

1. Policy and Overview of Business

1.1 Vision and Mission

Pace Development Corporation Public Company Limited ("the Company") is positioned as a leader in the high-end sector of Thailand's real estate development business. Leveraging a solid understanding of the future needs of the property market, together with a proven record of innovation, the Company focuses on delivering projects which feature superior locations, unique design, outstanding functionality and finest quality.

Vision

PACE brings new trends to Thailand's real estate market, by improving the landscape through world class design, while redefining and enhancing standards of living.

Mission

PACE creates design-driven properties through architectural leadership and innovation. Each development by PACE aims to deliver unique and unrivalled standards meeting the needs of the company's discerning and affluent client base with the following factors:

- Most sought-after prime locations World-class architectural and interior design
- Finest top-end specifications
- Thorough control of the construction process to ensure zero defect quality and timely delivery
- High quality standard guaranteed

1.2 Significant Changes and Development

Pace Development Corporation Public Company Limited ("the Company") has its main business in real estate development for sale, lease, and service purposes. As of December 31, 2013, the Company's registered capital and paid capital is 2,054.3 MB (Million Baht). The Company has its head office situated at 87/2 CRC Tower, All Seasons Place, 45th Floor, Wireless Road, Lumpini, Pathumwan, Bangkok.

The Company was founded on September 1, 2003, under the name of "Cinkara Company Limited" with fully paid capital of 2 MB and on November 6 2003, Mr Sorapoj Techakraisri and the Company increased its capital to fully paid 10 MB. The Company started its main business of real estate development by launching Ficus Lane, a residential project situated on Sukhumvit 44/1 Road. Thereafter, Mr. Sorapoj Techakraisri founded related companies to develop other projects with the aim of becoming the leader in the luxury real

estate business targeting high-end consumers. Mr. Sorapoj together with his group of companies has achieved important milestones as follows:

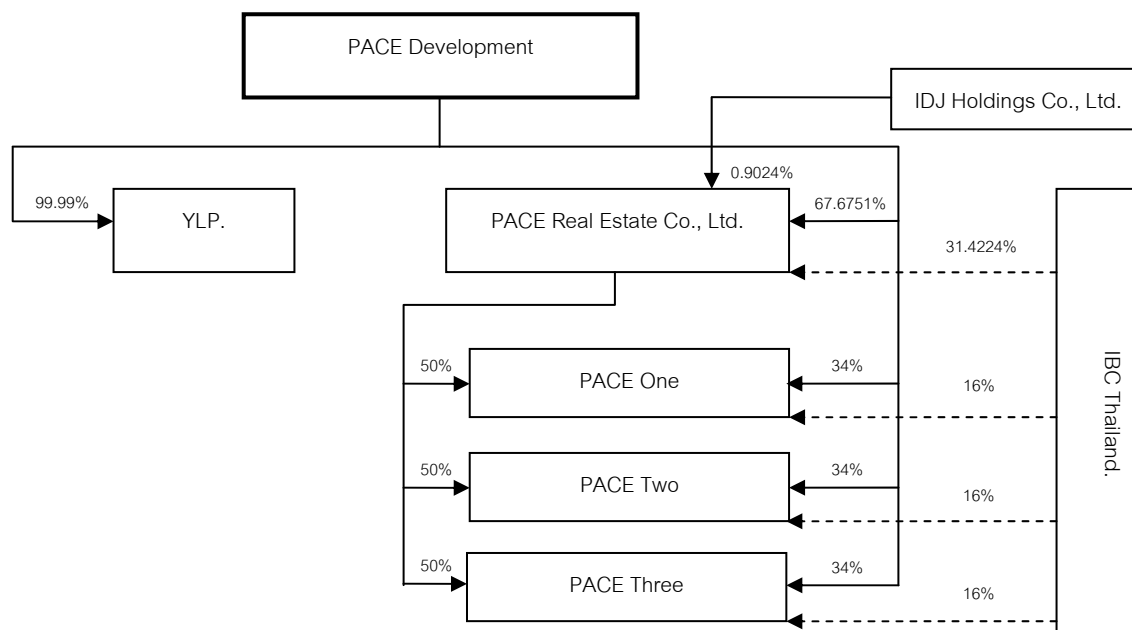
2003	Founded Cinkara Company Limited
2004	Commenced development of “Ficus Lane”
2007	Founded YLP Company Limited with fully paid-up registered capital of 50 MB, to develop a condominium project under the name “Saladaeng Residences”
2007	Mr. Sorapoj Techakraisri and his group founded PACE Project One Company Limited (“PACE One”) with fully paid-up registered capital of 10 MB to develop the mixed-use MahaNakhon Project
2008	<p>IBC Thailand Ltd. and IDJ Holding Company Limited became partners of the MahaNakhon Project through acquiring a part of Mr. Sorapoj’s stake in the MahaNakhon Project. The Company restructured the MahaNakhon Project by establishing the group of companies with a goal to manage the different business components of the MahaNakhon Project as follows;</p> <ul style="list-style-type: none"> - Increased the registered and fully paid capital of PACE One to be 200 MB to operate Bangkok Edition Hotel - Founded Pace Project Two Company Limited (“PACE Two”) with fully paid registered capital of 200 MB to develop long-term leased residential real estate under the name “The Ritz-Carlton Residences, Bangkok” - Founded Pace Project Three (“PACE Three”) with fully paid registered capital of 100 MB to operate the shopping center with 3 components: Retail Cube, Retail Hill and Sky Observation Deck <p>Founded Pace Real Estate Company Limited (“PRE”) with fully paid registered capital of 10 MB as a holding company to hold shares in PACE One, PACE Two and PACE Three in the proportion of 50% each respectively</p>
2009	Officially launched Saladaeng Residences Project
2010	The Company opened the sales gallery and sample unit of The Ritz-Carlton Residences, Bangkok at MahaNakhon Project
2011	The Company restructured ownership portions within the group to prepare for listing in the Stock Exchange of Thailand (SET). The Company increased fully paid-up registered capital to 1,454.3 MB to acquire shares 99.99% in YLP, 25% each in PACE One, PACE Two and PACE Three respectively and 50% in PRE

	<p>The Company completed the process of converting into a public company by issuing a capital increase of 600 MB for public offering. After the capital increase, the Company's registered capital became 2,054.3 MB and the Company was renamed to PACE Development Corporation Public Company Limited (PACE)</p>
2012	<p>Construction of the MahaNakhon project progresses significantly following completion of piling and commencement of construction of main structure</p>
2013	<p>The Company launched MahaSamutr, a Luxury Villa and Country Club Project in Hua Hin</p> <p>The Company is listed in the Stock Exchange of Thailand (SET) with a fully paid-up registered capital of 2,054.3 MB</p> <p>The Company bought shares and shareholder loans of the jointly controlled entities from IBC Thailand and IDJ Holdings Co., Ltd., resulting in PRE, PACE One, PACE Two and PACE Three becoming subsidiaries of the Company with the following ownership proportions (direct and indirect):</p> <ul style="list-style-type: none">- PRE 67.68%- PACE One 67.84%- PACE Two 67.84%- PACE Three 67.84% <p>The Company commenced construction of the MahaSamutr Project, Hua Hin</p>

1.3 Overview of Business and Subsidiaries

As of December 31st, 2013, the Company has 5 subsidiaries which are: YLP Co., Ltd. (YLP); Pace Real Estate Company Limited (PRE); Pace Project One Co., Ltd (PACE One); Pace Project Two Co., Ltd. (PACE Two); and, Pace Project Three Co., Ltd. (PACE Three).

The structure of the Company and subsidiaries is shown below:



Note :

- IBC (Thailand) Ltd. is an Israeli company registered in Israel. It is a company under the group of Industrial Buildings Corporation Ltd. (IBC), a company listed in Tel-Aviv Stock Exchange in Israel
- IDJ Holdings Co., Ltd. is a Thai company registered in Thailand as an investment partner in the MahaNakhon Project
- The total of direct and indirect shareholding proportions in the diagram above is reflected in the table shown in the timeline section year 2013. i.e. $34\% + 50\% \times 67.6751\% = 67.84\%$

As of December 31st, 2013, the Company and its subsidiaries have a total of 4 projects consisting of Ficus Lane, Saladaeng Residences, MahaNakhon and MahaSamutr Hua Hin.

Project Name	Owner	Project Characteristic	Construction period
1. Ficus Lane	PACE	Two 7-storey residential buildings, with 70 units in total, situated on Sukhumvit 44/1 Rd.	2004-2006
2. Saladaeng Residences	YLP	132 units, super-luxury residential building in Soi Saladaeng with 25 floors above ground and 5 underground floors	2008-2011

Project Name	Owner	Project Characteristic	Construction period
3. MahaNakhon		Mixed-use building adjacent to Chongnonsri BTS Station, Narathiwas Rajanagarindra Rd.	
3.1 Bangkok Edition Hotel	PACE One	159 rooms, 5-star luxury boutique hotel	2011-2015
3.2 The Ritz-Carlton Residences, Bangkok	PACE Two	200 units, super-luxury residences	2011-2015
3.3 Retail Center	PACE Three	Luxury lifestyle retail center	
3.3.1 Cube Building (Retail Cube)		Approximate total leasable area of 5,253 sq.m.	2011-2014
3.3.2 Main Building (Retail Hill and Sky Observation Deck)		Approximate total leasable area of 2,434 sq.m. Approximate observation area of 2,139 sq.m.	2011-2015
4. MahaSamutr Hua Hin	PACE	81 Luxury Villas and Country Club located at Soi 112, Hua Hin, Prachuabkhirikhan	2013-2015

2. Operation of Business

2.1 Characteristics of products and services

The Company and subsidiaries generate revenues from the following projects:

(Unit: Million Baht)

Revenue type	Operated by	Consolidated Financial Statement							
		2010		2011		2012		2013	
		Revenue	%	Revenue	%	Revenue	%	Revenue	%
1.Ficus Lane	PACE	-	-	-	-	24.6	2.3	42.3	12.3
2. Saladaeng Residences	YLP	-	-	1,041.3	94.7	914.3	83.9	245.1	71.0
Total operating revenues		-	-	1,041.3	94.7	938.9	86.2	287.4	83.3
3.Other revenues									
Revenues from leases and services		1.4	6.0	1.6	0.1	1.9	0.2	3.9	1.1
Profit from unit sales in residential buildings and rental equipment		10.3	43.5	0.4	0.0	-	0.0	-	-
Interest income		1.6	6.9	36.6	3.3	104.4	9.6	32.3	9.4
Management fees		-	-	10.0	0.9	30.0	2.8	15.0	4.3
Profit (loss) from foreign exchange		7.7	32.5	-	-	0.5	0.0	-	-
Other*		2.5	10.5	8.8	0.8	-	-	-	-
Other income		0.1	0.6	1.5	0.1	13.2	1.2	6.6	1.9
Total other revenues		23.6	100.0	58.9	5.3	150.0	13.8	57.8	16.7
Total revenues		23.6	100.0	1,100.1	100.0	1,088.9	100.0	345.2	100.0

* includes profits from equipment sales, income from compensations and indemnities, reverse transfer of advances, reverse transfer of construction payables, and reverse transfer of retention payables

The main business of the Company and subsidiaries is real estate development for sales, lease and service purposes. The Company differentiates its projects from others available in the market using a unique and high-quality design to satisfy target customers who have specific needs and life-styles. In so doing, it places great emphasis on careful scheme designing and development of each and every project. Details of the Company's projects are described below:

Past projects

1. Ficus Lane

Ficus Lane is the Company's first residential condominium project. Its construction started in 2004 and completed in 2006. The project's detailed information is shown below.

