



Risk Factors

Undoubtedly, hospitality industry has been acknowledged as one of the most vulnerable businesses which are inclined to be affected easily by internal factors and uncontrollable external factors simultaneously. All these together may affect negatively to the company's business and eventually impede the company from achieving its ultimate goals.

Therefore, the company has recognized the significance of the risk management and thus began to conduct an in-depth study on the conceptual framework of enterprise risk management since 2005. In 2006, the company initiated internal risk management activities and incorporated them into the company's policy which shall be applied to all business units in the organization on a regular basis. In addition, to ensure the maximum effectiveness of risk management for the enterprise-wide level, Corporate Risk Management Department was established accordingly. Risk Management Committee was also formed as to manage the overall risk management efficiency.

Nevertheless, at present, not all risk factors were identified or were deemed having strong impacts to the company's business. Consequently, investors should also consider other risk factors that may not be included in this report before making any decision.


Internal Risk Factors

Strategic risks

◆ Risk from Management for Business Expansion

In year 2007, the company has experienced tremendous changes caused by its business expansion into domestic and international markets. To enhance its competitiveness as well as business coverage into a wider range of international markets, the company will seriously enter into the emerging markets such as the Middle East and India which have many potential customers with high purchasing power who will generate considerable growth of demand in the future. However, note that doing so inevitably leads to the more complexity of business transactions. Therefore, without effective management and monitoring systems, not to mention the alignment and clearness of business strategies and well managed human resources, the company's performance is inclined to be affected either directly or indirectly by these sudden changes.

In order to mitigate those potential risks, the company has adjusted its organizational structure to ensure the ultimate clearness in management authority. In addition, the company has launched the re-



branding campaign by changing its core brand to Dusit International for more internationality as well as creating its sub-brands with different brand concepts and promises to serve different segments of target customers.

With regard to human resources management, the company has strengthened this one of the most valuable treasures by recruiting qualified operational and managerial staff members with knowledge and experiences from overseas 5-star hotels to effectively accommodate the business expansion and to uplift hotel's standard. Furthermore, the company has invested in new information technology systems which help reinforce its sales and marketing capabilities in order to compete with the hotels worldwide.

Operational Risk

◆ Risks from the Operation under Hotel Management Contract

In 2006 and 2007, the company and its subsidiaries had revenues generated by hotel management service accounting for 40.5% and 3.59% of the total revenues respectively. The company including its subsidiaries has potential risks that may be caused by the premature termination of the contract or the cancellation of the contract extension. In such case, the company's total revenues are subject to be affected accordingly.

To lessen the occurrence probability of these risks, the company has created prudently developed hotel management contract to ensure that the company shall receive proper compensation in a case where another party would like to terminate the contract prematurely. Furthermore, the company has planned to extend its business coverage by increasing hotel management services to both local and overseas target customers under a wide variety of brands such as Dusit Thani, Dusit Princess, Dusit D2 and Dusit Devarana. The company also aims at expanding its serviced apartment business under the Dusit Residence brand.

In 2007, the company has signed Technical Service Agreement and Management Agreement for 8 projects, 3 of which are local based, while the rest 5 are overseas hotel and serviced apartment projects. Such projects will unveil themselves and are in business as from 2008 onward to 2010. Nevertheless, to reduce the risk which may be caused by the termination of contract before actual operation from the property's owner, the company has, in the contract, a clearly stipulated clause that the owner shall pay the compensation for the company in case of the contract termination.



