RISK FACTORS

The Company pays close attention to management of risks that may have significant impacts on its business operations, by ensuring that they are at the level which is controllable and acceptable to the Company. In this connection, the main risk factors facing the Company could be summarized as follows:

1. STRATEGIC RISK

1.1 RISK ARISING FROM DISCONTINUITY OF REVENUE RECOGNITION

The Company started operating real estate business in 2010, and its source revenue are from "For Sales Assets" and "Income Assets". At present, its main source of revenue from for sale assets includes Elements Srinakarin Project which its construction is already completed and its revenue has been gradually recognized since 2013 and Four Seasons Private Residences Bangkok at Chao Phraya River which its construction was almost completed and started to reconize income since quarter 4 2019. In addition, the Company has revenue from rental of Ovingdean Hall project before recognizing its revenue from selling the asset. The company will have revenue from income assets in 2020 from Capella hotel Bangkok and Four Seasons Hotel Bangkok at Chao Phraya River which their constructions will be complete and start operating in 2020.

The implementation of the above projects may have short-term impacts in terms of discontinuity of the Company's revenue recognition. However since 2020, the Company will have revenue from for sales asset mainly from the transfer of Four Seasons Private Residences Bangkok at Chao Phraya River. Forthermore, the Company will step up its efforts to identify new for sale assets. Since 2020, the Company will continuously gain revenue from income assets, mainly from 2 hotels, and the Company will step up its efforts to identify new income assets for consistent revenue recognition.

1.2 RISK ARISING FROM INVESTING IN VARIOUS PROJECTS

Main business of the Company is real estate investment and development which may arise risk from unexpected return from company investment. In relation to the selection of projects that offer good potential for its investment, the Company has to take into consideration several factors in order to acquire the projects that give attractive returns at an acceptable level of risk. As a result, the Company has adopted a strict policy requiring a feasibility study, risk and return considerations, detailed due diligence, and hiring of experts in various areas such as legal advisors, financial advisors and marketing advisors in order to obtain adequate information for investment decision making. In addition, the Company established a clear operational plan which was designed and considered impacting from external factors and their solutions. The Company has monitored the implementation of the plan constantly and systematically.

In this connection, the various investment projects are not only subject to careful consideration by the management but also subject to consideration by the Company's board of directors who possess both knowledge and skills. The objective is to ensure that the projects are worthy of investment by the Company.

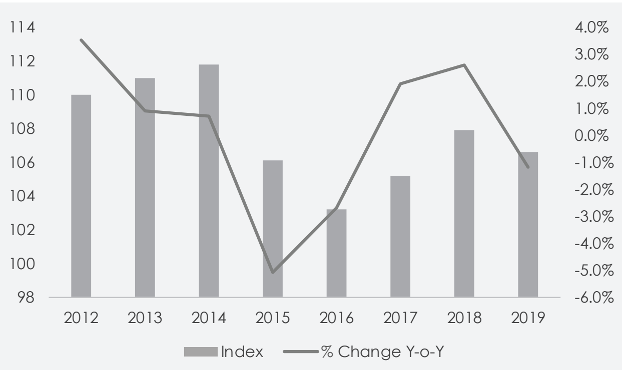
2. OPERATIONAL RISK

2.1 RISK ASSOCIATED WITH CONSTRUCTION COST CONTROL

Construction cost control is one of important factors resulting to project return. Construction material cost is crucial major cost. Construction cost has changed. Ministry of Commerce reported that construction cost index in 2019 was 106.6, reduced for 1.2% compared to 107.9 from 2018.

Construction Material Price Index

	2012	2013	2014	2015	2016	2017	2018	2019
Index	110.0	111.0	111.8	106.1	103.2	105.2	107.9	106.6
% Change Y-o-Y	3.5%	0.9%	0.7%	-5.1%	-2.7%	1.9%	2.6%	-1.2%



Source: Ministry of Commerce, Thailand

However, the Company makes a detailed estimate of the construction cost of each project, aiming to get information about the construction cost as close to the actual cost as possible from the start of the project. The information enables the Company to determine the overall construction prices in the contracts to be signed with sub-contractors. As regards some items of construction materials which are purchased by the Company, it will compare various prices quoted by several suppliers. As well, when contracts are signed, prices will be fixed in advance. The objective is for the Company to ensure that it gets the best prices and the best terms as possible. As a result, throughout the construction period of each project, the Company does not run the risk of price volatility.