Project Detail (As of December 31 st , 2013)	
Location	Soi Sukhumvit 44/1(Pichaisawat) Sukhumvit Road, Klong-Toei District, Bangkok
Project's characteristics	
Total area	2-3-57 Rai (1,157sq.wah)
Sale area	Approximately 12,109.8 sq.m.
Average sale price per sq.m.	Approximately 75,000 Baht/sq.m.
Project's detail	Two 7-storey residential buildings
Project's features	<ul style="list-style-type: none"> • Prime location in Soi Sukhumvit 44/1, adjacent to Phrakhanong BTS station • High level of privacy and security
Number of units	70 residential units, categorized into three types: <ul style="list-style-type: none"> • Residential units with 1-3 bedrooms: 60 units • Residential units with 3-4 bedrooms: 6 units • Penthouse: 4 units
Project value	Approximately 910.0 MB
Construction period	2004 - 2006
Sale period	2004 - present*
Progress on construction	100% (construction completed)
Progress on sale	Units sold and under contracts equal to 95.2% of total sales area
Recognizable portion	92.1% (67 units)

*As of December 31, 2013, Ficus Lane has one 366.6 sq.m. residential unit whose sale agreement has been signed but ownership transfer has not been completed and two unsold units with a total area of 585.09 sq.m.

2. Saladaeng Residences

Details of the project are shown below:

Project Detail (As of December 31 st , 2013)	
Location	Soi Saladaeng 1, Silom Road, Silom Sub-district, Bang-rak District, Bangkok
Project's characteristics	
Total area	584 sq.wah
Sale area	Approximately 13,087.9 sq.m.
Average sale price per sq.m.	Approximately 180,000 Baht/sq.m.
Project's detail	A residential building with 25 floors above ground and 5 floors below ground
Project's features	<ul style="list-style-type: none"> • Prime location in Soi Saladaeng 1, accessible by 3 main roads: Silom Rd., Sathorn Rd., and Rama IV Rd. • Close to Saladaeng BTS station and Lumpini MRT station • Close to Lumpini Park, a sizable public recreational park in Bangkok • Fully equipped amenities • High level of privacy and security
Number of units	132 residential units, categorized into four types: <ul style="list-style-type: none"> • 1- bedroom residential units with total area of 60-66 sq.m.: 50 units • 2- bedroom residential units with total area of 89-121 sq.m.: 67 units • 3- bedroom residential units with total area of 161-206 sq.m.: 12 units • Penthouses with total area of 211-393 sq.m.: 3 units

Project Detail (As of December 31 st , 2013)	
Project value	Approximately 2,338.0 MB
Construction period	2008 - 2011
Sales period	Quarter 4/2008 – present*
Progress on construction	100% (construction completed)
Progress on sales	Units sold and under contracts equal to 99.0% of total sales area
Recognizable portion	94.7% (127 units)

**As of December 31, 2013 Saladaeng Residences has five residential units remaining with total area of 689.11 sq.m., whose ownership transfer has not been completed. Four of the remaining residential units with total area of 562.44 sq.m. have been sold and agreements have been signed.*

Ongoing projects

1. MahaNakhon Project

MahaNakhon is a mixed-use project that consists of 1) a super-luxury residential condominium under the name “the Ritz-Carlton”, 2) a 5 star luxury boutique hotel under the name “Bangkok Edition”, managed by the Ritz-Carlton Hotel Company, and 3) three lifestyle centers, including Retail Cube, Retail Hill and Sky Observation Deck.

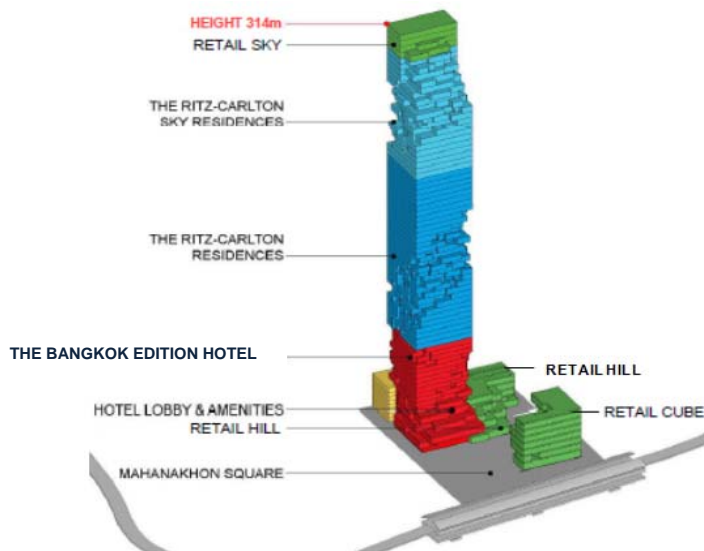
Features

“MahaNakhon” is designed to be perceptually surrounded by 3-dimension glass ribbons, or what is termed “Pixels”, covering the entire height of the building. This not only creates a stunning and unique visual presentation as if the building was wrapped by the sky, but also enables the building’s dwellers to have panoramic view.

When completed, MahaNakhon will be 314 meters in height and will become the tallest building in the history of Bangkok. This mixed-use project is designed to be a landmark architectural icon that grandly embellishes Bangkok, the capital city of Thailand.

Project characteristics








Project's History

The Company co-founded PRE, PACE One, PACE Two and PACE Three with IBC Thailand Ltd., a subsidiary of Industrial Buildings Corporation Co., Ltd. (IBC) which is listed in the Tel Aviv Stock Exchange in Israel. IBC is a sizable real estate development company under the Fishman Group, one of Israel's largest private investment groups specializing in investing in real estates, retail stores, media, and telecommunication businesses. PRE, PACE One, PACE Two and PACE Three were established with a common purpose to develop MahaNakhon Project. Spearheaded by PACE's executive team, the project is situated on a 9-Rai-1-Ngan-51.1-sq.wah land lot in Bangkok's business area between Silom Rd. and Sathorn Rd. and is adjacent to Chongnonsri BTS station. MahaNakhon is created to be a mixed-use development with unique architectural design and will become the tallest building in Bangkok at completion. Apart from parking building, the project consists of two buildings as follows:

Building	Height	Area Utilization	Construction period
1. Main Tower	77 floors*	<ul style="list-style-type: none"> Retail Hill (1st-5th Floor) Hotel (1st-20th Floor)* Residential (23rd-73rd Floor) Sky Observation Deck (74th-77th Floor) 	2011-2015
2. Cube Tower	7 floors	<ul style="list-style-type: none"> Retail Cube 	2011-2014

**The floor numbers were assigned by the project's sales department, who omits 21st and 22nd Floors as they are middle layers between hotel and residential zones. Six transfer floors were also counted as three, resulting in MahaNakhon having 72 floors, which is consistent with the number of floors defined in the application for construction permit given to Bangkok Metropolitan Administration.*

The buildings will host three different functions: 5 star luxury boutique hotel, super-luxury residences (offered in the form of long-term lease)*, and retail center consisting of several world-leading brand-named shops and the Sky Observation Deck. Details of the each function are shown below.

<u>Hotel</u>	<u>Residences</u>	<u>Retail Center</u>
Bangkok Edition Hotel	The Ritz-Carlton Residences Bangkok	Retail Cube Retail Hill Sky Observation Deck
		
- A super-luxury boutique hotel under a new brand from the Marriott International Group and is managed by the Ritz-Carlton Hotel Company	- A super-luxury residential development under an internationally recognizable brand - Long-term leasehold rights for 103 years* - Residents will be served with the same service level as those offered in a 5 star luxury hotel	- A retail center that hosts world-famous gourmet shops offering pleasing food-bon-vivant experiences, such as Dean & DeLuca, Vogue lounge and L'Atelier de Joel Robuchon, to satisfy gastronomic life styles of the dwellers and the neighboring office workers

**On Feb 7th, 2014, the Company's subsidiaries purchased the land of the MahaNakhon Project and already changed the ownership structure in MahaNakhon Project from leasehold to freehold.*

MahaNakhon Project Details (As of December 31, 2013)	
Location	On Narathiwas Rajanagarindra Road, Bangrak District, Bangkok
Total area	9 Rai 1 Ngan 51.1 sq.wah
Project's detail	Three buildings; 1. Main Tower: high-rise building to be developed as a retail center, a hotel, and residences 2. Retail Cube: low-rise building to be developed as a retail center 3. Parking building
Construction period	1. Main Tower 2011-2015 2. Retail Cube 2011-2014

	3. Parking building 2014 -2015
Sales period	1. Main Tower 2009 - 2015 2. Retail Cube 2012 - 2014
Project's features	<ul style="list-style-type: none"> • Location: Situated on Narathiwas Rajanagarindra Road, between Sathorn Road and Silom Road, adjacent to Chongnonsri BTS station • Building characteristics: The building is designed under “the Pixel Concept”; the building is surrounded by perceptual 3-dimension glass ribbons. This enables dwellers to have panoramic view. It is also designed to be the tallest edifice in Thailand. • Project mixed-use facilities: consisting of <ol style="list-style-type: none"> 1. Hotel: A 5 star luxury boutique hotel under a new brand of Marriott Group and managed by the Ritz-Carlton Hotel Company 2. Residences: A super-luxury residential development under an internationally recognizable brand “the Ritz-Carlton Residences Bangkok” 3. Retail center: A shopping center with leading world-class shops and retailers that offers complete products and services needed in daily life. The retail center consists of two zones: Retail Cube, which is connected to Chongnonsri BTS station by a skywalk, and Main Tower, in which the Retail Hill and Sky Observation Deck are situated
Progress on construction (As of December 31, 2013)	1. Main Tower (Hotel zone) 13.38% (Residential zone) 19.37% Retail Hill and Sky Observation Deck 16.4% 2. Retail Cube 76.72% 3. Parking building – has not commenced

Details of each project in MahaNakhon

Main Tower (Residential zone: The Ritz-Carlton Residences)	
Location	Approximately 93,612 sq.m. (including allotted areas for parking space and building system work)
Project's characteristics	
Leasable area	Approximately 47,915 sq.m.
Average lease per sq.m.	Approximately 250,000 Baht/sq.m.
Target customers	Thai and foreign investors
Number of units	<p>Approximately 200 units residential building, categorized into</p> <ul style="list-style-type: none"> Residential units with 3-5 bedrooms and total area of 274-728 sq.m. (The Ritz-Carlton Sky Residences): 37 units Residential units with 2-3 bedrooms and total area of 125-310 sq.m. (The Ritz-Carlton Tower Residences): 163 units
Progress on long-term lease	The number of residential units under lease agreements is 112 units, or 45.9% of the total project area

Main Tower (Residential zone: The Ritz-Carlton Residences)

Payment conditions

Subscription deposit, contract payment, and down payment: Subscription deposit and contract payment are approximately 15% of the unit price. Down-payment is 20% of the unit price

Installment for down payment: 1 - 36 installments depending on the remaining project development period

Transfer payment: Approximately 65% of the unit value

* As of December 31, 2013, there were 112 units of the Ritz-Carlton Residences Bangkok Project under long-term lease contracts, equivalent to 21,999.86 sq.m., or 45.9% of the leasable space of 47,915 sq.m., totaling 5,551.8 MB. of the lease contract value. Furthermore, there are 10 units under reservation, equivalent to 2,750 sq.m., or 5.7% of the leasable area, totaling 807.3 MB. of the reservation value. In summary, there were 122 units under signed long-term lease contracts and reservation, equivalent to 24,749.86 sq.m., or 51.7% of the leasable area, totaling 6,359.0 MB. of the total contract value. Note that as of December 31st, 2013, PACE has not recognized revenue on the sold long-term leases and reservation. The Company will start recognizing revenue when the construction and the ownership transfer are completed.

*On Feb 7, 2014, the Company's subsidiaries purchased the land plot of MahaNakhon Project and already changed the ownership structure in MahaNakhon Project from leasehold to freehold.

