

Risk Factors

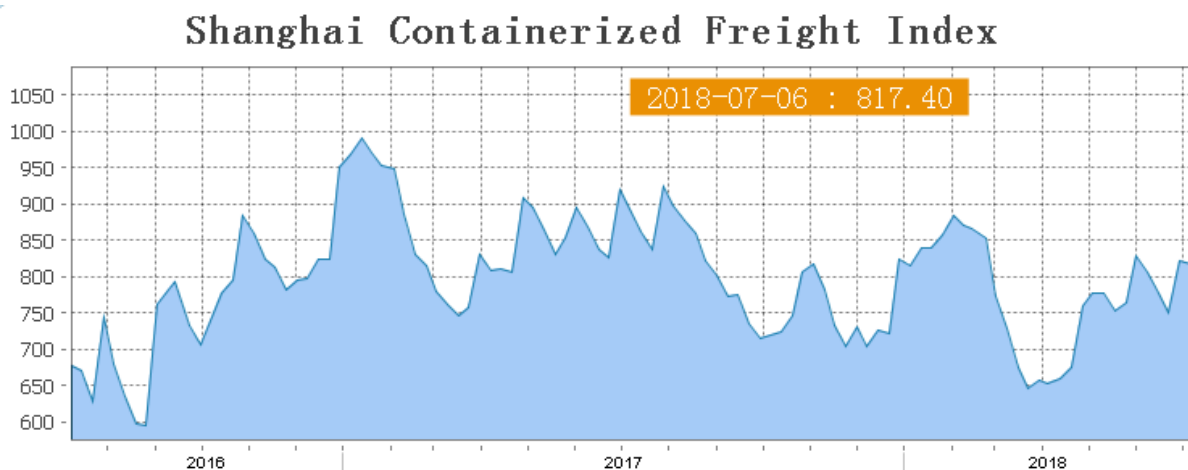
Risk of the Group's Business Operation

1.1 Risk on Business Operation

1.1.1 Risk on the variability of freight charge

Freight charge is considered the main operating cost of the Group. From 2015 – 2017 and quarter 2 of 2018, freight charge of sea freight was 48.12%, 44.66%, 50.78% and 54.17% of the total sea freight, respectively. Sea freight charge is variable to the demand and supply in the market. It may significantly affect the Company and subsidiary's overall operation in case of being unable to adjust the price as higher cost.

Generally, demand and supply of international transportation may vary depending on economic circumstance and global trade that affect on freight charge. Most of vessels holding containers use Shanghai Containerized Freight Index (SCFI) to determine sea freight charge and SCFI in the past 5 years are as follows;



Data from <http://en.sse.net.cn/indices/scfinew.jsp>

From above graph, it shows freight fluctuation in the past period of time. Therefore, cost and freight management is main factor that entrepreneur needs to consider for international transport business operation.

The Company and subsidiary are aware of this risk factor and has therefore planed the freight competitive price, in the line with market price. Moreover there will be a price update regularly and above price will be used when offering customers. The Company and subsidiary's service fee policy is calculated from cost plus minimum profit. Consequently, the Company and subsidiary can manage risk from variability of freight charge.

1.1.2 Risk of damage responsibility

As the Company and subsidiary operate domestic and international logistics business, there may be risks of damage of goods during the shipment. In case of customer's goods damage and provable that the damage caused during transit, the Company who issued Bill of Lading has its responsibility to compensate to customers. The Company had insurance with Liability Insurance to protect the damage which may cause during the shipment. The insurance company shall response the goods damage that caused by the Company which condition applied and within sum insured. Besides, the Company shall advise customers to purchase insurance for additional damage compensation. In case of goods damage during transit, the insurance company shall compensate value of goods under conditions and sum insured.

The Company pays attention to select carriers, airlines or any entrepreneurs to ensure the protection of damage risk. It is considered one of the Company's guideline and there will be a transportation provider assessment at least once a year following the standard set.

1.1.3 Risk on fluctuation of oil price

Since the Company, inland transport service providing business for support import and export has oil as the element of main cost in operation. For 2015, 2016, 2017 and quarter 2 of 2018, the Group's average oil cost is 13.05% of total inland transport cost. Therefore, oil price fluctuation may affect on inland transport's business operation. However, the Company is following the fluctuation of oil price closely to decrease the risk of crude oil fluctuation. The Company offers transportation price to customers individually then in case of significant oil price change, the Company will consider cost structure and acceptable profit and will offer service price which was adjusted depending on variable oil cost and that will help decrease an impact from oil cost increase.