◆ **Risk from New Investment Project**

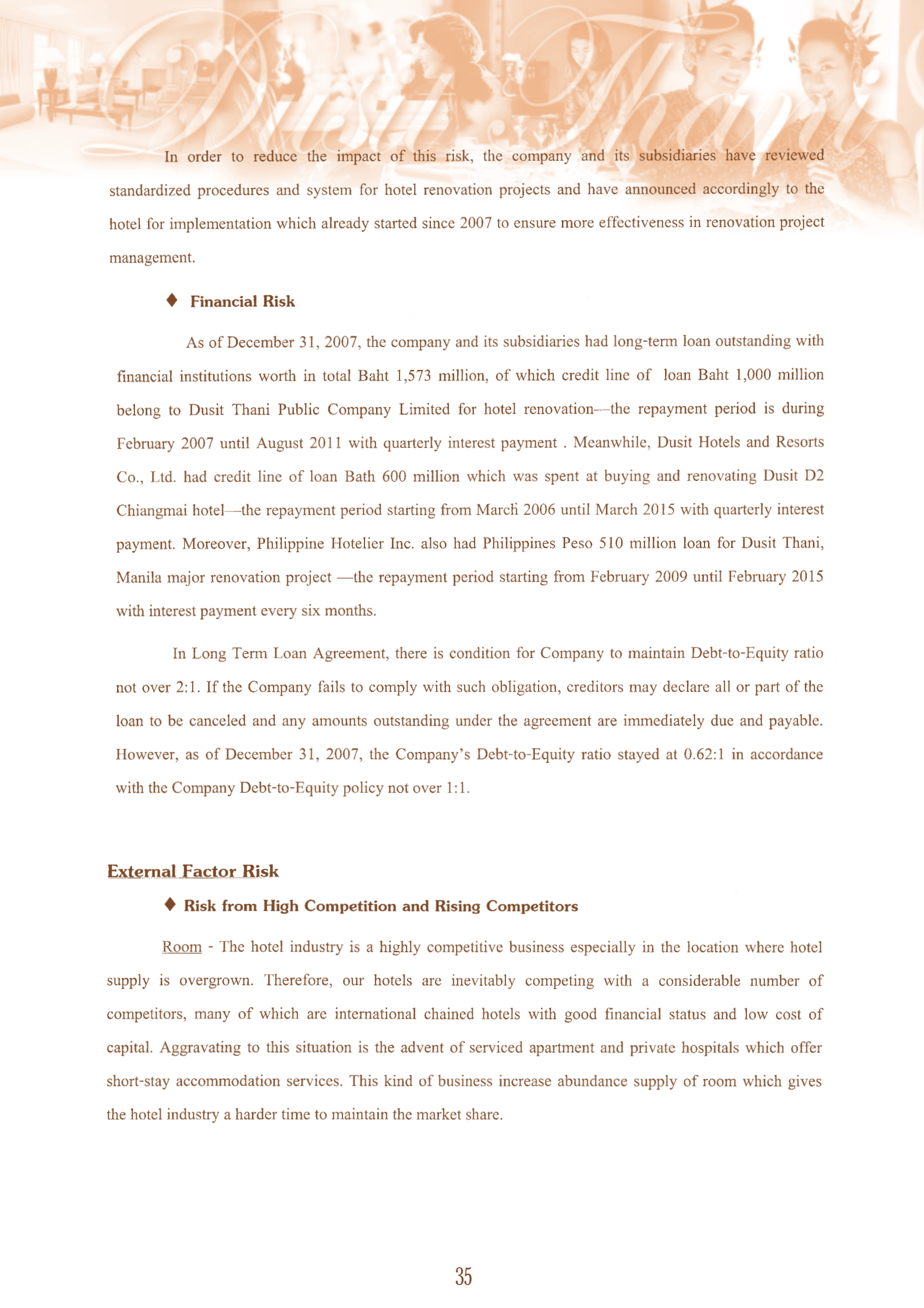
In addition to the plan to increase managed hotel business, the company and its subsidiaries will gear up its business toward new investment projects to ensure the maximum profitability and the sustainable growth of the company and its subsidiaries. Moreover, the company is currently conducting feasibility study and business analysis to balance risks and returns from the investment in each new domestic and overseas project. However, the company still unavoidably encounters with many potential risks, for instance, customer acceptance, revenue instability, changes in construction expense and pre-opening expenses.

However, to mitigate those potential risks, the company and its subsidiaries have employed distinguished professional private companies to conduct feasibility study and due diligence to ensure that the new investment projects would generate the acceptable return and increase value of the Group. The outcome of the study shall be carefully pondered by highly experienced executive committee prior to proposing to the Board of Directors. This is to ensure that each project will have satisfying financial returns and will create more total values for the company and its subsidiaries.

◆ **Risk from Hotel Renovation Project**

For hotel business, the renovation of building including facilities is considered extremely necessary. By recognizing this requirement, the company and its subsidiaries have established the renovation plan on a regular basis. The major renovation will be done once every 5-7 years. All these are not only to maintain our 5-star and 4-star hotel standard, but also to increase our abilities to compete with our competitors.

Nevertheless, it must be noted that, for some hotels, the renovation projects might face problems with the delays due to the limitations of the building structure. As a result, such hotel must close some parts for renovation, while the other parts are still in regular operation. These impediments inevitably lead to the disruption in renovation and delays which, to the greatest extent, affect negatively to the quality of service and our brand reputation. In addition, the difficulty in renovation budget control is another crucial risk that may cause considerable increasing expenses of the company and its subsidiaries, eventually resulting in the decrease of company revenues and cash flow. However, in year 2006-2007, major renovation projects which in many hotels include hotel interior and exterior improvements as well as landscape development were completed as previously planned. There are only some minor renovations left to be finished. Besides, some hotels will begin to renovate their rooms and restaurants in accordance with the 2008 allocated budget.



