

## Risk Factors

Due to establishment of Pruksa Holding Public Company Limited (“Company”) to operate business as holding company that generates revenue from holding shares in other others, the contingent risks encountered by the Company are risks from business operations of its subsidiaries and/or future associated companies. The risk, preventive method and risk abatement aspects have been analyzed as follows.

### Risks from Core Business Operation of the Company

#### 1. Risks as a Holding Company

As the Company was established as holding company under objective of main investment in other companies, its operating results are mostly based on the operating results of the companies in which the Company makes investment. Hence, the decision on selecting the company for investment therefore is highly crucial for operating results of the Company. At present, the Company has invested in two subsidiaries, including Pruksa Real Estate Public Company Limited and the affiliated company of Vimut Hospital, without additional investment in other subsidiaries and associated companies in last year.

The Company recognizes its profit and loss from its jointly invested subsidiary which is Pruksa Real Estate Public Company Limited (“Pruksa) and the affiliated company of Vimut Hospital. If the subsidiary earns good operating results, the Company can be profitable. However, on the other hand, if the operating results of the subsidiary and the associated company decline or get loss, the Company will be directly affected.

#### 2. The Company’s dividend payment capability depends on dividend earned from the invested subsidiary and associated company of the Company

As the Company was established as holding company under objective of main investment in other companies, besides the operating result of the Company depends on the operating results of the companies invested by the Company, the dividend payment capability of the Company also depends on dividend payment policy of its subsidiary and/or associated company invested by the Company. At present, the Company has invested in two subsidiaries, including Pruksa Real Estate Public Company Limited and the affiliated company of Vimut Hospital. Thus, the Company’s dividend payment capability mainly depends on dividend payment policy of both subsidiaries. Nevertheless, the dividend payment policy of both subsidiaries is not less than 50% of net profit from consolidated financial statements of each company after deduction of legal reserve capital.

The subsidiary, the affiliated company of Vimut Hospital, has still been unable to pay dividend to the Company since it has been under investment and construction of hospital to be opened for operation. It was

expected to take another 2-3 years until the construction is completed and ready to be opened for operation and generate adequate dividend for dividend payment. Therefore, during this period, revenue and profit have been derived from Pruksa Real Estate Public Company Limited that operates real estate business and is the leader of real estate market of Thailand with quite secure revenue, regular profit, and continuously growing operating result. Pruksa is the subsidiary which has been within the criteria of capability to pay dividend to all shareholders of the Company.

### Risk from Core Business Operation of the Company's Subsidiaries

#### 1. Real Estate Business

##### 1.1) Risk from land selection for development

*- Risk from inadequate supply and purchase of land for demand according to target or business plan*

The channel of most potential land acquisition for development is land broker and the other channel is from the land owner who offers for sale to Pruksa. Therefore, proactive plan is determined to stimulate or persuade the brokers who are existing alliances and new group of brokers to explore and propose maximum lands situated in targeted locations as quick as possible. In the event that the land owner offers for sale, there is quicker selection and decision process. However, the selection and decision process for purchase remains focus on transparent, clean and fair process for land owner whether the source of land is derived from any means or channels. In addition, Pruksa has also determined preventive and eliminating measure for benefit exploitation which is the cause of higher cost of land.

*- Risk from mistake in land purchasing decision such as land without exit, land with inadequate element for applying the development permission, land that may affect community during construction, etc.*

The most careful and circumspect preventive action without problem from the said risk is to arrange land physical survey working team with knowledge and high experience in survey and inspection on every plot of land before making purchasing decision, hire external independent appraisal company to survey and appraise price, and procure the area measurement and relocation of boundary, and ground level measurement and others.

In addition, if doubt is raised in the aspect of width of right of way or public existence, or the aspect of the official prohibited rules, a separated work unit shall perform duty in communication and coordination to apply warranty from government agencies covering colorful plan, expropriation range, road connection and all of other related aspects.

*- Risk from purchase of excessively expensive land or purchase of land in the vicinity of non-purchasing power vicinity or low demand*

With circumspect process before purchasing decision, the business unit shall collect marketing data, conduct feasibility study and analysis on investment, study market and competitor, compare market price of targeted land, price of the plot of land in comparison with the appraisal price of the official, and appraisal price of the independent appraiser to be supplementary data for preparation of feasibility study report of the project and audit by Finance Division. Therefore, it is abatement of risk that will cause damage from project development and then non-salability as planned or loss from development.