Main Tower (Hotel)

Total area

Approximately 39,682 sq.m.(including allotted areas for parking space and building system work)

Number of rooms

159 rooms

Target customers

Thai and foreign travelers and businessmen

Main tower (Retail center–Retail Hill and Sky Observation Deck)


Total area

Approximately 10,624 sq.m. (including allotted areas for parking space and building system work)

Project's characteristics



Leasable area	2,434 sq.m. (Retail Hill) 2,139 sq.m. (Sky Observation Deck)
Target customers	Occupants in the hotel and the residences of MahaNakhon Project and the neighboring areas, such as The Infinity Condominium, and The Met Condominium, and workers in the adjacent offices, such as Asia Center, Empire Tower and Bangkok City Tower


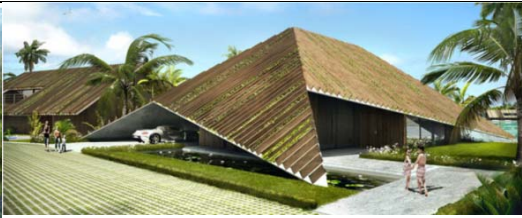


Retail Cube (Retail Center–Retail Cube)	
Total area	Approximately 9,852 sq.m. (including allotted areas for parking space and building system work)
Project's characteristics	
Leasable area	5,253 sq.m.
Target customers	Occupants in the hotel and the residences of MahaNakhon Project and the neighboring areas, such as The Infinity Condominium, and The Met Condominium, and workers in the adjacent offices, such as Asia Center, Empire Tower and Bangkok City Tower
Example of other projects in the same area	<ul style="list-style-type: none"> Q House Lumpini Life Center City Viva

2. MahaSamutr Project

Situated in an upper market beach resort town, MahaSamutr Hua Hin Project is a cluster of luxury resort-style Villas and a luxurious Country Club.

MahaSamutr features an artificial lagoon and a man-made sand beach that offer breezy yet ritzy environment in a safe atmosphere, suitable for family gatherings and recreational activities. The 800-meter-long lagoon, situated on the 72,000-sq.m. lot, is visible and accessible from all villas, making the stay very much pleasant and packed with fun activities, such as swimming, paddle-boarding, diving, and other water sports.

With the latest technology from Crystal Lagoon Corporations, the color and the quality of the water is tested and carefully monitored to ensure environment reservation and energy saving.

MahaSamutr Project Details (As of December 31, 2013)	
Location	Soi 112 Hua-Hin District, Prachuabkhirikhan Province
Project's characteristics	   
Total area	Approximately 128 Rai 2 Ngan 84.9 sq.wah
Sales area	81 luxury villas
Sales price	Approximately 40 million Baht/ Villa
Project details	Residential units: MahaSamutr Villa (Approximately 81 resort-style villas) Country Club: Hua Hin Country Club, managed by PACE and supported by ILC (for members and residents) Beach Club: MahaSamutr Beach Club, managed by PACE and supported by ILC
Project value	Approximately 3,280.0 MB. (excluding the value of the Country Club)
Construction period	Construction started in Quarter 3/2013 –2015
Sales period	Sales to start and opening of sales office in the second half of the year 2014
Project features	The 800-meter-long lagoon with the total area of 72,000 sq.m.
Progress on construction (as of December 3 rd , 2013)	Approximately 55.08% of the soil leveling process was completed

2.2 Marketing and Competition

2.2.1 Market condition

The Company and subsidiaries mutually determined the group's competitive strategies in residential, hotel, and retail businesses as follows:

Residential Business

Competitive Strategy

Strategic location

The Company places high emphasis on selecting the right location for its projects, as location is a main key driver for the success of the real estate business. The Company will choose project locations in the business center areas that are close to transit systems and highly accessible. For example, the location of MahaNakhon Project is between Silom Rd. and Sathorn Rd. and adjacent to Chongnonsri BTS station. This is the area with continuous expansion of office space and new residential facilities and it is expected to host a high-purchasing-power community in the near future.

Aside from selecting the best location in Bangkok's city center, the Company is also interested in investing in prime locations in tourist destinations. For instance, it bought the land in Hua Hin, Prachuabkhirikhan Province to develop resort-style villas in its pipeline project aptly named "MahaSamutr".

Product

The Company eminently focuses on developing the right types of projects that are suitable for each location. PACE doesn't restrict its investment universe to only residential developments, though; if the acquired land is suitable for other types of developments, the Company will not hesitate to adjust its objective to bring out the best use of the location. For example, MahaNakhon Project is designed to be a mixed-use project that incorporates residences with hotel and retail center in one place. This is just to ensure maximum utilization of the prime location in the city center.

Apart from a novel design suited to each location, another equally important success factor is the quality of the project. As the Company's target customers are in the upper market segment (high-purchasing-power group), in which super-luxury exclusivity is highly valued, expectation towards superior quality is very high. The Company, therefore, put in place strict quality-control measures under the "Zero Defect" policy to be followed before delivering projects. Indeed, this policy has been highly blessed by PACE customers, including those of Saladaeng Residences Project.

Target customer

Recognizing varieties of customer segments and their distinctive needs and wants, the Company focuses on serving not only super-luxury ones but also other classes of customers. To better understand and serve its customers, the Company constantly carries studies on customers' preferences and designs its project to

match customers' expectations accordingly. Before the start of MahaNakhon Project, for example, the Company devoted its resource to study target customers: Thai people dwelling in the city center, tourists, and foreign investors who enjoy convenient and modern life-styles. Such study led to the choosing of the brands "Bangkok Edition Hotel" and "The Ritz-Carlton Residences", a 5 star luxury boutique hotel and an international residence under the Marriott Group both managed by the Ritz-Carlton Hotel Company.

Pricing

The Company has policy concerning pricing its project in a competitive range when compared to market prices of the projects of similar nature. In practice, it considers several factors, such as project architectural features, the brands of the projects, projects' amenities, visual features of the residences, project cost, and required rate of return. Nevertheless, its main consideration in project pricing is the relative quality-to-price rate.

Operation Strategy

The Company places high importance on professionalism. It also selects high-profile outsourced administrative teams to manage some of its project.

Marketing and public relation

The Company focuses on delivering marketing messages to and having marketing activities with target customers, including dwellers in the residential building and the hotel in MahaNakhon Project and high-purchasing-power office workers and residents in residential buildings, and hotels in the nearby locations such as:

- Residents in approximately ten neighboring leading hotels, such as Sukhothai Hotel, Dusit-Thani Hotel, and W Hotel
- High-income dwellers in neighboring residential projects, such as Empire Place, Sky Villas, Sukhothai Residences, Infinity Condominium, and the Met
- Workers in the nearby office buildings, such as Empire Tower, Sathorn City Tower, Sathorn Thani I and II Tower, and Sathorn Square Tower

Hotel Business

Competitive strategy

Strategic location

The Company's hotel is situated in the business center area surrounded by main business streets, such as Silom Rd., Sathorn Rd. and Narathiwat Rajanagarindra Rd., and is adjacent to Chongnonsri BTS Station. The hotel's main attraction is its unique architectural features of the building that is designed to be the tallest building in Thailand.

Product

The hotel's main selling point is the reputation of the hotel itself and of its management team. The Company strategically chose the brand "Edition", a new 5 star luxury boutique hotel brand under Marriott Group managed by the Ritz-Carlton Hotel Company. It is a co-creation of Mr. Bill Marriott, CEO of Marriott, and Mr. Ian Schrager, a renowned hotelier specialized in boutique hotel service design. Indeed, the design of "Edition" hotel most resonates with the style and features of MahaNakhon Project. In addition, choosing Marriott's brands means that the most efficient hotel reservation system will be used in Bangkok Edition, as the hotel can utilize Marriott's world-wide network. This actually is one of the reasons that make customers over the world trust the brand. The hotel is positioned to accommodate businessmen seeking for a pleasant and convenient stay that, at the same time, offers modern and cutting edge atmosphere.

Target customer

The hotel's target customers are foreign businesspersons, foreign travelers, high-purchasing-power Thai businesspersons, and other retail clients who visit the hotel's restaurants and banquet rooms.

Pricing

To determine its room rates and service rates, the Company takes into accounts many factors, including market rates, seasons, clients' demand, and costs, to ensure that the rates are consistent with the hotel's quality of services and reputation.

Operation

For its operation strategy, the Company focuses on having professional management team in place. In so doing, the Ritz-Carlton Hotel Company, a hotel management company under Marriott Group, was chosen to manage the Bangkok Edition.

Marketing and public relation

Main distribution channels consist of direct marketing system, world-wide sales representative offices, and an internet-based reservation system. Moreover, to enhance the hotel's image and increase its brand awareness, the hotel also will regularly advertise through printing media and launches promotion plans for the ultimate purpose of boosting sales of Marriott system.

Industry analysis and competition**Overview of real estate development industry**

The survey done by Agency for Real Estate Affairs Co., Ltd. (AREA) found that Thai real estate market in the second half of 2013 is expected to slow down, having its growth rate at 10% less than the growth rate in the first half of 2013. Compared to 2012, the industry in 2013 is expected to grow approximately 4% in terms of value and 12% in terms of the number of new units. In other words, there will be 113,584 units opening in 2013 with the value of the newly opened units of 310,772 MB.

In the first half of 2013, there are 186 real estate projects opening in Bangkok and peripheral areas, totaling to 169,645 MB. This number is far less than that in 2012 which was 416 projects. In the first half of 2013, there are 61,540 new units for sales, 99% of which are residential real estate units.

There are 61,397 residential units for sales that opened in the first half of 2013. With the total value of 167,985 MB, the value per unit of the newly opened residential units can be calculated as 2.736 MB/unit, slightly lower than that of 2012 at 2.937 MB. This signifies that projects are lowering their sales price to increase the sales volume. This is one of the early symptoms of the slowdown in real estate market.

Moreover, Kasikorn Research Center Co., Ltd. cited that, in 2013, there were many new government policies put in place, such as the increase of a minimum wage to 300 baht/day, the increase of a minimum salary of the bachelor degree graduates to 15,000 baht/month, the reduction of tax charge for the first-time home buyers, and the implementation of the long-term water management plan. These policies helped spur consumption. Even though there were many global incidences, such as Europe's debt crisis and the stability issue of the United States, the interest rates were maintained in their current state.

Risk Factors

- the use of appraisal values in the guideline for 2012- 2015 that may increase the housing cost for home buyers
- economic conditions in the near future which is under the risks of a new global slowdown
- a possible increase of the price of construction materials due to rising in domestic demand that may affect the cost of construction
- a rapid increase of land prices in many areas, especially those in the business center areas in Bangkok

Supporting Factors

- the implementation of a government policy to reduce tax charge for first-time home buyers
- the implementation of a government policy to reduce interest rates charged to low-income home buyers (interest rate of 0% for 3 years)
- the implementation of the Bank of Thailand's soft loan project

Competition

Residential Business

For Bangkok area - Condominium in the central business district (CBD) Bangkok

Condominium can be categorized into 5 types based on selling price per sq.m. as follows:

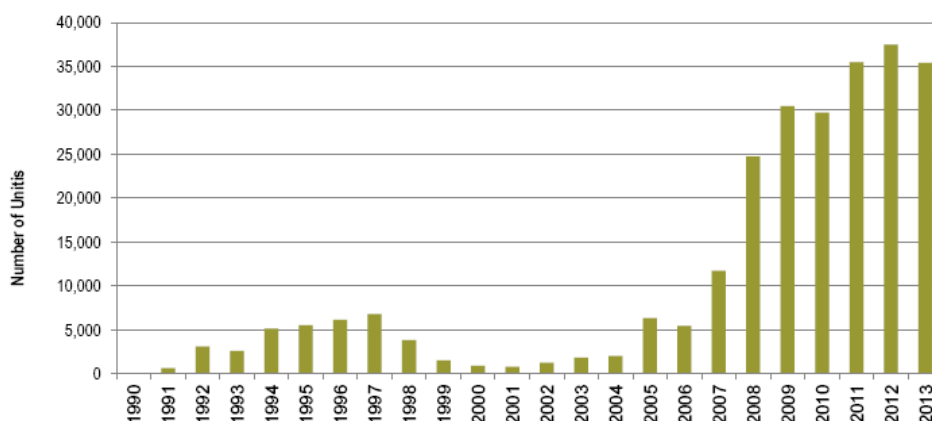
Class	Selling price (THB per sq.m.)
Mid-Low	< 80,000
Grade B / Up-mid	< 80,000 - 120,000
Grade A / High-End	120,000 - 160,000
Luxury	160,000 - 200,000
Super Luxury / Ultra Luxury	> 200,000

Grade A condominium and above is considered as a premium condominium. Hence, the current condominium project of the Company is categorized as luxury class (Saladaeng Residences) and super luxury class (MahaNakhon project, The Ritz-Carlton Residences and Langsuan Project residences). Most premium condominiums in CBD are developed by Public Company Limited such as Sansiri Plc., Pruksa Real Estate Plc. and Asian Property Plc.

