



Ocean Commerce Public Company Limited

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Subject: Explanation of the board of directors' comments regarding the reasonability and consideration of the investment in V81

- Ref:
1. Information Memorandum on Asset Acquisition of Ocean Commerce Public Company Limited , informed on 9 August 2019
  2. Information Memorandum on Asset Acquisition of Ocean Commerce Public Company Limited , informed on 13 August 2019

Ocean Commerce Public Company Limited (the "Company" or "OCEAN") would like to inform the additional details per the questions from the Stock Exchange of Thailand as follows:

1. The reasonability on the 55% investment in V81

- 1.1. Investment criteria to consider the investment in V81 with information regarding key assumptions of projected revenues, revenue recognition period, profits, including construction cost, land development cost, related expenses (i.e. marketing expenses, interest expenses), and appraisal price. Please also compare the consideration and the estimated values.

Explanation

To determine the value of compensation is the value agreed upon between the parties under the business transfer agreement based on the projected financial projections with important details as follows:

Unit: Million baht

Estimated revenue	1,000 - 1,300
Estimated profit	150 – 300
Fund of existing shareholders	240
Total return on existing shareholders	390 – 540
<b>Trading price range, proportion to the investment of 55%</b>	<b>214.5 - 297.0</b>

Remark: Estimated figures in the table above are based on ordinary business operation assumption, incorporated risk factors, and subject to change due to future circumstances.

Property development projects for sales will be recognized income when the reserved person receives transfer of the reserved unit from the developer which transfer will occur after the project have completed. IKON project will recognize income from unit-transfer in Quarter 4, 2020. The pre-sales units will be expected to be done within 12 months and the revenues of the unit sold after the construction completed will be recolonized immediately.

The costs and expenses of a property development project are land, construction cost, selling expenses, administrative expenses, and etc. which is approx. 70% - 85% of the total revenues.

In this regard, the company has carefully considered the value of compensation (Conservative basis) and has considered the important risks in real estate development business that may occur such as actual unit-transfer, project costs over budget (Cost overrun) and opportunities for construction plan delay etc. which is reflected in revenue and gross margin projection.

As well as the analysis of various assumptions (Sensitivity Analysis) such as the number of rooms actually transferred decreased by 10-15 percent of the original assumption Construction delayed by 3-6 months and costs and expenses increased by 3-5 percent from the original assumption. However, the hire contract with operators will specify the price of the delivery schedule for each period and penalty from delay that makes the chances of the occurrence of the event is limited and can be managed as normal business operation which is reflected in revenue and gross margin projection.

Therefore, from approximately the above price range (214.5 - 297.0 million baht), the parties have negotiated and agreed to the purchase at the price of 240.0 million baht for the investment proportion of 55 percent of the registered and paid-up capital of V 81

In this regard, the investment proportion at 55 percent of the registered share capital of all issued shares will make the company a major shareholder who can control and monitor the operations of V 81, able to recognize the performance as well as being able to manage various risk factors effectively, to learn and develop of real estate personnel of the Company and create experience in real estate development (Track record) of the company for the development of other projects of the company in the future.

- 1.2. Total development costs of IKON Project? What are the sources of funds (equities and liabilities)? Will OCEAN inject additional funds to IKON Project?

Explanation Costs and significant costs for the development of IKON projects include land costs and construction costs which have a total value of approximately 600-700 million baht. The V81 Project entered into a loan agreement of credit limit of approximately 70 percent of the value mentioned above with a financial institution and the drawdown will be in accordance with the progress of the construction. In addition, the remaining funds, approximately 30 percent of the total value rises from the funding of the VPD group, owners and management of the V81 project before entering into the transaction.

In the past, VPD has invested in this project in the amount of 120 million baht in the form of paid-up capital and proceeded with the capital increase in the amount of 120 million baht to finance the construction of the IKON project until completion as specified in the entire business transfer agreement thus, V 81 to have a registered and paid-up capital of 240 million baht on 9 August 2019

However, as stated in the entire business transfer agreement, V 81 must obtain a written consent from the financial institution in case of changing directors and management including a significant change in the shareholder structure of V 81 under related credit agreements which the company expects to receive by the end of August 2019.

Therefore, after the capital increase of the VPD Group, the company has no obligation to support additional construction funds for the IKON project. In the event that there is a need to find additional funding sources in the future according to the Shareholder Agreement between the Company and V. Jewelry Store Company Limited (45 percent of the shareholders after the transaction) stipulates that V 81 will provide additional loans from financial institutions for supporting the IKON project.