Moreover, land selection and purchase process shall be performed in form of the committee consisting of top executive who is specialized whether in the fields of land and land development, business, finance, law, and official requirement, risk control, and others, so as to ensure that Prukasa can purchase land in the appropriate period of time and number of plots so that Prukasa can generate revenues according to the business plan.

### **1.2) Risk from result of change in credit granting policy of commercial banks**

According to high level of household debt situation in the country, the entire system of commercial banks has still been strict to credit facilitation to consumers. 90% of customers who will buy houses and lands from Prukasa have been also affected due to mortgage loan rejection from commercial banks in credit facilitation, resulting in inability of the customers to find source of fund to support house and land cost. This will limit purchasing power of the customer and directly affect revenues of Prukasa. In this regard, Prukasa therefore has issued the form for salesperson to fill the important primary data of the house buyer upon expression of intention to reserve house and apply loan, and deliver the said data to the bank for pre-approval by the bank within 7 working days whether the customer can be granted for mortgage loan so that risk of both house buyer and Prukasa will be reduced. In addition, the considerable number of houses of Prukasa has been at variety of price ranges and cheap price for selection. The customer can select cheaper house to be consistent with criteria or policy of the each commercial bank in each period of time.

Prukasa has currently established working group to monitor economy and adjust strategy to be consistent with change in situation and policy of each commercial bank and government bank; and also applied information technology to support and facilitate customers for applying credit with the bank, and provide measure to support for quick credit approval. The strategic partners are 12 commercial banks and government banks for selection by the customers of Prukasa to use their service.

### **1.3) Risk from high competition situation**

At present, real estate development business has been highly competitive. This could be seen from the increasing large number of new project launches, affecting rapid increase in supply of real estate. Several large developers have significantly adapted by applying modern residential technology and innovation to drive business operation in order to create remarkableness and difference in property development.

Prukسا is the large well-known developer in the market for long time in real estate development and accepted and trusted by the customer group. Prukسا Real Estate develops lands in various locations, meets living lifestyles of various customer groups, and focuses on distribution of development in every price level, resulting in access to wider customer group. In addition, Prukسا has continuously developed construction quality by applying Real Estate Manufacturing (REM) innovation of construction quality. The contractor shall focus on only the construction works within his field of expertise such as tiling work or painting work. In the said work process, the construction working team of Prukسا shall work in part of its own responsibilities in the existing type until skill and expertise area developed. It is certain that house which is constructed by specialized craftsman will be quality, strong and durable under construction quality control in every procedure by Quality Improvement Team together with Quality Construction Service in entering to inspect and handle occurred problem during construction throughout construction period before the customer's house inspection and acceptance. All of the said elements are therefore mutually assembled to be the key that makes Prukسا houses quality and strong to satisfy the demands of all customer groups and all lifestyles.

#### **1.4) Risk concerning construction cost and construction material shortage**

Most of Prukسا property sales are pre-sale whereas cost plus basis is applied for Prukسا pricings. Hence, any fluctuations in the prices of construction materials or change in the rate of labor wage after customer booking those units, Prukسا cost of sale will be higher, causing decrease in its gross profit margin.

Construction materials are considered as essential construction cost. The prices of main construction materials such as steel and oil have been increased while the price of concrete has been slightly declined. due to demand and supply and world economic situation, affecting higher cost of production and cost of transportation, and higher cost of land will result in higher cost of house and land accordingly. Prukسا might not be able to immediately increase selling price to be consistent with the said higher total costs, possibly affecting sales volume and the said cause will affect financial position and overall operation of Prukسا.

Moreover, the increasing number of construction projects may lead to inadequacy of construction material. If such circumstance occurs, Prukسا may have to pay more expensive material costs or must wait for materials until it is unable to completely carry out construction in deadline, this will affect business, financial position, and overall operation of Prukسا as well.

However, the quick construction process of Prukسا that can complete the construction of low-rise properties within 73 days contributes to reduction of risk in a certain level. Prukسا is able to fix the prices of construction materials required for use in 2-3 months period in advance, allowing it to adjust selling price according to the said cost. Moreover, Prukسا formulates the policy on sale of more houses during

construction period in order to mitigate risk from change in cost of build-to-order houses. Regarding condominium projects, Prukسا is still facing risks due to extended construction period. However, for risk prevention, Prukسا has applied the strategy of selecting the vendors of main construction materials from all major categories of construction materials through bidding method since 2006 onwards to ensure that Prukسا has fixed construction cost throughout the year. For prevention of material shortage problem particularly main essential materials, Prukسا formulates the policy on creation of strategic partners by defining clear cut procedures from selection, supervision and evaluation as well as guideline of mutual operation. In addition, Prukسا holds the monthly meeting to report the change in prices of main construction materials and calculates the impact on cost of sale for consideration on adjusting selling price or supplying alternative materials.