Considering statistic of condominium launched each year from 2004 – 2013, it was found that the number of super luxury and luxury projects was fewer compared to grade A and B projects. Therefore, the Company had fewer competitors for the projects that are located on the business center area such as Silom Sathorn and Rajdamri who considered as the main competitors of the Company. Those projects are Sukhothai Residence, Banyan Tree Bangkok, St. Regis Residences and 185 Rajdamri. However, when compared the quality of competitors' projects to MahaNakhon project, the Company's project still has competitive advantages in many aspects since the design, brand, and quality of project are internationally recognized.

Bangkok Condo Market – Historical Supply

Overall Bangkok Annual Net Supply Addition

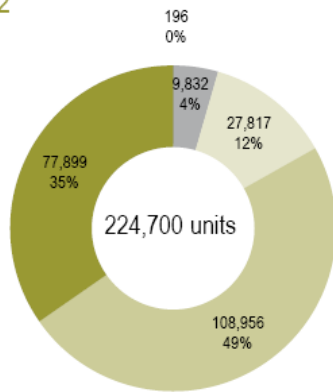


Source: Jones Lang LaSalle Research

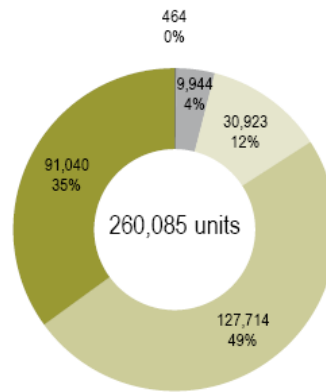
Bangkok Condo Market – Current Supply (4Q13)

Overall Bangkok Supply by Grade

4Q12



4Q13

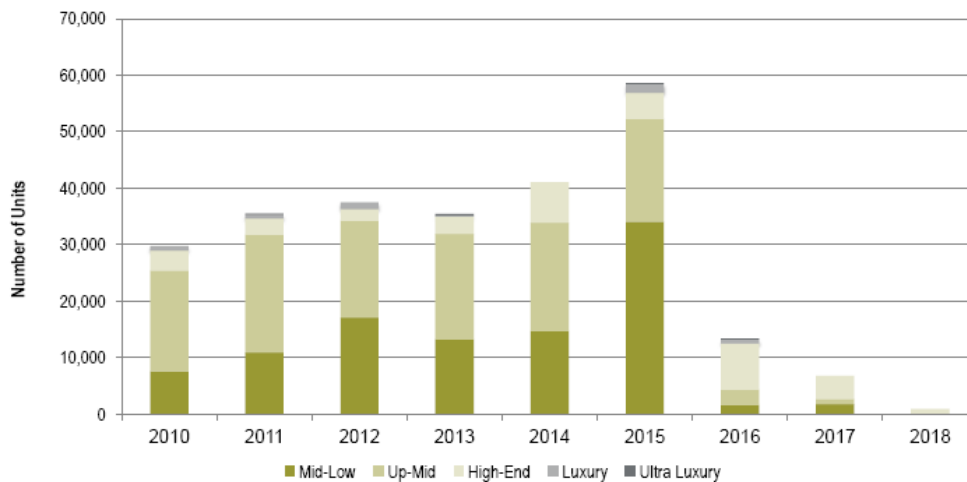


■ Ultra Luxury ■ Luxury ■ High-End ■ Up-Mid ■ Mid-Low ■ Ultra Luxury ■ Luxury ■ High-End ■ Up-Mid ■ Mid-Low

Source: Jones Lang LaSalle Research

Bangkok Condo Market – Future Supply

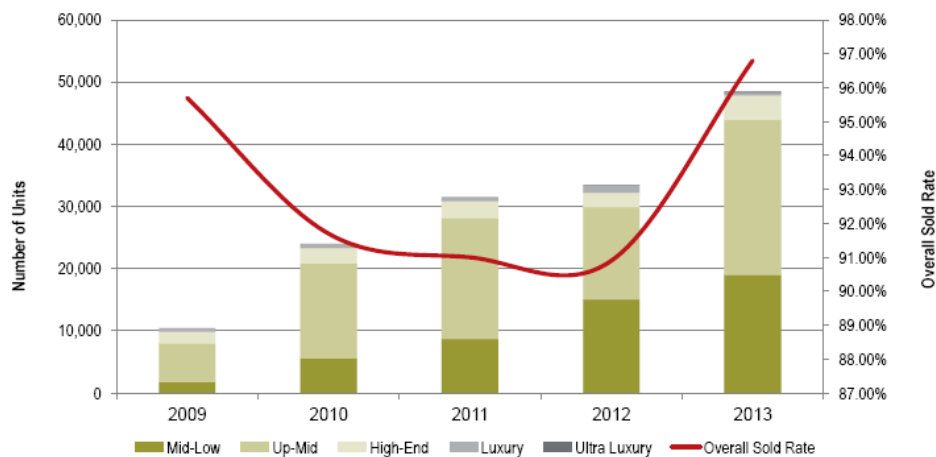
Overall Bangkok Forecast Annual Supply Addition by Grade



Source: Jones Lang LaSalle Research

Bangkok Condo Market – Historical Demand

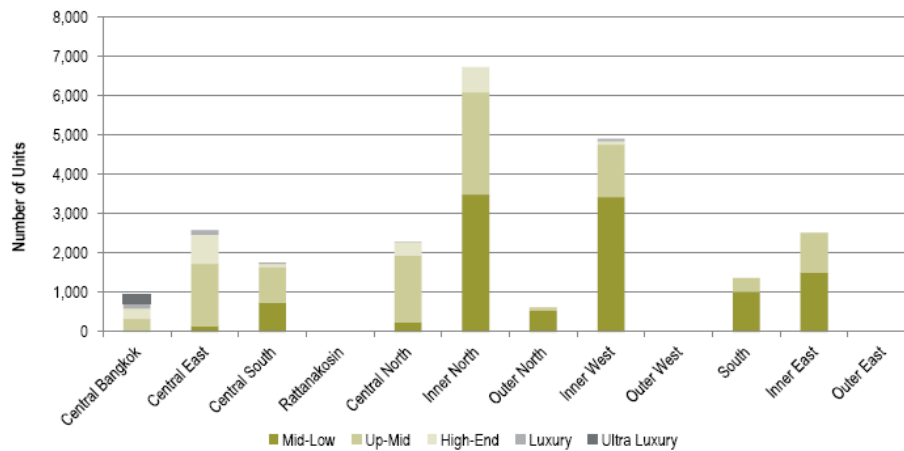
Overall Annual Net Absorption and Sold Rate



Source: Jones Lang LaSalle Research

Bangkok Condo Market – Current Demand (4Q13)

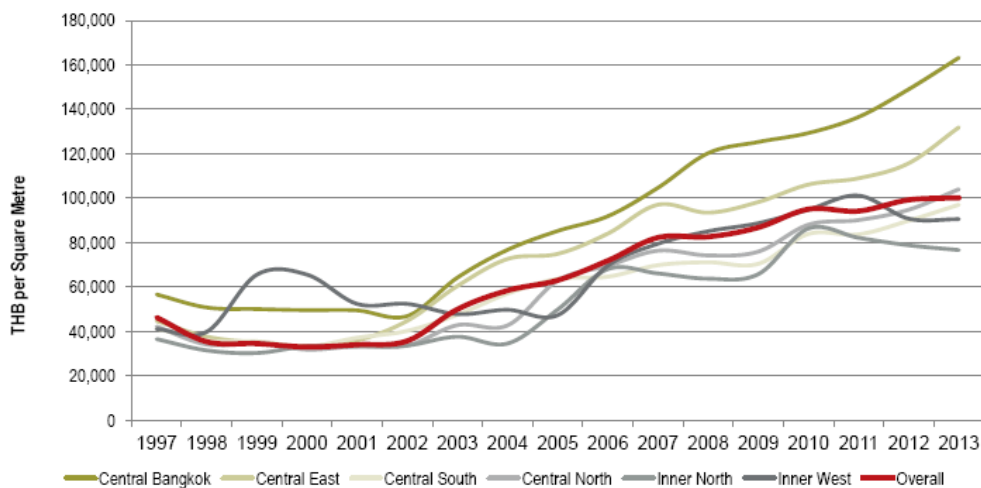
Overall Net Absorption by Zone and Grade



Source: Jones Lang LaSalle Research

Bangkok Condo Market – Historical Selling Prices

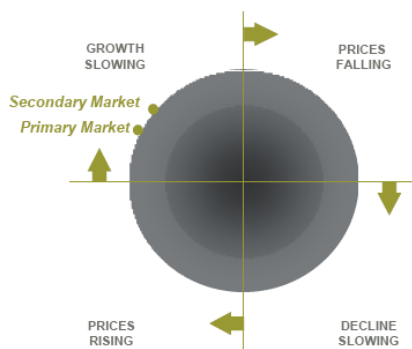
Average Selling Prices per Square Metre at Project Launch by Zone



Source: Jones Lang LaSalle Research

Bangkok Condo Market – Outlook

Outlook



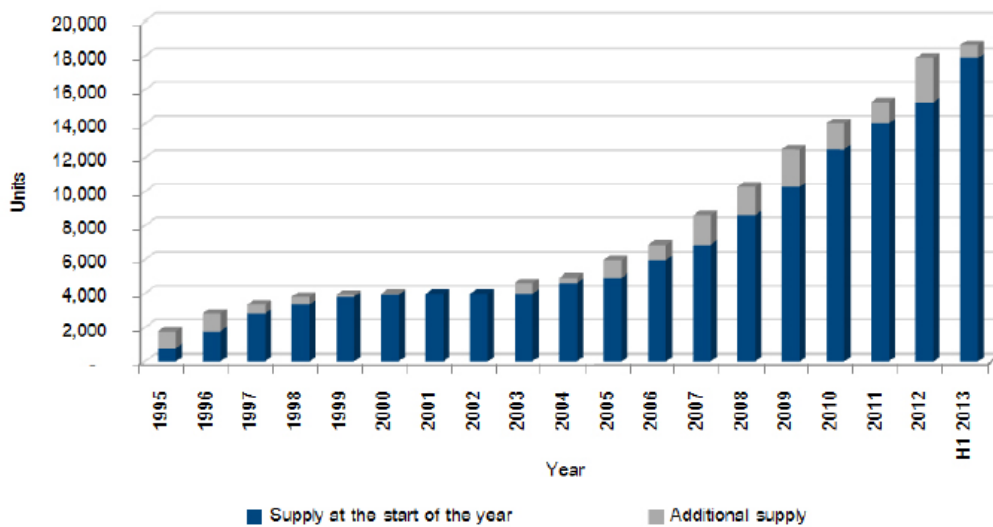
Source: Jones Lang LaSalle Research

- Take-up remains sound on sustained demand in centrally located areas for both low-rise and high-rise developments. Continued increases in development costs (i.e. land and construction) have resulted in rising selling prices across Bangkok, especially along the mass rapid transit lines.
- Condominiums near mass rapid transit stations continue to attract buyers, resulting in higher absorption rates in these projects (e.g., Inner North and Inner West) relative to those not near a station.
- The highest absorption rates are in the Up-Mid and Mid-Low market segments due to the affordable selling prices.
- More than 41,000 condominium units are scheduled to complete in 2014. Newly launched projects are most likely to be located near mass rapid transit stations owing to buyer preferences and incentives from the BMA in the new 2013 City Land Use Plan.

For Hua Hin Resort + Town area - Condominium and Villa in Hua Hin and nearby area

More than 240 condominium units were completed in the Hua Hin, Cha Am and Pranburi areas in H1 2013 and Approximately 520 units of landed development were launched in H1 2013, the lowest number in the past few quarters. Most buyers in the Cha Am, Hua Hin and Pranburi areas are Thai, especially in condominiums and housing development projects, while some foreign retirees are owned or rent condominium or house in the area.