- 1.3. Construction and unit sold progress with details (construction start, presale start, key terms and conditions of the contract including down payment, contract date and installments)

Explanation

## 1. Construction

The IKON project is currently under construction period beginning since April 2019 which the progress of construction is about 5-10 percent of construction plan. The progress mentioned is in-line with construction schedule. The IKON project consists of 7 important functions detail as followings:

Functions	Schedule		Progress
	Start	End	
1. Preparatory work	April 2018	October 2020	5-10%, currently under the construction of piling work, installation of water tank and water treatment
2. Construction	April 2019	February 2020	
3. Architecture	October 2019	August 2020	Currently no operation and will implemented on the scheduled plan
4. System	October 2019	September 2020	
5. Outdoor work	November 2019	August 2020	
6. Landscape architecture	December 2019	June 2020	
7. FACADE	April 2020	June 2020	

Note: Above schedule can be changed according to the actual situation in the future

## 2. Advance from customers

According to the IKON project plan, the project is expected to have a revenue estimate of 1,000 - 1,300 million baht. The IKON project has been open for reservations since January 2019. In 30 June 2019, the Project has a reservation about 66.7% of total units or can be calculated as 295 units detail as followings:

IKON Project	Number of Units		
	Total	Accumulated Reserved	Remain
<b>Building 1</b>			
Studio	-	-	-
1 Bedroom	142	120	22
1 Bedroom Plus	17	17	-
2 Bedroom	3	3	-
<b>Building 2</b>			

IKON Project	Number of Units		
	Total	Accumulated Reserved	Remain
Studio	21	12	9
1 Bedroom	119	86	33
1 Bedroom Plus	-	-	-
2 Bedroom	12	9	3
<b>Building 3</b>			
Studio	14	8	6
1 Bedroom	112	38	74
1 Bedroom Plus	-	-	-
2 Bedroom	2	2	-
<b>Total</b>	<b>442</b>	<b>295</b>	<b>147</b>

In addition, IKON Project has Advance from customers of THB 98 mm as of 30 June 2019 with terms and conditions as follows:

Key Date	Terms & Conditions	Details
1. Reservation	THB 20,000	- Paid in full
2. Contract	THB 50,000	- Paid in full (within 7-14 days after Reservation)
3. Down Payment	10% of Unit Price	- The term of deposit payment is equal to number of months for remaining construction - Deposit must be paid within 1 months from the day of sign contract
4. Transfer	90% of Unit Price	- Paid in full

Note: For example, Mr. A has placed the first down payment on 1 June 2019. Mr. A will have a down payment period of 17 installments (assuming that the IKON project was completed on October 31, 2020).

#### 1.4. Experiences and capabilities of OCEAN to operate property development business.

Explanation the Company has appointed Mr. Pipat Settheechaichan as Director and Management on 8 May 2019 to study and plan on property development business. The director has intensive experiences in property development business for over 20 years and was a management position of a publicly-listed company in property development business. In addition, he was responsible for Business Development including business planning, business improvement, new business opportunities, and project management in various types of property such as condominium, single house, and townhouse.

Moreover, on June 1, 2019, the Company entered into a project management agreement with V81 to provide: (1) Marketing services regarding to the consultation and advice for brand strategic planning and marketing strategic planning, and (2) Engineering services regarding to the control management and engineering advices and/or related architecture. Currently, the Company has recruited working teams and also outsourced qualified teams to operate property development business in the future.

After entering the transaction, the Company still provides project management services with V 81 under the project management contract. To ensure that the operations are in accordance with the plan and specified format as well as the management of the accounting and finance of V 81 in accordance with the system and standard of the company. For working in other areas such as the marketing team and the human resources team, etc. will proceed as previous planned where the Company will provide policies and guidelines including supervising and evaluating the operations

- 1.5. The comments of the board of directors' comments regarding the reasonability and consideration of the investment in V81 including the risk assessment in operating property development business (new business) and mitigation plans to avoid the negative impacts

Explanation The Board of Directors' Meeting No. 8/2019 (the "BOD") held on August 8, 2019 approved the Company entering into the Acquisition of Assets transaction as it opined that such transaction is appropriate and useful to the Company and its shareholders. There are two key considerations as follows:

**1. Risk factors and mitigation plans**

**1.1 Risk of new business**

To start a new business that the Company has no experiences might affect the overall performance of the Company, if the new business is not as expectation. However, the BOD has realized risk; therefore, they have implemented the strategy to start the business as follows:

1. **Selecting Experience Management:** the BOD has appointed Mr. Pipat Settheechaichan as Director and Management, who has intensive experiences in property development, to study and plan on property development business and recruit qualified teams.