1.1.4 Risk on Competition

The Company has risk from new competitors as transport business does not require high investment and that is an opportunity of subsidiary to join competition in the market. Moreover, there may be risk from vessel competition as vessel business is currently in recession, for instance, going bankrupt of top vessel in the world in 2016 and merger of large vessel companies to adjust to have higher competitiveness. It shows the higher vessel business competition. Besides, vessel started to provide more covering service by expanding the transport service section such as cargo loading service and customs clearance service to decrease transport cost and freight forwarder cost. However, the Company believes that we have proper total service with large number of oversea alliances in all over the world and also believes that the reputation and experience in logistics of Management and quality team will be able to response customer's need and maintain customers constantly. Those risks are not really significantly having an impact to the Company's operation.

1.1.5 Risk on dependent on personnel

Logistics business requires personnel with knowledge and expertise in import and export various regulations including understanding the terms and conditions of logistics system and also experienced Management and personnel. The Company needs to rely on knowledgeable and skillful personnel, Mr. Santisuk Kosiarpant, currently a chief executive officer and maintain customers' relationship due to his logistics industry's experience, negotiation skill, resolution skill, partners' relationship making and operating guideline to response customers' needs. Therefore, the Company would take risk if lack of Mr. Santisuk Kosiarpant, this would significantly effect on Management personnel and business operation.

The Company is well aware of its importance of personnel hence Succession Plan for personnel's development and training for future management ability were well-prepared. At present, the Company is planning to develop Management to be able to manage and decrease risks on dependent on stated personnel.

1.1.6 Risk on the fluctuation of foreign currency exchange

Due to the international freight service, the Company may have risk on currency exchange rate fluctuation as revenues and expenses are based on foreign currency. In 2015, 2016, 2017 and quarter 2 of 2018, the Company's revenues in foreign currency accounted for 9.20%, 7.48%, 8.15% and 10.11% of total revenue, respectively, and expenses in foreign currency accounted for 14.19%, 12.53%, 7.85% and 11.50% of expenses/cost, respectively. Hence, currency exchange rate fluctuation then has an impact on

the Company's financial statement and overall operation. Incomes and expenses in foreign currency caused from transactions with oversea partners and decreasing risk by Natural Hedge and Foreign Currency Deposit. In addition, the Company has closely monitored news and exchange rate movement and the Company believes that it will be able to assess the situation and find a risk protection in time. However, in the past, the Company has never had an impact on business overall operation from the significant currency exchange rate fluctuation.

1.1.7 Risk of structure adjustment

Since there was the Group's structure adjustment by terminating business operation of GLA Co., Ltd, formerly the Company's subsidiary, it may have an impact on transportation volume in Europe and South America's companies. Besides, the Company and subsidiary formerly operated transportation to America route through subsidiary, this transportation needs approval from The United States Federal Maritime Commission and the cost of procedure is high and quite complicated. Joining the organization and having the partners of subsidiary will cause a possibility to operate through approved agency.

Accordingly, the Company has various partners with long relationship from joining mentioned organization and being the partners. Subsidiary has created a contract with partner who can transport through America route and this has caused the Company to be able to provide shipping service to Europe, South America and America. The Company believes that the Company is able to continue developing and increasing transport volume.

1.2 Other risks

1.2.1 Risk on damage of impeachment from Free Zone

On 28 February 2018, the Company had legal dispute as revealed the detail in section 2.2.7 legal dispute, it is currently during the legal proceedings. The Company has risk on cash basis dividing into 2 cases including (1) Baht 19.93 Million, the Company has received a letter of explanation of investigation progress from Economic Crime Suppression Department dated 6 March 2018 informed that in the inquiry, an inquiry official had a comment not suing and an inquiry official has sent the case to prosecutors for next proceeding. And (2) Baht 4.98 Million, the Company has received a letter of explanation of investigation progress from Economic Crime Suppression Department dated 18 May 2018. Pattaya prosecutor officer determined not suing the Company and the prosecutor has sent the case to commissioner of Central Investigation Bureau, Central Investigation Bureau. The company's lawyer gave an opinion that the case may end in a short time as the prosecutor has issued a non-prosecution order and commissioner of Central Investigation Bureau therefore has no reason to dispute the order.

The Company's point of view is that both cases are not concerned with the Company and believes that the prosecutor in case1 and the commissioner of Central Investigation Bureau in case2 will determine not suing the Company as well. Accordingly, the Company will closely monitor the case and constantly assess the situation.