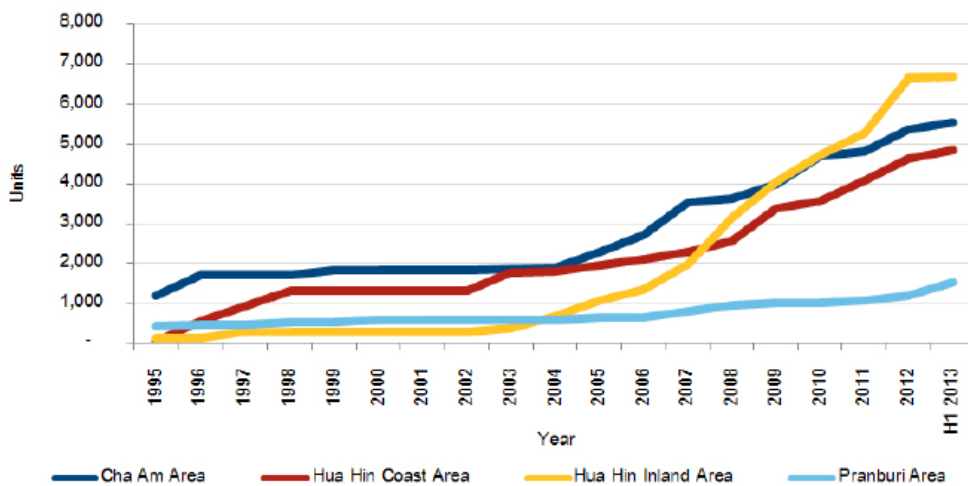
HISTORICAL SUPPLY OF CONDOMINIUMS, LANDED PROPERTY UNITS AND PLOTS OF LAND BY YEAR, H1 2013



Source: Department of Land and Colliers International Thailand Research

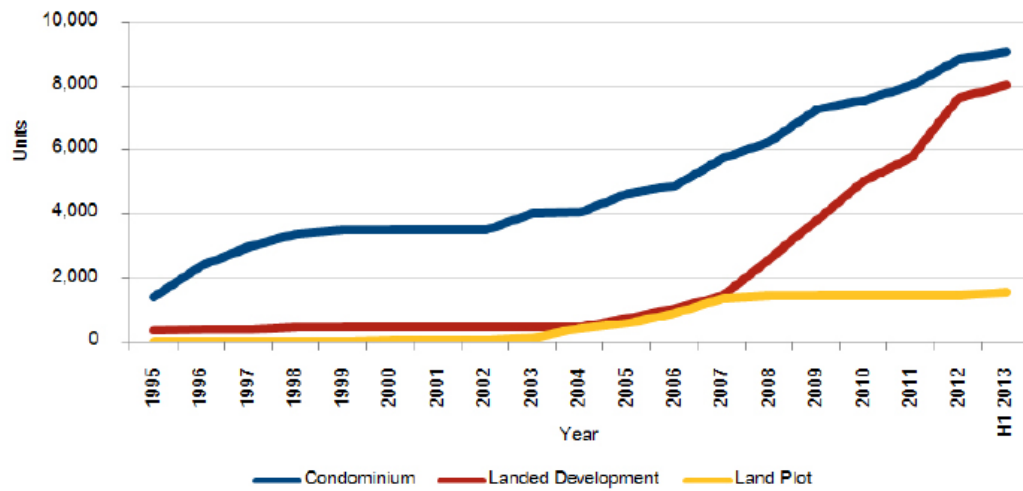
Note: The total number of housing and villas includes completed units, under-construction units and un development units.

HISTORICAL SUPPLY BY LOCATION AND YEAR, H1 2013

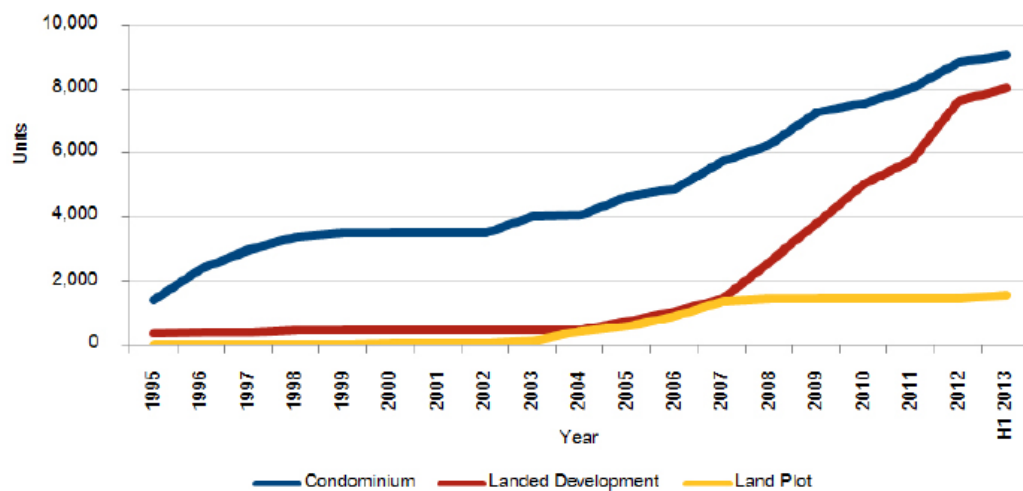


Source: Colliers International Thailand Research

HISTORICAL SUPPLY BY PROPERTY TYPE AND YEAR, H1 2013

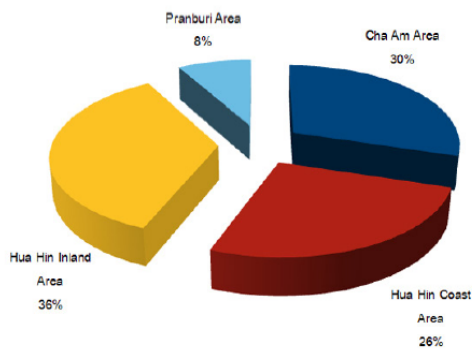


HISTORICAL SUPPLY BY PROPERTY TYPE AND YEAR, H1 2013



Condominiums represent, by far, the main source of supply in the Hua Hin, Cha Am and Pranburi areas. Landed development only really took off in 2004 after developers looked at land away from the coast and on the hillsides, targeting the foreign market for villas and affordable second homes for Thais. In addition, local developers also launched their residential projects for local buyers or people who came to work in the Hua Hin area. Coastal locations have always been most sought after and high land prices meant that condominiums became the most feasible option.

CURRENT SUPPLY BY LOCATION, H1 2013



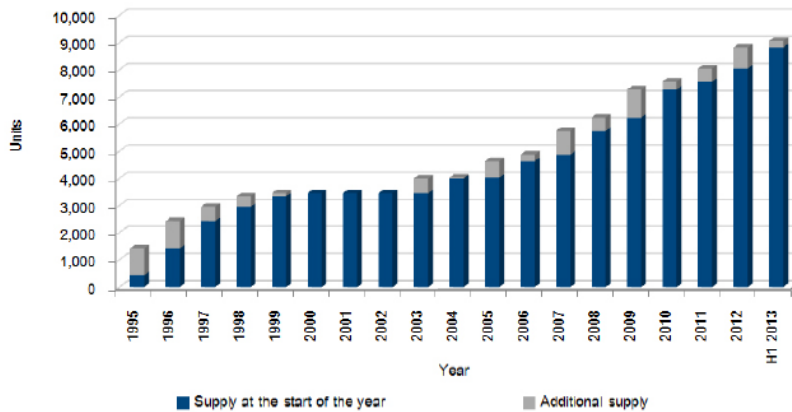
Source: Colliers International Thailand Research

The total supply of residential units in Hua Hin, Cha Am and Pranburi is approximately 18,655. The Hua Hin Inland area contains the highest number with approximately 6,690 units, while nearly 5,560 units and around 4,870 units are located in the Cha Am and Hua Hin Coast areas, respectively, with only around 1,540 units in Pranburi. The Hua Hin Inland area had the highest number, because it covers the largest covering area and land prices in this area are still lower than other areas, so are suitable for housing projects. In addition, many local developers launched their housing projects in the area for local buyers and people who came to work in Cha Am, Hua Hin and Pranburi, due to the proximity to supporting facilities.

Condominium

(Condominium only)

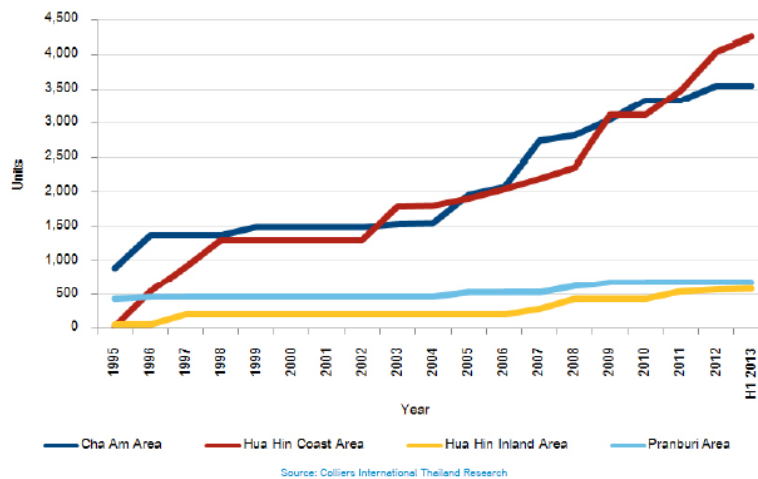
HISTORICAL SUPPLY BY YEAR, H1 2013



Source: Department of Land, Colliers International Thailand Research

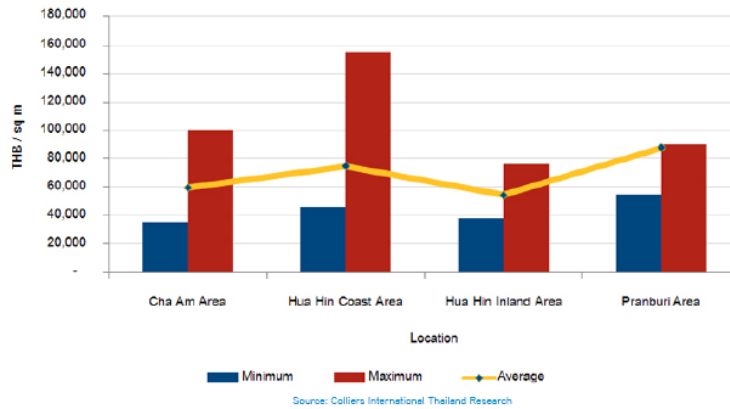
(Condominium only)

HISTORICAL SUPPLY BY LOCATION AND YEAR, H1 2013



(Condominium only)

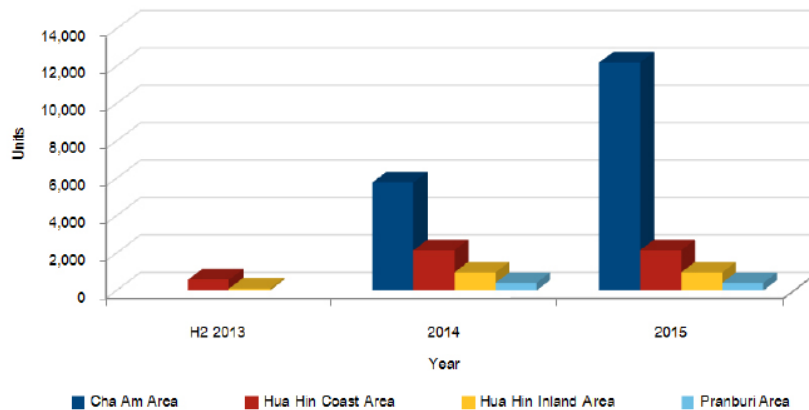
AVERAGE SELLING PRICE OF CONDOMINIUM UNITS AVAILABLE FOR SALE IN CHA AM, HUA HIN AND PRANBURI, H1 2013



Approximately 7,600 condominium units are still on the market from the total more than 23,000 units at more than 75 projects. The highest number in Cha Am is at large projects, with a total of nearly 6,000 units launched in the second half of 2011 and another two projects with more than 1,000 units per project. Most condominium projects in the Hua Hin Coast area are smaller scale, due to limited plots of land.