2. **Project management services:** The Company the Company entered into a project management agreement with V81 to provide: (1) Marketing services regarding to the consultation and advice for brand strategic planning and marketing strategic planning, and (2) Engineering services regarding to the control management and engineering advices and/or related architecture and also recruiting teams to study IKON Project. After the few months of the services, the BOD found that the IOKN Project is potential project in term of location, design, experienced contractor, good feedback of customers with 66.7% unit reservation rate.
  
3. **Investment:** After rendering the project management services, the BOD has interested to invest in IKON Project to build the Company's track record in property development business and to start such business. In addition, the BOD has considered the risk factors on conservative basis in the financial projection of IKON Project (i.e. the actual transferred units, cost overrun, and construction delay), including sensitivity analysis to stimulate various scenarios (See details in 1.1). After the consideration, the proposed price (55% investment) is THB 214.5 – 297.0 mm.

Therefore, the BOD realized that the Company has conservatively step into the new business to start with understanding the IKON Project before the investment and to mitigate and control the risk of new business.

#### 1.2 Risk of business operation in property development business and mitigation plan

The BOD has considered the risk factors of business operation in property development business as follows:

##### 1. Risk of competition

Property development business, especially in location nearby BTS or MRT, is an intense competition. Also, there are many developing and completed projects in the market, various room types and sizes; hence, since the customers have options and purchasing power, the supply is over the demand. Hence, the property developers is necessary to

compete with marketing strategies to get the customers. However, the BOD has realized that the location is a critical factor to access business areas, facilities, and infrastructure at competitive price, useful design (i.e. modern, functional, good material), attractive marketing promotions, and serve the customer expectation are major factors to create a competitive advance of the Project.

IKON Project is located at Sukhumvit 77 Alley (Sukhumvit 81 Yaek Onnut 10) which is convenient to access public facilities such as BTS Onnut station (1 km) Tesco Lotus Department Store (2.2 km), international school (1.5 km), hospital (3 km) and community mall, which is now under construction (20 meters). With modern design, functional unit-layout and competitive price, IKON Project is competitive in the market with 66.7% unit reservation rate.

## 2. Risk of funding and liquidity

Since property development project needs most funding from financial institution, if the Company cannot secure such source of fund for the projects, the project will be affected in term of performance projection and revenues recognition. However, the BOD has realized such risk; therefore, the Company must have liquidity management plan to operate the business including loan repayment and interest paid per repayment schedule to enhance creditability of the Company, In addition, the Company must have money disciplines and careful money plan under agreed budget, appropriate financing tools (capital market or money market), and closely monitor actions.

IKON Project has secured a financing from a financial institution with 70% credit line of total construction costs. The drawdown is based on construction progress. The balance of 30% of the total construction cost is from VPD group (See details in 1.2). After the equity injection of VPD group of THB 120 mm, the Company has no obligation to support the additional construction costs of IKON Project. In addition, in case that IKON Project requires additional financing, the Company and V Jewelry Co.,Ltd. (the shareholder of



45% at post transaction) agreed that IKON Project shall select a financing from financial institutions to support the project (based on Shareholder Agreement). However, after the Transaction, the Company shall step in, monitor, and manage the account and finance to ensure the smooth loan repayment, interest paid, and liquidity of the project.

In addition, the Transaction shall not affect the over liquidity of the Company to operate the existing businesses (See details in 2.1).

### **3. Risk of construction**

Since construction is a key factor of property development business, the construction delay will affect the budget, selling plan, and unit delivery to customers. However, the BOD has realized such risk that the Company must be selective on construction contractors including other services provider. BOD has agreed that such procedure should improve construction risk exposure.

BOD has investigated past records and projects of the service provider (designer of building foundation and concrete pile, construction contractor and architect designer) of project IKON to prevent the delay of the construction. The construction contractor appears to be well-experienced and past projects was delivered in time including financial stability and referral projects from both listed and private company.

### **4. Risk from cancellation of reservation or purchasing contract of clients.**

Real estate developer will open the developing project for a pre-sale due to the need of client's deposit to develop the project and in turn reduce financial risk exposure of the clients during transfer of ownership. During pre-sale period, clients have to sign a reservation contract and contract of purchase along with deposit payment, contract fee, and down payment according to contract. Therefore, during construction period or construction delay, if there is a cancellation of purchase which client no longer make a payment according to contract such as reservation deposit, contract fee, and down payment which could affect customer's cash flow forecast for project financing. However,

BOD has manage those risk by design a clear practice procedures which is to follow and cooperate with client closely together with facilitate to solve problems for client to ensure client could follow contract accordingly. If client cancel the contract, the company can resell to client which reduce those risk to the company.

For project IKON, BOD has found that only 0.5-1.0 percent of advance payment from clients was suspended which can be managed to resell and reduce risk to the company.