#### **1.5) Risk from labor shortage**

The construction labor shortage problem has still been the major issue in real estate sector due to the current large number of construction projects from several developers and stricter new issue of alien labor law promulgated by the government, resulting in confrontation of skilled labor shortage problem in some projects. Even Prukسا, it has also confronted with this problem. If Prukسا fails to supply specialized contractors and skilled labors to carry out the projects of Prukسا, construction works may be delayed and unable to transfer the units within the deadline, possibly resulting in poor quality of construction work.

Prukسا therefore has invented low-rise properties construction method which is designed to have process of on-construction site installation system whereas Precast Concrete Panel is the main structure. Prukسا manages main construction works of the projects by itself under construction work supervision by the construction engineer and foreman of Prukسا, and hires the specialized contractors or labor contractors for construction in each part of work such as foundation work, building element installation work, tiling work to roofing work and painting work, etc. The construction is under supervision by Prukسا. For condominium projects, Prukسا began to hire turnkey contractors to carry out construction of high-rise buildings or condominiums since 2009 and forms the partnerships with high quality contractors for reduction of risk resulting from production capacity or construction expansion to support Prukسا business.

To reduce its reliance on workforce as well as the number of working hours and ensure the use of limited existing workforce in the most worthwhile manner, Prukسا has applied a construction technology "Real Estate Manufacturing (REM)" to control the entire low-rise housing construction step-by-step to ensure the quality of houses. REM is the system that helps promoting efficient use of construction labor by allowing the contractor to focus on only the works within his field of expertise such as tiling work or painting work. This manufacturing process is similar to that of automobile industry. In 2017, Prukسا could manage its business cycle time from house reservation to house receiving by the customer at an average of 73 days for low-rise properties projects.

Moreover, Prukسا has studied new innovation whether being new construction management system technology or search of materials or prefabricated compositions such as prefabricated bathroom, contributing to reduction of workforce dependence and construction period, and increase in work quality.

#### **1.6) Risk from reliance on knowledgeable and specialized personnel in operation**

Prukسا is the company that constructs houses with prefabricated load bearing wall which is the latest construction technology requiring specialized and experienced employees in specific fields such as designer, construction team, selling team and marketing team. Prukسا designs the system to retain and stimulate those people with working expertise to ensure that the employees can effectively perform their works and achieve the determined goals both in the current and future position.

Prukسا realizes on the factor of specialized employees and preparedness in coping with this risk by developing complete specialized personnel for all work sections to ensure that they can replace working among them. Moreover, Prukسا determines the policy in relation to encouragement of career progress of the employees by giving the opportunity of equal growth under creation of career path instrument and system together with support system, building of preparedness for career growth of the employees together with corporate business growth, such as continuous personnel training and development, Succession Planning, Promotion, Talent Management, Leadership Opportunity Matching (LOM), and Leadership Competency Development. However, the policy of Prukسا is to grant proper welfare and reward to these specialized personnel, resulting in the ability of Prukسا to reduce the said risk.

#### **Personnel Development**

Prukسا Real Estate Public Company Limited aims at continuous developing higher personnel potential and competence so that the employees can effectively work and achieve the setting goals both in the current and future positions under 70:20:10 development model of Prukسا as follows.

- **70 Experiential Learning.** It is the form of development derived from work experiences and problem solving thinking through actual working both derived from daily working or may be derived from assignment of new work or new project, resulting in requirement of learning and training of various skills for work success such as being project leader of the innovation project, being project leader of improvement project, being the change agent and being the team leader in solving problems, etc.

- **20 Learning from Others.** It is the learning derived from all surrounding things such as coaching from supervisor, feedback acquisition from superior, mentor or from related person in working, observing other persons, peer reviewing, shadowing from expert, learning from internet, or sometimes, the team meeting can be applied for mutual learning in working team. These methods are considered as learning from others.
- **10 Formal Learning.** It is the learning which is standard pattern such as learning from attending trainings and seminars whether classroom training, workshop training, attending trainings as determined by the Company and attending external training.