(Condominium only)

CUMULATIVE FUTURE SUPPLY SCHEDULED TO BE COMPLETED FROM 2013 TO 2015 BY LOCATION, H1 2013



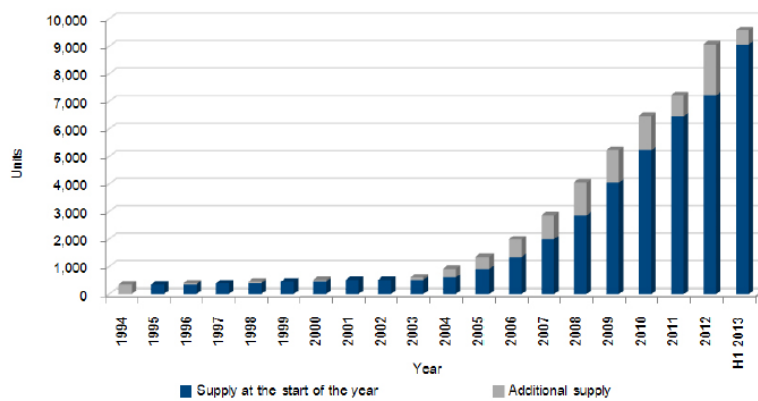
Source: Colliers International Thailand Research
Note: The year completion is expected by developers

The labour shortage is still the major obstacle for the construction industry in Thailand. Many residential projects cannot be completed by the expected date. Approximately 700 units are scheduled to be completed in the second half of 2013, because some condominium projects postponed their completion dates to next year. More than 8,500 units are expected to be completed next year and the total condominium supply in Cha Am, Hua Hin and Pranburi will be higher than 18,000 units. Many listed developers were focusing more on the condominium market outside Bangkok, Cha Am and Hua Hin also the one of their target location in the future.

Villa

(Villa only)

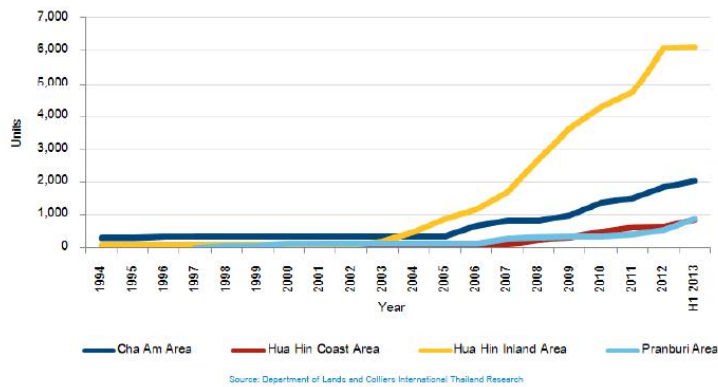
HISTORICAL SUPPLY BY YEAR, H1 2013



Source: Department of Lands and Colliers International Thailand Research
Note: The total number of housing and villas are includes completed units, under-construction units and un development units.

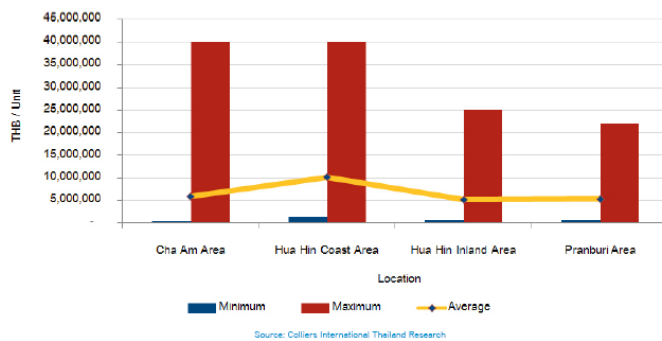
(Villa only)

HISTORICAL SUPPLY BY LOCATION AND YEAR, H1 2013



(Villa only)

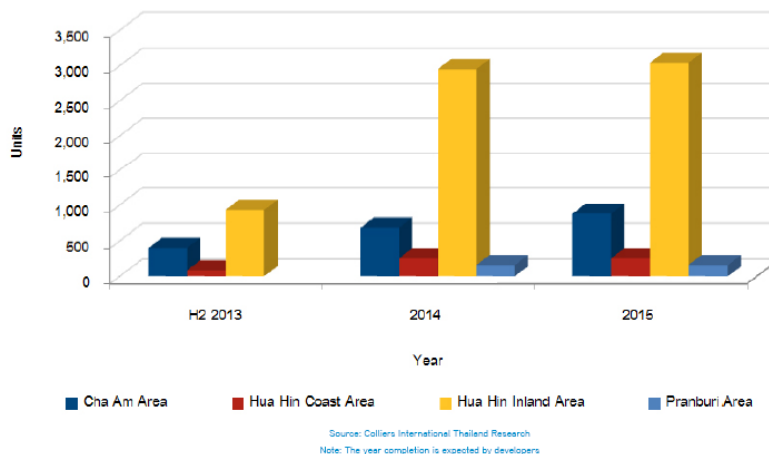
AVERAGE SELLING PRICE BY LOCATION OF HOUSES AND VILLAS AVAILABLE FOR SALE, H1 2013



The Hua Hin Inland area contains, by far, the greatest number of available housing units located away from the coast to the west of Phetkasem Road (Highway 4), which creates a boundary between the Coastal and Inland areas.

(Villa only)

CUMULATIVE FUTURE SUPPLY SCHEDULED TO BE COMPLETED FROM H2 2013 TO 2015 BY LOCATION, H1 2013



Nearly 1,070 units were scheduled to be completed in the second half of 2013 in all locations, and 66% are located in the Hua Hin Inland area. The completion date depends on the developers, due to some housing projects in Cha Am and Hua Hin being “made to order”, although some developers will start construction as soon as buyers sign an agreement. Thus, some units in the most of the projects in the Cha Am, Hua Hin and Pranburi areas are still under construction.

Hotel Business

For Bangkok area, most of hotels use international brands and the owner of the brands will be responsible for business management since reputation and services of international brands are recognized worldwide. Moreover, international brands also have broad customer database, so they have well understanding about customers' needs. As a result, the hotel is highly recognized and accepted by the customer.

For the international companies that operate the hotel business in Thailand are for instance, International Hotels Group: IHG which operates Intercontinental, Holiday Inn, Meridian which operates highly reputable hotels such as Westin and Sheraton, and Accor which operates different brands of hotels categorized by the level of luxury and price such as Sofitel, Grand Mercure, and Novotel. Nevertheless, 5-star International hotel chains which are located in business center such as Renaissance Ratchaprasong, Siam Kempinski, St. Regis, and Ogura Prestige are considered to be main competitors of Bangkok Edition hotel in MahaNakhon project.

Retail business

For Bangkok area, retail sector is currently in the upward trend, so the shopping mall development and management business is also expanding in the same direction. Current retail business operators consistently plan to expand their branches. For example, Tesco Lotus and Big C plan to increase their branches in the stand alone format which they have an expertise and are currently operating. As at the end of Quarter 4, 2013, total retail areas in Bangkok were 2.44 million sq.m. divided into shopping mall of 1.40 sq.m. and community mall of 0.84 million sq.m. (Community mall in business center started to operate during 2009-2012).

The future business trend will be focused on the opening of outdoor and open air malls for different kinds of products such as Community Center, Power Center, Lifestyle Center, Factory Outlet Center following the different demands of the consumer in Bangkok and other provinces nationwide especially Community Center which its number are still few in provincial area.

2.4 Undelivered units as of December 31, 2013

Project name	Project type	Land size	Total units/ Transferred units or recognizable units	% Completion	Undelivered sold or leased units		Sales period	Construction period	Transfer of ownership or lease starts from:
					number (unit)	Value (MB)			
Ficus Lane Project	Residential condominium	1,157 sq.wah	70 unit / 66 unit	100.0	1	24.6 (Sales value) 14.5 (Book value)	2004 – Present	2004-2006	Transfer of ownership started from 2006
Saladaeng Residences Project	Residential condominium	584 sq.wah	132 unit / 121 unit	100.0	4	114.5 (Sales value) 69.3 (Book value)	Quarter 4/2008- Present	2008-2011	Transfer of ownership started from quarter3/2011
MahaNakhon Project	Mix-use project consisting of residential condominium, hotel, and shopping center	9 Rai 1 Ngan 51.1 sq.wah	1. Hotel 159 room 2. Residences 200 units 3. Shopping center approximately 9,826 sq.m. - Retail Hill and Sky Observation Deck - Retail Cube	6.3 9.1 16.4 76.72	- 112*	Subsidiaries' net investment in the project's leasehold rights and construction cost of 5,075.9 MB.	2009-2015	2011-2015	2015

* Information as of December 31st, 2013

3. Risk Factors

Strategic Risk Factors

Risks arising from the land acquisition policy for future development projects

PACE and subsidiaries (totally called “the Company”) generally do not have the policy to buy and hold lands for future projects (except some lands that offer exceptionally high potentials for development and return on investment) because the Company wants to avoid incurring unnecessary financial burden, changes in city plans, changes in expropriation areas, and devaluation of lands due to the cancelation or the delay of adjacent mass transportation systems. In so doing, the Company faces the risk of being unable to buy lands in the desired locations and/or the risk of buying lands in an exaggerated price. These risks may affect the Company’s abilities to acquire the land in advantageous locations and may also impair its financial performance should it choose to purchase the lands with higher costs.

Nevertheless, the Company has put in place a strategic plan to seek for and seize the lands to match with its planned investment each year. To ensure land availability of all time, the Company formed a meticulous approach to trace, track, and monitor detailed information on lands. This enables the Company to forecast the trends and growth potentials of lands in many locations, based on the expansion of residential area, and outlook on city expansion and developmental path. Before acquiring the target lands, the Company estimates city expansion directions, explores regulation constraints, and also scrupulously examines land ownership to reduce any possible risks. It also surveys the target lands and assesses financial feasibility and marketability of the land before acquisition.

The Company acquires its lands by itself and through brokers/dealers, who have constantly reached out to the Company for the past years. The Company, however, tries to contact and negotiate with the land owners directly. This allows the Company to better control acquisition costs to ensure that the developed land will generate proper profit margin.

Risks arising from delays of the project under development

As of December 31, 2013, PACE has 2 completed projects;

1. Ficus Lane Project
2. Saladaeng Residences Project

2 projects under development;

1. MahaNakhon Project
2. MahaSamutr Hua Hin Project

and 1 future project;

1. Langsuan Project

Project	Location	Construction Period (expected)	% Completion	
			As of Dec 31 st , 2013	
			Construction	Sales
<u>Completed projects</u>				
1. Ficus Lane Project	Soi Sukhumvit 44/1 (Pichaisawat) Sukhumvit Road	2004–2006	100	95.2
2. Saladaeng Residences Project	Soi Saladaeng 1 Silom Road	2008-2011	100	99.0
<u>Projects under development</u>				
3. MahaNakhon Project				
3.1 Bangkok Edition Hotel	Next to Chongnonsri BTS Station, Narathiwas Rajanagarindra Road	2011-2015	13.38	-
3.2 The Ritz-Carlton Residences Bangkok *	Next to Chongnonsri BTS Station, Narathiwas Rajanagarindra Road	2011 -2015	19.37	45.9
3.3 Retail Center				
3.3.1 Cube Building (Retail Cube)	Next to Chongnonsri BTS Station, Narathiwas Rajanagarindra Road	2011-2014	76.72	0
3.3.2 Main Building	Next to Chongnonsri BTS Station, Narathiwas Rajanagarindra Road			
- Retail Hill		2011-2015	16.40	
- Sky Observation Deck		2011-2016		
4. MahaSamutr Project	Hua-Hin, Prachuabkhirikhan Province	2013-2015		
<u>Future Project</u>				
5. Langsuan Project	Soi Langsuan	2014-2015		

* As of December 31, 2013, there were 112 units of the Ritz-Carlton Residences Bangkok Project under long-term lease contracts, equivalent to 21,999.86 sq.m., or 45.9% of the leasable space of 47,915 sq.m, totaling 5,551.8 MB. of the lease contract value. Furthermore, there are 10 units under subscription agreements, equivalent to 2,750 sq.m., or 5.7% of the leasable area, totaling 807.3 MB. of the reservation value. In summary, there were 122 units under lease contracts and reservations, equivalent to 24,749.86 sq.m., or 51.7% of the leasable area, totaling 6,359.0 MB. of the total contract value. Note that as of December 31, 2013, PACE has not recognized revenue on the sold long-term leases and reservations. The Company will start recognizing revenue when the construction and the ownership transfer are completed.