**5. Risk from political uncertainty and change in property laws and regulations**

Political uncertainty laws and regulations could affect business plan, cost and expense in developing real estate such as change in land allocation ACT, building regulation ACT. Therefore, to reduce such risk, BOD has agreed to conduct a study and follow change in regulation that might happen to prepare and carefully develop the project.

**2. Liquidity of the Company**

The Company has considered the investment in IKON Project with internal funding of excess net working capital of Sanitary trading and CPOA trading businesses of THB 490.50 mm which shall not affect the existing business operation (See details in 2,1). After the Transaction, the Company shall have the excess net working capital of THB 250.50 mm with following details:

Details of important liquidity of the Company according to the Company’s financial statement as of June 30, 2019 are as follows:

	June 30, 2019 (THB mm)	Details
Current assets	577.24	- Cash THB 159.24 mm - Accounts receivable and other THB 238.41 mm - Inventory THB 88.43 mm - Advance payment THB 88.48 mm
Current liabilities	86.74	- Short-term loans from financial institutions THB 35.30 mm - Accounts payable and other THB 50.82 mm
Excess working capital	490.50	= Current assets – Current liabilities = 577.24 – 86.74

Current ratio	6.65 times	= Current assets / Current liabilities = 577.24 / 86.74
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Therefore, the Transaction shall not affect the working capital and liquidity of the existing businesses. Details of significant liquidity after entering the transaction are as follows:

	Before the Transaction	After the Transaction	Remarks
Excess working capital	THB 490.50 mm	THB 250.50 mm	= 577.24 – 86.74 – 240.00
Current ratio	6.65 times	3.89 times	= (577.24 – 240.00) / 86.74

**Summary of the BOD's comments:**

With consideration of risk of new business, liquidity of the Company of operating the existing businesses as given above, the BOD has considered that the Transaction is appropriated with following details:

- (1) The consideration of THB 240 mm which is in the proposed price range of THB 214.5 – 297.0 mm. The BOD has considered the range with conservative basis on the key assumptions of IKON Project with the sensitivity analysis to support the consideration (See details in 1.1)
- (2) The investment of 55% of the registered and paid-up capital of V81 allows the Company to monitor and manage the operation of V81, and also consolidate the performance of V81. In addition, the Company is able to closely monitor the risk factors with policy and mitigation plans.
- (3) The opportunity to start new business, to diversify business risk of the overall business, and to expand the Sanitary trading business to other household products and construction materials in the future.

**2. Liquidity of cash flow in operating business**

2.1. The comments of the board of directors in relation to sufficient liquidity of cash flows in operating the sanitary trading and CPOA trading businesses due to the investment in V81 of THB 240 mm in August 2019. However, the Company has informed that the CPOA trading business required THB 88-92 mm per week to operate such business (ELCID on 10 August 2018). How to manage the liquidity of Sanitary trading business after the Transaction? Please explain the policy to manage liquidity in operating the business in the future.

### Explanation

In the past, the palm oil industry was in crisis from decreasing price due to the oversupply. The decreasing demand of palm oil is mainly because the European Union (EU) announced that it would lower the use of palm oil according to the revised legislation of renewable energy. In addition, the impact of La Nina creates more rain which result in more palm fruits in the markets. Therefore, the price of palm oil has decreased from THB 22 – 23 per kilogram in July – August 2018 (information for the ELCID on 10 August 2018) to THB 15 – 16 per kilogram now. Also, the estimated trading volume has been reduced from 4,000 tons per week (information for the ELCID on 10 August 2018) to 2,800 tons per week now according to the current market situations.

Therefore, the Company recorded revenues of CPOA trading of THB 1,029 mm in 6M2019 or THB 42 mm per week. In addition, since the Company has been operating this business for nine months (Oct-18 to Jun-19), the Company has working capital to operate such business: Advance payment of THB 88 mm, Inventory of THB 20 mm, Account receivable of THB 155 mm, and Account payable of THB 2 mm. Hence, the net working capital is THB 261 mm which is sufficient to operate CPOA trading business.

For the Sanitary trading Business, the Company recorded revenues of the Sanitary Trading Business of THB 177 mm in 6M2019 or THB 7 mm per week. In addition, since the Company has been operating this business for long time, the Company has working capital to operate such business: Inventory of THB 69 mm, Account receivable of THB 83 mm, and Account payable of THB 48 mm. Hence, the net working capital is THB 104 mm which is sufficient to operate the Sanitary Trading Business.



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Please be informed accordingly

Very truly yours,

Ocean Commerce Public Company Limited

(Mr. Jirat Tritrakulchai)

Managing Director