#### **1.7) Risk from business operation under restricted laws**

Prukسا Holding Public Company Limited operates the business in the nature of Holding Company by holding shares in Prukسا since 2016. The core business is real estate development, residential construction in type of townhouse, single house and condominium for sales. In consistent business operation, Prukسا observes regulations of laws, rules, regulations and requirements of government agencies all the time, and build customer confidence that all types of Prukسا products are in line with laws, properly permitted by related government agencies, and complies with advice or order of the government agencies or other clearinghouse organizations in the event of doubts or complaints from third parties, to ensure customer confidence and problem solving for our customers.

However, Prukسا Holding Public Company Limited is assured that Prukسا business operation applies the principle of good corporate governance enabling to develop product, and effective, transparent and accountable purchase of materials and equipment or procurement of contractor. Prukسا Holding Public Company Limited therefore is confident and believes in availability of principle of good corporate governance is for full retention of interest of the Company itself and for shareholders. Thus, illegal risk from business operation has not been exposed at all.

#### **1.8) Risk from crisis affecting danger of the construction project**

As core business of Prukسا is the residential construction in type of townhouse, single house and condominium for sales, the important thing under concern according the nature of this type of business is contingent occupational accident. Each time of accident occurrence may cause invaluable loss of life and property. However, Prukسا considerably realizes and gives significance to care of the employee's life and property safety by organizing occupational safety-related training courses to all new employees before work commencement with Prukسا, determination of practical guideline for use of safety devices for operating employee in construction site areas, arrangement of regular professional safety officer for each project to randomly audit the operation of the contractor and construction workers according to safety practice, as well

as improvement of international standard accommodation for construction workers. However, Pruksa has been accredited for Occupational Health and Safety Management System Standard OHSAS 18001:2007 in high rise projects. Thus, it is assured of Pruksa international standard safety care.

## **2. Hospital Business**

The business operation of Vimut Hospital Project ("Hospital") under Vimut International Hospital Company Limited ("Vimut") must encounter with various risk factors that may affect Vimut's operation. The following risk factors are just some significant aspects that may affect Vimut and significantly causes investment risk. However, the specified risk factors were referred from current existing and future anticipated information as much as possible for specification. In the future, it may have newly emerged risk factors due to changing environmental factor of Vimut, possibly affecting Vimut's future business operation.

### **2.1) Risk from construction of the project that may be in error from scheduled plan**

Vimut has determined business plan and strategy of investment growth in hospital building construction with value of 4.9 billion Baht. The construction planning has been commence in 2017 and scheduled for completion in 2020. However, there may be risk from delay of construction completion later than scheduled plan, possibly affecting overall operation and business opportunity of Vimut.

According to the said contingent risk factor, Vimut therefore has hired specialized and experienced designer and consultant of hospital building design and construction control for estimation of proper construction period, considered insuring insurance policy in the beginning period of building construction to support risk from the contingent damage with the construction project, and considered determining the condition of construction contract for main contractor. The fine is defined from delay working in the event of construction incompleteness as scheduled by the contract.

### **2.2) Risk from business competition in healthcare business**

Healthcare business operation has currently tended to be increasingly severe competitive due to continuous merger of large operators in the market, resulting in advantage of treatment cost and variety of service channels. Moreover, the competition with private hospital in the same level must compete with serviced expansion of the government hospitals such as overtime special clinic, possibly affecting customer base attraction of Vimut.

For enhancement of service efficiency and increase in competitiveness, Vimut therefore has formulated strategies and business development plan in order to be leading hospital by investing in medical equipment and modern information technology system, study of the information from expert group in application of technology to upgrade facilities covering both Clinical and Healthcare Facility Services for

continuous quality development and expansion of medical care, and consideration on adaptation of international quality accreditation system from Joint Commission International Accreditation (JCI) Institute in order to accentuate for being the global international standard hospital. However, today's hospital business situation has tended to well growth. For ability to support variety service demand, convenience and rapidity of service access, Vimut may adjust its business plan to be proper for business situation in each period of time.

### **2.3) Risk from shortage of medical and nursing staff**

The medical care must rely on medical and nursing staff in related fields. At present, the said people can be produced in limited number. In addition, the impact from medical care business expansion has caused quality and experienced employee demand to join with the organization. It must take long time for the said employees to develop proper knowledge and competence. Vimut therefore exposes to risk of these professional personnel shortage from increasing demand of the government and private hospitals in the future.

Vimut therefore considers collaborating with universities that produce medical and nursing personnel on granting various forms of scholarship to students for continuous knowledge development and application of knowledge in working with the organization in the future after graduation. Moreover, Vimut also considers determining appropriate rate of remuneration and welfare for competitiveness with other entrepreneurs in private hospital business group, enabling to reduce negative impact from the risk factor under prediction.