In order to reduce the impact of this risk, the company and its subsidiaries have reviewed standardized procedures and system for hotel renovation projects and have announced accordingly to the hotel for implementation which already started since 2007 to ensure more effectiveness in renovation project management.

◆ **Financial Risk**

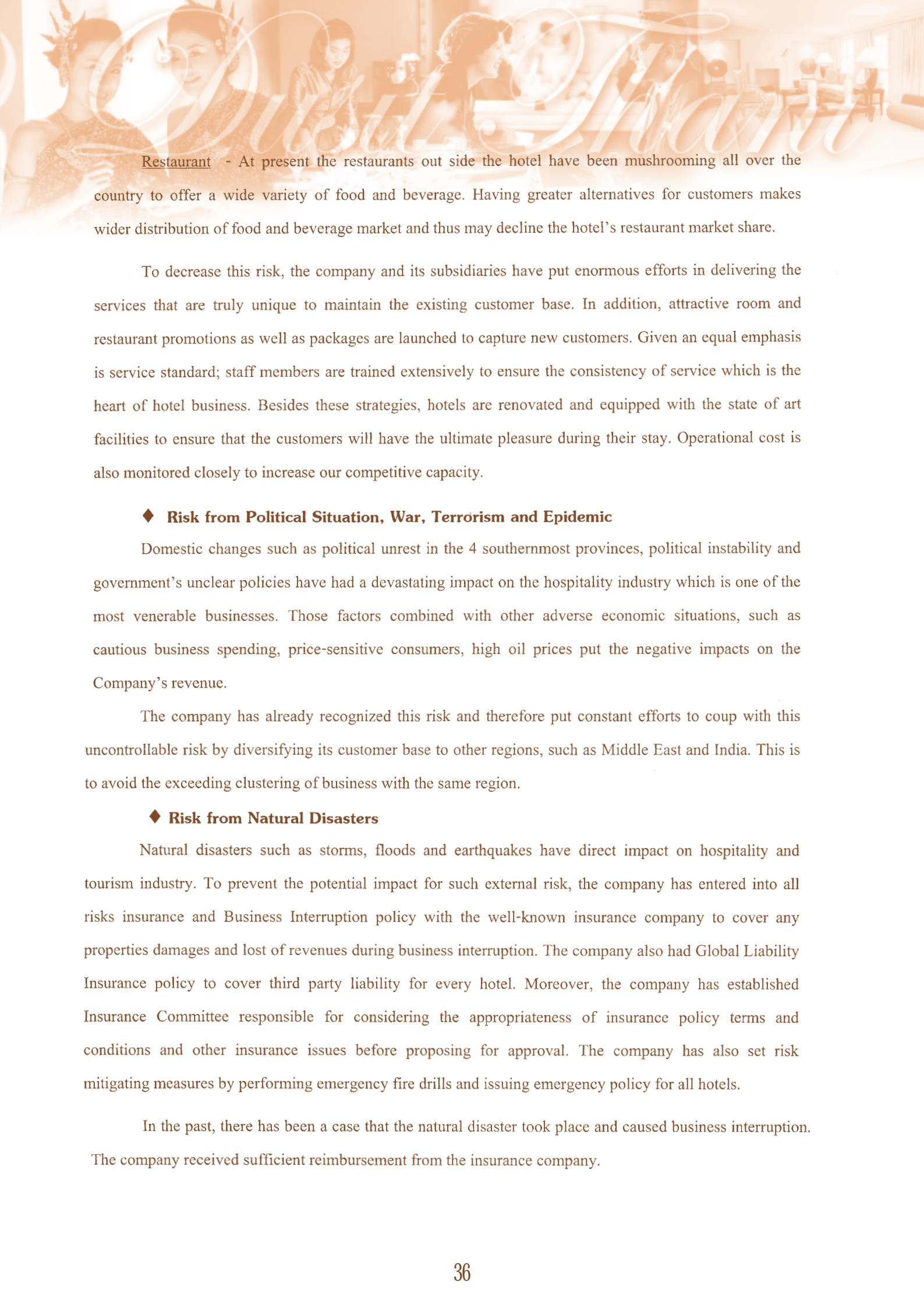
As of December 31, 2007, the company and its subsidiaries had long-term loan outstanding with financial institutions worth in total Baht 1,573 million, of which credit line of loan Baht 1,000 million belong to Dusit Thani Public Company Limited for hotel renovation—the repayment period is during February 2007 until August 2011 with quarterly interest payment . Meanwhile, Dusit Hotels and Resorts Co., Ltd. had credit line of loan Bath 600 million which was spent at buying and renovating Dusit D2 Chiangmai hotel—the repayment period starting from March 2006 until March 2015 with quarterly interest payment. Moreover, Philippine Hotelier Inc. also had Philippines Peso 510 million loan for Dusit Thani, Manila major renovation project —the repayment period starting from February 2009 until February 2015 with interest payment every six months.