1.2.2 Risk of a major shareholder with a power to manage administration policy

At present, Mr. Santisuk Kosiarpnant is holding the Company's shares at 77.98% of total paid-up capital (as of 28 February 2018), the majority that could control almost all resolutions of the shareholders' meeting as well as controlling policy and managing operation. Even if there was an earlier new shares to the public (before taking the warrant), Mr. Santisuk Kosiarpnant is still being a majority by holding the Company's shares at 56.71% of total paid-up capital after issuing new shares. Mr. Santisuk Kosiarpnant remains his ability to control almost all of resolutions in the shareholders' meeting including committee appointment or other resolution requesting that require a majority of the shareholders' meeting.

However, in order to make the Company's operation to be transparent and in balance of power, the Company restructured the organization by the skillful personnel and clearly determined the scope of operation and authorities to committees and executive officers. There was an appointment to 4 independent directors which are 3 audit committees to audit, be in balance of power and consider any approved transactions before bringing to the shareholders' meeting. Moreover, the Company has determined the measure to those who may have a conflict and such concerned person will not be able to vote. The Company has appointed Internal Audit Department by employing outside and independent expertise and reported directly to Audit Committees. Main duties are supervise internal control system to meet the Company's requirements and to ensure transparency and balance of power to the shareholders.

1.2.3 Risk on Secondary Market for stock broking

As these newly issued shares to public is the offer before getting an approval of paid-up capital to be registered in The Market for Alternative Investment (MAI), an investor may face risk of liquidity and it may not produce expected future return. If the securities are unable be listed in MAI Stock Exchange, there will not be a secondary market for the Company's ordinary shares.

However, the Company has requested the Company's ordinary shares to be listed securities in MAI Stock Exchange which is currently under consideration. Anyhow, Globlex Securities Co., Ltd as a financial advisor has considered the Company's qualifications and found that the Company is qualified to be listed in MAI Stock Exchange as the Stock Exchange of Thailand's regulations of applying to list its

ordinary shares, disclosure of information, securities report and delisting of securities, 2015 (Effective on 16 May 2015) except the qualification of free float which the Company requires at least 300 minority shareholders and totaling not less than 25% shareholding of paid-up capital. A financial advisor estimated that after this capital increase, the Company will be qualified in free float regulation.

1.2.4 Risk of effect from stock price from warrants which is issued to committees and employees to buy ordinary shares in lower price than the offer of newly issued ordinary shares to the public

The shareholders meeting No. 2/2018 held on 22 June 2018 had the resolution approval on warrant proposal offering the Company's ordinary shares ("Warrants") and they are non-transferable to executive officers or employees, totaling 30,000,000 warrants, offering for sale with a par value of 0 Baht and the vesting period is 5 years after the date of issuing and offering the warrants. One warrant is convertible to one ordinary share at the IPO price or equal to Baht 1.95 per share (except any adjustment on regulations or conditions applied). Investors then has risk on effect of EPS Dilution and Control Dilution they get less profits and have less ownership which is equal to 5.17%, calculated from total shares after first sale to public and the warrants offering for sale totally to the Company and subsidiary's employees or equally 580,000,000 shares. For the effect on Price Dilution, since the Company's ordinary shares have not been listed in MAI Stock Exchange, there is no stock market price. However, calculating from the Company's subscription price will found the most price effect on the warrants which is equal to %.

Those warrants offering to executive officers and the Company and subsidiary's employees apply the conditions after 2 years from the date of warrants offered and sold. Warrant holders are entitled to first exercise not exceeding 10% of total warrants which each personnel gets the allocation from the Company. In every year after the date of first warrant, warrant holders can exercise not exceeding 20%, 30% and 100% of total warrants which each personnel gets the allocation from the Company respectively and this period specification helps protect increase capital in the earlier stage when the Company's shares are allowed to exercise in MAI Stock Exchange. If the warrant holder apply the entire convertible right, there will converted to 30,000,000 ordinary shares which is equal to 5.17% of total shares after this first offer to public and the warrant exercise of all executive officers and the Company and subsidiary's employees (See details of warrant in attached document 6, Employee Stock Ownership Plan (ESOP)).

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Sonic Interfreight Co., Ltd.



In addition, if warrant price is equal to IPO price, the Company has to assess the impact from price different and fair price on the date of warrant exercise from the independent price assessor. Accordingly, the Company will record the IPO price different and fair value on the exercise date as an expense from exercising share as a criterion of warrant from year period 2018 to 2023 on warrant period which causes the Company's decreasing net profit. Therefore, an investor may have a negative impact from above different price record as the reflection of dropping stock price.