**On Feb 7, 2014, the Company's subsidiaries purchased the land plot of MahaNakhon Project and already changed the ownership structure in MahaNakhon Project from leasehold to freehold.

Risks arising from concentrated reliance on MahaNakhon Project

MahaNakhon is a sizeable project compared to the Company's past project as well as its assets. The structure of the project is complex and involves various stakeholders. Its success quintessentially and directly affects the health of the Company. Nevertheless, MahaNakhon is not the only project under PACE's development; PACE has completed 2 previous projects -- Ficus Lane and Saladaeng Residences—with a combined project value of 3,248 MB. MahaNakhon is the third project that PACE co-developed with its partner. In addition, the Company is currently developing a new project "MahaSamutr Hua Hin" and already launched it in 2013 with total project value of 3,280 MB. (excluding the value of Country Club project). Moreover, the Company plans to invest in another project "Langsuan", with project value of 6,000 MB. MahaNakhon is thus not the only project that influences the performance of PACE; other projects also contribute to the health of the Company and so the risk of excessive reliance on one big project is actually diversified.

Operational Risks**Risks related to cost management****(1) Risks of construction delays and quality of the projects**

The Company hires outsourced contractors to construct its real estate projects. Having no in-house construction team may expose the Company to the risk of uncontrollable construction delays due to contractors' unprofessional management or insufficient labors. In addition, even if the delivery is on-time, the quality of the delivered project may be considered sub-standard. These issues may result in a failure to timely deliver projects to the customers, and/or ineffective cost control. To prevent the said adverse outcomes, PACE has taken the following measures;

- Tracking and controlling purchases to match the defined budget
The Company has a strict policy to appoint well-known quantity-surveyor companies, such as Langdon & Seah Thailand Co., Ltd., to estimate budgets for bigger projects, such as MahaNakhon Project, to make sure that the budget is estimated with precision and thoroughness. In the contractor hiring process, the Company applies bidding procedure, in which it will select contractors that are suitable for the project not only in terms of construction capability and techniques, but also in terms of team capacity, and available fund size. This is done to avoid project cost overrun.
- Controlling construction period to match the defined timeline
To effectively control construction period, the Company not only utilize its own highly-experienced in-house team, but also has a policy to hire professional project managers to make sure that the construction is timely completed with high quality. Furthermore, PACE utilizes updated software packages to design and monitor the building process to reduce errors and lessen the time to fix the work.

2) Risks arising from volatility in construction material prices

Most of the main construction works, including structural work, system work, and building-surface work, in PACE's ongoing projects, such as MahaNakhon Project, have reached and completed the hiring process. These main works account for approximately 75% of the construction value; the remaining works are interior design and landscape design, whose budgets are being adjusted by the Company. In addition to the budget for the said works, the Project has set aside contingency cost to account for any unplanned but necessary expenses.

PACE believes that a sensible and practical projection of construction material prices is essential for the feasibility of its future projects. It, therefore, places great emphasis on selecting the right quantity-surveyor companies. Furthermore, it focuses on maintaining good relationships with all suppliers and contractors, resulting in an impressive creditability that its trade partners place on PACE. In addition, the Company continually seizes updated information on the market condition of construction materials and their alternatives in order to keep up with the dynamic of the market.

Risks of legal dispute arising from construction

The risk of damaging surrounding buildings is a common risk facing development and construction companies. Therefore, most companies, including PACE, generally manage to have insurance policy in place. This insurance not only transfer risk to insurance companies, who are responsible to pay damage compensation covered by the policy, it can also help prevent possible legal disputes that come with the damage. Furthermore, the Company also enforces the following preventive measures on site supervision;

- Prevention of falling material from the site: by ensuring that the site is organized, trashes and garbage are removed from the site on a daily basis, and the detailed safety net is properly installed to contain falling materials
- Reduction of construction dust: by wetting trashes and garbage before removing them from the site
- Reduction of construction noise: by operating only in permitted time period and informing surrounding neighbors in case of over-time operation
- Reduction of construction vibration: by selecting barrette pile and bored pile systems to decrease vibration and by using diaphragm wall in underground work to reduce soil slide when removing sheet piles in a very deep soil level compared to normal soil level or when removing sheet piles is expected to damage surrounding buildings

In addition, PACE requires that contractors and site supervisors visit neighboring households to determine any problem created by its construction. If such problems occur, actions must be immediately taken. If there is any request from such households to fix small problem, contractors and site supervisors should be willing to assist. Moreover, PACE requires contractors and site supervisors to intermittently check with district offices for any

complaint against project construction so as to provide immediate remedies to the affected parties. As of December 31, 2013, the Company has set aside 9.6 MB. of reserve for its legal dispute regarding the construction of Ficus Lane Project.

Risks arising from major competitors in main business line

1) Risks from competitors in super-luxury residential real estate business

Competition among super-luxury residential real estate companies is moderate in the Bangkok area. Current super-luxury residential projects include St. Regis, Q Langsuan, Sukhothai Residences, and Saladaeng Residences, etc., each of which has satisfactory rate of sales. Nevertheless, to ensure sales of residential units or leasehold, the Company appoints experienced research companies to do market research and identify customer's preference prior to the beginning of the project, selects well-known architects to design the buildings, chooses professional and reliable contractors and project managers to construct the building and hires professional sellers to administer the sale. For instance, the Company hired CB Richard Ellis (Thailand) Co., Ltd. to administer unit sales in Saladaeng Residences, and hired CB Richard Ellis (Hong Kong) Co., Ltd. to administer leasehold sales in the Ritz-Carlton Residences Bangkok in Hong Kong. PACE also appointed The Ritz-Carlton Hotel Company, a residential real estate management company under Marriott Group, to manage the Ritz-Carlton Residences Bangkok, a residential building under MahaNakhon Project, in an attempt to differentiate the units under MahaNakhon from others available in the market. In addition, PACE arranged to have a "road show" to directly present information and features of the project to its target customers. Indeed, having experienced sales experts specialized in dealing with high-net-worth customers is one of the main reasons for PACE's ability to meet its target.

2) Risks from competitors in hotel business

There has been heightened competition from hotel business; many hotels focus on serving high-net-worth customers, potentially deteriorating Bangkok Edition Hotel's revenue and profit. With close monitoring and supervision from its executives and clear marketing strategies supporting the well-known "Bangkok-Edition" trademark under Marriott Group, the hotel, however, is able to stand strong among fierce competition. World-class management services from The Ritz-Carlton Hotel Company, a management company known for its superiority in reservation management system, reassure that customers will have convenient stays. Moreover, Marriott's domestic and international client database will support the hotel's strategy to expand its recognition among upper-class customers.

3) Risks from competitors in retail business

Competition from retailers in the forms of modern trade retailers and community malls may put downward pressure on rental rates and service fees and also take away qualified renters in PACE's life-style centers. PACE strategically placed its life-style centers in MahaNakhon project to attract high-purchasing-power buyers. The Company appointed Husband Retail Consulting Co., Ltd, a consulting company specialized in retail business, to give

recommendations on retail mix (a proper combination of retailers) in order to provide legitimate and thorough services needed in everyday life, especially food and beverages services (such as Dean & DeLuca Café and Gourmet Market). Life-style center's uniqueness will constantly bring in shoppers. Patrons include dwellers in the Ritz-Carlton Residences Bangkok and other residential buildings, travelers who stay in Bangkok Edition Hotel and adjacent accommodations, and workers in neighboring offices. With accumulated experiences in retail-mix planning, the Company is positive that its life-style center will be successful at attracting and maintaining client traffic and spending.

Financial Risks

Risks arising from interest rate volatility

As of December 31, 2013, the Company has long-term loans from financial institutions for the purpose of MahaNakhon Project construction with the interest rate of MLR-0.25% and overdraft facility for the purpose of MahaNakhon Project development with the interest rate of MOR, according to Credit Facility Agreement dated March 9, 2012 and Amendment dated May 10, 2013 entered into between PACE's jointly-controlled entity and two commercial banks. In addition, it has entered into a Credit Facility Agreement for the purpose of purchasing lands for MahaSamutr Project with the interest rate of MLR-0.25% with one commercial bank. If the interest rate rises, it will increase the Company's cost of funds, inevitably affecting the Company's future performance and its financial status.

Risks arising from revenue instability and loss at the beginning of the developmental phase

It is usual for real estate development companies, including PACE, to face revenue instability since they generally start recognizing revenues only when the construction and the ownership transfer of the real estate are completed. As of December 31, 2013, PACE has 2 completed projects that are in the process of ownership transfer: Ficus Lane and Saladaeng Residences. Ficus Lane Project has 3 residential units in the sale process with the total book value of 45.0 MB. (equivalent to sales value of 76.1 MB.). The three units are expected to complete ownership transfer and recognizable in 2014. Having sold 127 units (sales value of 2,200.8 MB.), Saladaeng Residences Project currently has 5 units remaining with the total book value of 85.2 MB. (equivalent to sales value of 137.9 MB.); four of the remaining units have been subscribed (sales value of 114.5 MB.) and expected to be transferred and recognizable in 2014.

In addition, the Company is in the process of constructing MahaNakhon Project. The Company expects to start recognizing revenue from Cube Retail Center, a part of Cube Tower, which will be finished at the beginning of 2014. Cube Retail Center has an approximate total area of 5,253 sq.m. Revenue recognition of other areas in MahaNakhon Project, including sales of leasehold contracts for residential units, revenue from hotel business, and rental income from Retail Hill and Sky Observation Deck in the Main Tower, is expected to start in 2015. The only

income stream recognizable in 2014 comes from rentals from Cube Retail Center. To help smooth its income stream, the Company therefore invested in the land to develop MahaSamutr Project in Hua Hin. The project is currently under construction. Furthermore, the Company is in the negotiation process to buy land to develop residential building on Langsuan road. The Company expects to partly recognize sales of single housing units in MahaSamutr Project, which has a total project value of 3,280 MB. (excluding the value of the Country Club) in 2015. The Country Club is also expected to be completed in 2015. Langsuan Project, which has a total project value of approximately 6,000 MB, is expected to be completed in 2016. Revenue from Sky Observation Deck is uncertain, depending on the number of tourists in Thailand, as well as PACE's marketing and advertising abilities to draw attention to the place.

**On Feb 7, 2014, the Company's subsidiaries purchased the land plot of the MahaNakhon Project and already changed the ownership structure in MahaNakhon Project from leasehold to freehold.*

Legal Risk

Risks arising from changes in government policies and related regulations

The risks of changes in relevant government policies, such as Town and Country Planning Act and its related laws, regulations related to usable areas in development projects and Floor-Area Ratio (FAR), and regulations related to issuance of EIA permits, are reduced by the Company's meticulous tracking of policy and regulation changes. Also, these risks can be mitigated by a detailed project's feasibility study in legal aspect. Since PACE has obtained every relevant license and permit for all of its ongoing and completed projects, changes in government policies and regulations, therefore, have no effect on its past and current projects.

Political Risk

Risks arising from riots, terrorism, and political manifestation

The Company has insurance policy that covers damages arising from riots, terrorism, and political manifestation. However, the incidences, should they occur, may post damages to MahaNakhon Project in the amount greater than the insurance limit and may also weaken the confidence of other stakeholders, such as joint-ventures and financial institutions, threatening the success of the Company's future projects.

In addition to general insurance for every project, PACE has arranged to have a special policy offered from Southeast Insurance Co., Ltd. for MahaNakhon Project, which is situated on the high risk area (Silom Road and Narathiwas Rajanagarindra Road). The policy will cover damages from Terrorism & Sabotage with insurance limit of 182 MB. (the policy expires on June 2, 2014).