In Long Term Loan Agreement, there is condition for Company to maintain Debt-to-Equity ratio not over 2:1. If the Company fails to comply with such obligation, creditors may declare all or part of the loan to be canceled and any amounts outstanding under the agreement are immediately due and payable. However, as of December 31, 2007, the Company's Debt-to-Equity ratio stayed at 0.62:1 in accordance with the Company Debt-to-Equity policy not over 1:1.

External Factor Risk

◆ **Risk from High Competition and Rising Competitors**

Room - The hotel industry is a highly competitive business especially in the location where hotel supply is overgrown. Therefore, our hotels are inevitably competing with a considerable number of competitors, many of which are international chained hotels with good financial status and low cost of capital. Aggravating to this situation is the advent of serviced apartment and private hospitals which offer short-stay accommodation services. This kind of business increase abundance supply of room which gives the hotel industry a harder time to maintain the market share.



Restaurant - At present the restaurants outside the hotel have been mushrooming all over the country to offer a wide variety of food and beverage. Having greater alternatives for customers makes wider distribution of food and beverage market and thus may decline the hotel's restaurant market share.

To decrease this risk, the company and its subsidiaries have put enormous efforts in delivering the services that are truly unique to maintain the existing customer base. In addition, attractive room and restaurant promotions as well as packages are launched to capture new customers. Given an equal emphasis is service standard; staff members are trained extensively to ensure the consistency of service which is the heart of hotel business. Besides these strategies, hotels are renovated and equipped with the state of art facilities to ensure that the customers will have the ultimate pleasure during their stay. Operational cost is also monitored closely to increase our competitive capacity.

◆ **Risk from Political Situation, War, Terrorism and Epidemic**

Domestic changes such as political unrest in the 4 southernmost provinces, political instability and government's unclear policies have had a devastating impact on the hospitality industry which is one of the most venerable businesses. Those factors combined with other adverse economic situations, such as cautious business spending, price-sensitive consumers, high oil prices put the negative impacts on the Company's revenue.

The company has already recognized this risk and therefore put constant efforts to cope with this uncontrollable risk by diversifying its customer base to other regions, such as Middle East and India. This is to avoid the exceeding clustering of business with the same region.

◆ **Risk from Natural Disasters**

Natural disasters such as storms, floods and earthquakes have direct impact on hospitality and tourism industry. To prevent the potential impact for such external risk, the company has entered into all risks insurance and Business Interruption policy with the well-known insurance company to cover any properties damages and lost of revenues during business interruption. The company also had Global Liability Insurance policy to cover third party liability for every hotel. Moreover, the company has established Insurance Committee responsible for considering the appropriateness of insurance policy terms and conditions and other insurance issues before proposing for approval. The company has also set risk mitigating measures by performing emergency fire drills and issuing emergency policy for all hotels.

In the past, there has been a case that the natural disaster took place and caused business interruption. The company received sufficient reimbursement from the insurance company.



◆ **Risk from Interest Rate Fluctuations**

The company and its subsidiaries have current liabilities with financial institutions, as of December 31, 2007, worth Baht 1,573 millions and are inclined to make further loan for renovation projects and new investment projects. This means that the company may have potential risks caused by the fluctuations of interest rate in the future. If so, it will subsequently have a direct impact upon the company's performance and cash flow.

In addition, in searching source of fund, the company has requested for the approval of debenture issuance from the extraordinary shareholder meeting, worth in total Baht 5 billion. The interest rate of such debenture may fix during the debenture period; therefore, the company can manage the interest rate fluctuation risk.

However, in response to this, the company has issued financial risk control policies which limit the ratio of Debt to Equity not excess 1:1. This is to help reduce the company's interest payment and principle repayment.

◆ **Risk from Exchange Rate Fluctuations**

Since the company has generated part of its revenue from hotel management in foreign countries such as Dubai, Myanmar and Philippines, therefore, the company are prone to experience with exchange rate risks. This is due largely to the terms and conditions stipulated vividly in the contracts made with such countries that is, management fee shall be paid in US Dollars only. In addition, there have been some cases where room selling contract, room payment and other package payment can be made in other foreign currencies such as Pound, Yen, Euro etc. In addition, room selling via website is determined in US Dollars. Consequently, a surge of risks will occur in a case where Thai currency is appreciated, resulting directly to the decrease in the company's revenue.

At present, there are no tremendous impacts caused by this risk since the company and its subsidiaries main revenues are in Thai Baht. Consequently, no preventive contract regarding exchange rate risk has been made. Nevertheless, whenever the company foresees the greater impact this risk would have on the company's revenue, the company shall consider using financial tools to cope with such circumstance.