2.2 RISK ARISING FROM SALES OF PROJECTS BEING LOWER THAN ORIGINALLY ESTIMATED

The Company not only has estimated the sales of the condominium projects but has also determined the room rates and occupancy rates of the two hotels. However, in case the Company is unable to sell the projects or the hotel rooms at the rates as estimated, the resultant gaps may have an adverse impact on the performance of the projects and then company performance.

Even though sales of company projects has not significantly been lower than estimated, the Company is aware of this risk. The Company's related sales plans have been developed by teams of experienced and skilled staff. The plans were forecasted with consideration of unexpected impact. In addition, to achieve the plans, the Company sells through many sales channels. The Company collaborated with real estate brokers who have extensive networks of customers, both local and overseas. As a result, the Company is confident that it is able to reach the established targets. Moreover, the Company closely monitors the project performance and analyzes the situation. It stands ready to adjust its sales plans in a timely manner, ensuring that the revised plans are appropriate in view of the prevailing economic conditions. None of company project sales has not significantly achieved lower than estimated sales.

As regards the sales of hotel rooms, the management is confident that it is able to attract customers to stay at the hotels in an amount as estimated, mainly due to the fact that each hotel has been well designed and the prices for the hotel rooms are appropriate for the targeted customer groups. The sales and design has been advised by both hotel teams which have strong experience and skills in hospitality market. Moreover, the affiliates of the two hotels have strong hospitality management capabilities and a large customer base. The strengths increase the likelihood of achieving the hotel sales forecasts made by the Company.

2.3 RISK IN HOTEL AND TOURISM INDUSTRY

Due to the fact that hotel business is related to the number of local and foreign tourists, the external risk factors which lead to the uncontrollable fluctuation of tourism industry such as terrorism, the spread of acute contagious disease, natural disasters, turmoil and global recession, would make the direct impact on the number of local and foreign tourists planning to visit Thailand.

However, the executives still express high confidence over the capability of the Company's business operation. Because of the world renowned executives specializing in hotel management, prime location of the project and outstanding selling points, it is certain that the project will be popular and receive nice feedbacks even in such the time of economic slowdown.

3. FINANCIAL RISK

3.1 RISK ARISING FROM LIMITED ACCESS TO FUNDING SOURCES

The Company's projects require large investments for development and construction. As a result, it is necessary for the Company to have access to several different funding sources including, among others, borrowings from financial institutions, offer of rights issues to raise capital, issuance of various types of debt instruments such as debentures and bills of exchange, as well as working capital based on sales of condominium units before the construction is completed.

In case the Company is unable to obtain adequate funds in line with the plans established for project development, the failure may have an adverse impact on project implementation and performance.

However, the Company is confident that it is able to obtain adequate funds in line with the established targets. This is mainly because the Company has developed a watertight financial plan, taking into account the working capital of each project and regularly assessing the Company's ability to gain access to funding sources as well as its debt-to-equity ratio which needs to be kept at an appropriate level.

3.2 FOREIGN EXCHANGE RATE RISK

The Company has adopted a policy to invest in various projects, both local and overseas. In this connection, it is well aware of potential impacts on the related project performance, which are created by the risk arising from interest rate volatility. The Company has also adopted a clear policy aiming at reducing the risk arising from interest rate volatility by placing emphasis on a method called 'natural hedge' as much as possible. The objectives are to cut costs and to minimize sophisticated transactions. To deal with any remaining currency risk, the Company has adopted a policy to hedge with currency forward contracts by taking into account trend directions as well as the delivery dates of the forward contracts. The objective is to cover the risk arising from the related transactions as much as possible. Furthermore, the Company has also adopted a clear policy to refrain from any speculative transactions in foreign currencies as they may give rise to uncertainties of the project performance.

3.3 INTEREST RATE RISK

Interest rate movements have an impact on the Company. If the interest rate rises, customers will postpone their purchases, mainly due to the customers' increasing cost of buying real estate. On the other hand, the Company's financial costs also increase since it needs financial support from financial institutions in the form of loans, the proceeds of which will be used for building real estate projects.

