. Arada Jaroon-ek and Toon Peerada Company Limited), owns 70% of the Company's total issued shares. Therefore the Company's shares that are held by the Jaroon-ek family are prohibited from being sold for 1 year from the first day of trading. This is in accordance with the regulations and guidelines of the Stock Exchange of Thailand and the Office of Securities and Exchange Commission of Thailand, effective since 2001 (including amendments). The Jaroon-ek family can gradually sell their partial shares 6 months after the Company's shares are listed on the Stock Exchange of Thailand. The Jaroon-ek family will be able to sell all of their shares after the 1 year of prohibition is completed.

In the case that the Jaroon-ek family sells a significant number of their shares, or if people hear that the Jaroon-ek family is going to sell a significant number of shares, the Company's share price could be affected negatively. The Company cannot project what will happen in the future (if any) or how share prices will be affected. However, announcing the sale of shares or people projecting a sale of a significant number of shares will definitely affect the share price negatively.

3.2 Risk from Share Prices being Lower than the Issued and Offered Warrants for the Company's Common Shares to Directors, Executives and Employees of the Company

The resolution of the extraordinary general meeting of shareholders, meeting No.8/2014, held on November 10, 2014, approved the issue and offering of 3,150,000 certified warrants for the purchase of the Company's common shares for directors, executive directors and employees for a period in excess of 3 years. The ratio was 1 warrant to 1 share at a par value of 4.50 Baht per share (unless the price changed due to conditional adjustment). These warrants were issued and offered on October 1, 2015 which can be converted into common shares after 6 months from the issuing date.

The price of issued and offered warrants to the Company's directors, executives and employees was 50%

lower than the stock option. Investors may be affected from a decreased share price if the Company's directors and employees exercised all their warrants and sold their common shares. Investors will be affected by EPS dilution (Earnings per Share dilution) and control dilution if the Company's directors and employees exercised all of their warrants to purchase ordinary shares. Investors will be affected by decreased profit and vote casting rights by 0.52%. The total shares if all warrants were exercised are 603,150,000 shares which were calculated from the paid-up share capital after public offering.

Besides this, according to accounting standards on share based payments, the Company must record expenses from giving warrants to the Company's directors, executives and employees. The Company will gradually acknowledge these expenses after each warrant is converted into real common shares. This factor may directly affect the Company's profit and Company's performance in the future.

However the effects mentioned above will not happen immediately because of the time conditions for exercising warrants. The warrants can be exercised 6 months after the issuing date. The first time that warrants can be exercised, no more than 10% of the warrant value can be received by each person. After every 6 months of exercising that right, no more than 25%, 40%, 60%, 80% and 100% of the warrant value can be received by each person and can be converted into common shares.

In 2016, the warrants were exercised twice, once in March and September. This has not affected the share of profits (EPS Dilution) from the exercising of warrants and it has not affected shareholding (Control Dilution) more than what has been mentioned. This is due to a resolution at the Ordinary General Meeting of Shareholders for the year 2016. The meeting approves a partial dividend payment in stock dividends and the Company made an amendment to the price and the conversion ratio in order to be in accordance with stock dividend payments under the required rules and regulations of the Stock Exchange of Thailand and the Office of Securities and Exchange Commission.