

RISK MANAGEMENT

RISK FACTORS ON BUSINESS OPERATIONS

CGD has considered both internal and external risk factors that may impact its business operations, the key current risk factors were as follows:

1. Revenue Discontinuity

The Company operates business strategy that prioritizes selectivity with sectorial focus in the integrated development, luxury residential living, education, and hospitality sectors; together with a balanced portfolio of recurring income businesses and non-recurring for sale developments. To manage the risk of revenue discontinuity, the Company place a strong emphasis on creating quality world class assets in highly prized sectors with a strong recurring income component. In the case of the Chao Phraya Estate Project, this was in the form of Capella Hotels and Four Seasons Hotels. Due to material delays in the construction by the main contractor together with COVID-19, the hotels were divested and presently, the Company is in the process of enforcement of its damages award under the construction contract.

The Company recognizes the importance of ensuring sustainable revenue generation and initiated the development of a new project on a 22-rai plot of land in the Rama 3 area. This mixed-use real estate development shall include residential buildings, which will generate revenue as for-sale assets, and a leading international school, which will provide consistent recurring income. The revenue generated from the Four Seasons Private Residences Bangkok at Chao Phraya River, coupled with the development of the new projects, aims to strengthen the Company's revenue base and ensure continuity in future earnings.

2. Land Acquisition

As our strategy focuses on purpose-built projects and opportunistic property investments, the Company does not land bank large amounts of land for long durations. The Company has been cautious about holding undeveloped land for extended periods, as this may lead to increased development costs and difficulty adapting to rapidly changing consumer demands. As such, it is natural that land acquisition is a source of risk for which we must consider and make preparation. The increasing competition in the real estate sector has intensified competition for land acquisition, posing risks to the Company in securing suitable land for future project development as planned.

To address this, the Company employs a strategic approach to land acquisition, focusing on high-potential properties in several sectors which ensures that we are not only competing with the crowd. The Company has established a network of domestic brokers to identify suitable land aligned with its business plans and global brokers for acquiring and disposing of investment assets for short-term ventures. The Company considers its unique channels for land acquisitions as proven in the Company's flagship development properties and lucrative international investment opportunities as one of our competitive strategic advantages.

3. Competition in Real Estate Development

The real estate development sector was faced intensifying competition, particularly as large organizations seek to shift between segments within the real estate industry with the most demand.

In this regard, the Company's strategy is selectivity with sectorial focus in the integrated development, luxury residential living, education, and hospitality sectors, which allows us to be nimble but exposes the Company to challenges in multiple market segments. The Company focuses on developing few but unique projects and with our clear "best in class" market positioning in each of our developments and wherever relevant the Company collaborates with world class leading brands with strong reputation as further points of differentiation to ensure we provide a unique offering within the competitive market.

4. Construction Cost Control

Managing construction costs was crucial to achieving profitable project returns. Construction materials, a major cost component, are subject to market volatility.

The Company, therefore, has implemented comprehensive cost estimation throughout the project lifecycle to ensure accuracy. It has also engaged contractors under lump-sum contracts, locking in fixed prices at the agreement date. Additionally, the use of modular components in design processes reduces construction costs. These measures shall enable the company to effectively manage risks associated with cost fluctuations throughout the project duration.

5. Construction and Contractor Performance

The Company outsources construction work, which carries risks if contractors fail to deliver work on schedule due to a lack of expertise, labor shortages, or substandard work. Such issues may result in significant delays, financial damage, and negative impacts on the Company's operations, financial status, and performance.

To mitigate these risks, the Company has established a transparent and efficient contractor selection policy. CGD has collaborated with contractors on project planning to ensure quality and adherence to timelines. Strict quality assessments were conducted by on-site engineers, and external project managers were hired to evaluate materials and workmanship. Contracts include performance guarantees, where contractors may reclaim retention funds only after meeting quality standards, ensuring project timelines and construction quality shall be upheld.

6. Funding and Liquidity Management

As of December 31, 2024, the Company's interest-bearing debt-to-equity ratio (IBD/E Ratio) was 1.0 times, in compliance with the conditions stipulated in Terms and Conditions of the Bond Issuers and the Bondholders of Callable and Secured Debentures of Country Group Development Public Company Limited No. 1/2020 Due 2024, in which the debenture issuer has the right to redeem the debentures before maturity, which limits the ratio to a maximum of 5.5:1 at the end of each fiscal quarter of the bond issuer, based on the consolidated quarterly financial statements, and at the end of each fiscal year of the bond issuer, based on the consolidated annual financial statements. In this connection, the Company is confident in its ability to maintain this ratio within the specified limits by implementing long-term debt restructuring plans aligned with project development and investment needs. The Company's strategy has emphasized sustainable growth through recurring revenue streams alongside short-term asset investments for sale.

7. Legal Disputes

The Company and its subsidiary were involved in a significant legal dispute with a contractor for failure to fulfill obligations under a construction agreement, leading to material delays of approximately 5 years, thus, the Company has filed several lawsuits against the contractor to enforce awards made under the construction agreement and damages under a shareholder agreement. The contractor has also counter claimed and filed lawsuits against the Company stemming from the same dispute.

To minimize risks associated with legal disputes, the Company has engaged several law firms and construction experts to prepare the case in detail given our firm belief in the position pursuant to the contract.

8. Climate Change and Natural Disasters

Climate change and natural disasters, driven by global greenhouse gas emissions, have posed risks to environmental, economic, and social stability. These risks raised from activities such as energy production, industrial operations, transportation, and deforestation.

The Company has addressed these risks through careful site selection, considering environmental factors to minimize exposure to natural disasters. During the project design phase, the Company ensures there is stringent policies to address problems such as flood prevention plans to enhance project resilience and safety. Moreover, the Company has established effective property management systems and response teams to handle natural disasters promptly, ensuring minimal impact on stakeholders' safety and interests.