Risk related to investment of securities holders

Risk related to ability to pay dividend

PACE expects that, during the construction of MahaNakhon Project, the Company's consolidated financial statements may show losses, and its unconsolidated financial statements may be negatively impacted, possibly further affecting the Company's ability to pay dividend. However, when MahaNakhon project is fully completed and its revenue becomes recognizable in 2015, PACE expects to generate profits and, as such, be able to significantly pay dividends to its shareholders. Since dividends will be paid out of retained earnings in unconsolidated financial statement only, the Company, therefore, started other projects to realize some revenues before the completion of MahaNakhon. Such projects include MahaSamutr Hua Hin Project, expected to start realizing revenue in 2015 onward, and Langsuan Project, expected to start realizing revenue in 2015-2016. If the Company is profitable and has no constraints on dividend payment that may be attached to the loan agreements with financial institutions for the purpose of financing project development, PACE will be able pay dividends to its shareholders based on its dividend policy.

4. Operating assets

As of December 31st, 2013, the Company has the following operating assets;

4.1 Characteristics of main operating assets

4.1.1 Inventory

Project name/Location	Type of Assets	Company	Ownership type	Book value as of Dec 31 st , 2013 (MB)	Appraisal value (MB)				Contingent liability as of Dec 31st, 2013 (MB)
					Appraisal value before adjustment (MB)	Adjust with additional construction costs	Adjust with accumulated cost of sales portion	Appraisal value after adjustment (MB)	
Ficus Lane Project	Two residential condominium units ¹ with area of 585.1 sq.m	PACE	Owner	30.4	57.4 (Appraisal date Dec 6 th , 2013)	-	-	57.4	One residential condominium unit with total area of 471.7 sq.m. mortgaged with Thanachart Bank PCL. ⁴

Project name/Location	Type of Assets	Company	Ownership type	Book value as of Dec 31 st , 2013 (MB)	Appraisal value (MB)				Contingent liability as of Dec 31st, 2013 (MB)
					Appraisal value before adjustment (MB)	Adjust with additional construction costs	Adjust with accumulated cost of sales portion	Appraisal value after adjustment (MB)	
Ficus Lane Project	One residential condominium unit ² with area of 366.6 sq.m (Sale contract is signed but payment is not completed)	PACE	Owner	14.5	36.7 (Appraisal date Dec 6 th , 2013)	-	-	36.7	Mortgaged with Thanachart Bank PCL. ⁴
Saladaeng Residences Project	Five residential condominium unit with area of 689.11 sq.m ³	YLP	Owner	85.2	142.9 (Appraisal date Dec 6 th , 2013)	-	-	142.9	-
Total				130.1					

Note:

¹ Two residential condominium units with the areas of 113.4 sq.m. and 471.7 sq.m respectively, totaling 585.1 sq.m. The appraisal value is 57.4 MB (estimated from average sale price per sq.m of 90,000 baht/sq.m and 100,000 baht/sq.m respectively) based on Market Comparison Approach for the purpose of public interest. The appraisal was done by General Valuation and Consultant Co., Ltd. (GVC), an appraisal company approved by Securities and Exchange Commission (SEC), on December 6th, 2013.

² One residential condominium unit with total area of 366.6 sq.m and appraisal value of 36.7 MB (estimated from average sale price per sq.m of 100,000 baht/sq.m.) based on Market Comparison Approach for the purpose of public interest. The appraisal was done by GVC on December 6th, 2013. The Company completed sale contract and the buyer move into the unit. However, the Company has not received full payment from the buyer and has not transferred the ownership of the unit to the buyer. As of December 31st, 2013, the buyer paid 18.2 MB to the Company and still owed the Company 6.4 MB. The Company recorded the paid amount as "advanced revenue" in Consolidated Statement of Financial Position as of December 31st, 2013.

³ Five residential condominium units with total area of 689.11 sq.m. and appraisal value of 142.9 MB. (estimated from average sale price of 180,000 to 220,000 baht/sq.m.). The appraisal value was estimated using Market Comparison Approach for the purpose of public interest by GVC on December 6th, 2013.

⁴ Formerly known as Siam City Bank Public Company Limited and changed to Thanachart Bank PCL after merging with Thanachart Bank PCL

4.1.2 Land for sale

Project name/Location	Type of Assets	Company	Ownership type	Book value as of Dec 31 st , 2013 (MB)	Appraisal value (MB)				Contingent liability as of Dec 31st, 2013 (MB)
					Appraisal value before adjustment (MB)	Adjust with additional construction costs	Adjust with accumulated cost of sales portion	Appraisal value after adjustment (MB)	
Rama III Rd.	Land with total area of 472 sq. wa; title deed number 5461, lot number 155	PACE	Owner	14.2	26.0 ¹ (Appraisal date Dec 6 th , 2013)	-	-	26.0	Titled deed is used as securities backing prosecution for damages at Southern Bangkok Civil Court; closed case# 5963/2549 and open case#7417/2548. Cases are now on trial in Supreme Court
Total				14.2					

Note:

¹ Appraised by GVC using Market Comparison Approach on December 6th, 2013 for the purpose of updating current market price of the assets

² On December 4th, 2013, the Company signed an agreement to sell the whole land lot with the potential buyers who indicate interests to buy the land with title deed number 5461 situated in Chong-Nontri Sub-district, Phra-Kanong District, Bangkok. The land area defined in its title deed is 1-0-72 Rai (472 sq. wa), excluding buildings. The land price, calculated on the area in title deed, is 49,6 MB.

4.1.3 Leasehold - Net

Company	Project name	Location	Size	Lease period	Book value as of Dec 31th, 2013 (MB)	Appraisal value (MB)	Contingent liability as of Dec 31th, 2013 (MB)
<ul style="list-style-type: none"> • PACE One • PACE Two • PACE Three 	MahaNakhon	Next to Chongnonsri BTS Station, on Narathiwas Rajanagarindra Road	7 Rai 3 Ngan 37.1 sq. wa	Mar 11 th , 2008 – Mar 10 th , 2038 (30 years)& extendable for 4 times, the first three time for 30 years each and the last time for 13 year (Total period 103 years)	535.3 1,250.6 279.9	2,822.0 (Leasehold period of 99 years)	Agreement on conditional transfer of leasehold with Siam Commercial Bank PCL. and Tisco Bank Public Company Limited
Total					2,083.8		

Note: Leasehold value was appraised by TAP Valuation Co.,Ltd, an appraisal company approved by SEC. The appraisal was done using Income Approach on March 16th 2012 for the purpose of public interest.

*On the passing Feb 7th, 2014, the Company's subsidiaries bought a land plot in MahaNakhon Project and already changed the ownership structure in MahaNakhon Project from leasehold to freehold. The Company hired Sims Property Consultant Co.,Ltd to appraise the land using Market Comparison Approach and Income Approach/Discounted Cash Flow Approach (DCF) on November 26th, 2013, with the public purpose to support in the consideration of selling and buying lands under freehold ownership structure. According to the appraiser, the appraisal value of the land is 4,078 Million Baht.

4.1.4 Land

Project name/Location	Type of Assets	Company	Ownership type	Book value as of Dec 31 st , 2013 (MB)	Appraisal value (MB)				Contingent liability as of Dec 31th, 2013 (MB)
					Appraisal value before adjustment (MB)	Adjust with additional construction costs	Adjust with accumulated cost of sales portion	Appraisal value after adjustment (MB)	
MahaNakhon	Land with total area of 1 Rai 2 Ngan 14 sq.wah; Title deeds number 3126, 4301, 52477, 52478; lots number 21, 20 (73), 187, 188	PACE One and PACE Two	Owner	308.5	368.4 (Appraisal date Dec 8 th , 2013)	-	-	368.4	Mortgaged with Siam Commercial Bank PCL. and Tisco Bank Public Company Limited.
Total				308.5					

Note: In 2013, ownership of the land was transferred to PACE Project One Company Limited (PACE One) and PACE Project Two Company Limited (PACE Two). The land acquisition cost and expenses related to ownership transfer was recorded as "Land" for 308.5 MB. in Consolidated Statement of Financial Position as of December 31st, 2013.

²Appraised by Sims Property Consultant Co.,Ltd using Market Comparison Approach on December 8th, 2010 with the purpose to assess current asset price.

4.2 Policy of investment in subsidiaries and affiliates

The Company has a policy to invest in high-potential, stable-profit businesses that prove to be feasible and able to create proper returns with acceptable risk level. PACE always sends its representatives to sit in the Board of Director of the target companies and reports their performance in the meeting of PACE's Board of Director every quarter.

PACE also has a policy to reduce investment risk for projects with investment amount of more than 3,000 MB. by co-investing with well-known, highly-experienced, high-capital partners. The form of co-investment ranges from subsidiaries, affiliates, and other forms, depending on the results of negotiation and mutual agreement between the Company and interested investors. Nevertheless, to make a decision to co-invest, the Company will study for the needs, potential benefits, positive and negative consequences, and will present the results of the study to the Board of Director before co-investing with any partner.

5. Legal Disputes

As of 31 December 2013, the Company had following legal disputes:

The Company was sued and requested to pay compensation under Bangkok Southern Civil Court in the black case no. 7417/2548 and the red case no. 5963/2549 by UPS Parcel Delivery Service Ltd., as the plaintiff. This company filed the lawsuit against the Company as the first defendant and Intarachai Development Co., Ltd. as the second defendant in Bangkok Southern Civil Court on 13 September 2005 because the Company as the owner of Ficus Lane Project, a residential project, hired the second defendant to perform the construction of the tall building under Ficus Lane Project and the construction caused damage to the plaintiff's property.

The plaintiff then filed the lawsuit against the defendants for the charge of tort and claimed compensation in the amount of 5.2 million Baht together with interest at the rate of 7.5 percent per annum and compensation payable monthly in the amount of 0.3 million Baht from the next date on which the lawsuit was filed onwards. However, both defendants rebutted that the plaintiff's claim was a double jeopardy because Mrs. Chitcharung Sittiphan, an owner of the damaged land, already filed the lawsuit against the defendants in the Bangkok Southern Civil Court in the black-number case no. 6486/2548 for the charge of tort and claimed compensation in the amount of 6.9 million Baht together with interest at the rate of 7.5 percent per year. Both defendants entered into a settlement agreement in presence of the court under which the defendants agreed to pay compensation in the amount of 4.5 million Baht to Mrs. Chitcharung Sittiphan. Therefore, the defendants testified that the accusation by the plaintiff, who is a lessor of such area, against the defendants is a double jeopardy and requested the court to dismiss the accusation.

However, the court of first instance decided to order both defendants to jointly pay 1.7 million Baht together with interest at the rate of 7.5 percent per annum on such principle from the next date on which the lawsuit was filed until the payment has been made in full and to jointly hold liability for paying compensation payable monthly in the

amount of 0.3 million Baht from the date on which the lawsuit was filed until 31 December 2012 and paying the court fee on behalf of the plaintiff. The court determined the attorney fee at 35,000 Baht.

Later, both defendants filed an appeal against the judgment and the appeal court decided to affirm the court of first instance's judgment. Both defendants thereafter filed an appeal to the Supreme Court together with the request of suspension of the execution during prosecution in the Supreme Court and the statement of notice posting to the Bangkok Southern Civil Court. The case is currently in the hearing process of the Supreme Court.

The Company recognized the allowance for the damage including the interest cost as a result of the court's judgment in its interim consolidated financial statements as of 31 December 2013 in the sum of 9.6 million Baht.

Opinion of the Company's legal counsel

Such case is in the hearing process of the Supreme Court and the Company already recognized the allowance for all of the damage and interest incurred from the court's judgment.

6. General Information and Important Information

Thai Company Name	บริษัท เพช ดีเวลลอปเม้นท์ คอร์ปอเรชั่น จำกัด (มหาชน) (บริษัทฯ) (เดิมชื่อ บริษัท ชินคาวา จำกัด)
English Company Name	PACE DEVELOPMENT CORPORATION PUBLIC COMPANY LIMITED ("the Company")
Nature of Business	Real estate development for sale, lease, and service purposes
Head Office Location	87/2 CRC Tower, All Seasons Place, 45th Floor, Lumpini, Pathumwan, Bangkok 10330 Thailand
Website	http://www.pacedev.com
Telephone	02 654 3344
Fax	02 654 3323