However, the Company has developed a plan aiming at closely monitoring and reducing the risk arising from rising interest rates. At present, most of the Company's loans are fixed interest rate loans. The objective is to reduce the risk arising from interest rate volatility. In case it has to get variable interest rate loans, the Company will consider using financial tools such as currency swap in order to reduce such risk. In addition, the Company has established business alliances with several commercial banks. The objective is to enable the Company to make comparison of different offers which lead to the financial costs appropriate to both the Company and its customers.

3.4 RISK ARISING FROM FINANCIAL RATIO MAINTAINING

As at 31 December 2019, the Company did not have duty to maintain debt to equity ratio according to loan agreement and CGD's debenture specifications. However according to CGD's secured debenture No. 1/2020, the Company has a duty to maintain interest bearing debt to equity ratio to be not more than 5.5 : 1 (five point five to one) at the end of quarterly fiscal period and end of fiscal year according to yearly financial statements.

As at 31 December 2019, interest bearing debt to equity ratio of the Company in compliance with debenture specifications was 3.23 which is considered to be high. However the issuance to CGD's debenture No. 1/2020 is to repay CGD's mature debenture. This will not bring interest bearing debt to equity ratio in compliance with debenture specifications in significant amounts. In the future, the Company started residential project development at Rama III or the investment of international school. The Company will have plan to raise fund from institution loan and debenture issuance which might cause debt to equity ratio to rise and might be close to debenture specification.

The Company is confident that the Company will be able to maintain interest bearing debt to equity ratio in compliance with debenture specifications. The Company has plan to reduce debt by continuous loan repayment from the revenue from Four Seasons Private Residences Bangkok at Chao Phraya River which will transfer unit ownership within 2020 for Baht 14.4 million and is expected to close its sales in 2021.

4. RISK ARISING FROM CAPABILITY FOR DEPT REPAYMENT

As at 31 December 2019, the Company's remaining value of bills of exchange with remaining age less than 270 days amounted to Baht 395 million, maturity date between 9 June 2020 – 14 August 2020 and remaining value of none- due debenture amounted to Baht 4,213.4 million, maturity date between 21 March 2020 – 6 September 2021. The Company has long-term borrowing from 2 financial institutions, amounted to Baht 11,732.53 million for Chao Phraya Estate project construction and the investment in Ovingdean Hall school. 2 financial institutions did not specify financial ratio maintaining. The borrowing amounted to Baht 11,374.24 million will be due on 20 September 2020. Currently the Company is on the negotiation process for refinancing the amount. The Company is expected to be approved within 1 quarter 2020. If the amount is not approved, the Company plans to use amount from unit transfer from Four Seasons Private Residences at Chao Phraya River to repay.

The Company plans to repay bills of exchange and borrowing from financial institution from (1) the sale of Four Seasons Private Residences Bangkok at Chao Phraya River which has project value amounted to Baht 21,510.78 million. The project has booking for 70% which in 2019, the Company started to recognize. As at 31 December 2019, the Company has backlog for Baht 14,399.10 million. The Company is expected to completed the transfer within 2021 and close its sale in 2022 (2) the operations of Four Seasons Hotel Bangkok and Chao Phraya River (3) the operation of Capella Hotel Bangkok.

5. RISK ARISING FROM STATE POLICIES

5.1 RISK ARISING FROM CHANGES IN LAWS AND REGULATIONS RELATED TO REAL ESTATE BUSINESS

Changes in laws, rules and ministerial regulations in relation to real estate business have direct impacts on costs and expenditure related to the Company's project implementation. The changes include, among others, the change in the city planning requirements in relation to floor area ratio (FAR), the policy on determination of common areas, and the scope of assessment as well as preparation of environmental impact assessment (EIA) reports. If the regulations or requirements become more restrictive, the changes may have adverse impacts on the Company's performance.

However, the Company reduces such risk by regularly conducting surveys and studies on legal constraints and requirements related to real estate business. This enables the Company to prepare for possible changes and to make appropriate operational plans, taking into account the maximum benefits to be gained from future business operations.