

3. Risk Factor

Investing in any business may entail risks. Prior to making any judgment to invest, and with regards to the risks described below, investors should carefully review all information in this Prospectus. The following sections describe numbers of possible risks that might affect the Company and the value of the investment in the Company. Although the Company tried to review all possible significant risks, there may be other risks of which the Company is unaware of and those risks can impair the Company's business operations, financial condition, results of operations and prospects. This Prospectus also contains forward looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements because of the uncertainties, including the risks faced by the Company described below and elsewhere in this Prospectus.

Lao PDR may be thought of as a "frontier market" and investing in newly established stock exchanges may entail risks that may not happen in the "emerging markets". Thus, in addition to issues relating to the Company (quality of management and assets, cash flow generation, financial liquidity, regulation of the telecommunications market and so forth), investors should pay careful attention to the issues relating to the new stock exchange, including but not limited to regulation, taxation, liquidity and transaction costs.

In addition to the other information contained in this Prospectus, prospective investors should consider the risks described below before making any investment decision. The following describes some of the significant risks that could affect the Company and the value of any investment in the Company. Moreover, additional risks may be known to the Company, or risks that the Company currently deems immaterial, may have a similar adverse effect and investors could lose all or part of their investment.

The risks faced by the Company are competed below:

3.1 Business risk

Motorcycle financing business is under regulation of the Bank of Lao PDR and it is a highly rewarding business which cause the industry to become highly competitive due to the growing numbers of new competitors.

The Company has been operating since 2011. Although having six years of motorcycle financing experience, the Company is still facing risk of increasing market shares due to new competitors in the industry. Considering the key to success of the business which consists of source of fund, experience team and expertise in various fields, such as credit analysis, database system for monitoring information using operational IT controlling system, repayment controlling system, and good relationship with dealers who support with giving customer's advice. The Company is aiming to reduce the market competition risk by having experienced management team with more than 20 years working in motorcycle leasing business, maintain good relationship with top dealers who have majority of market shares in the industry that will help to promote the Company's competitive advantage. Furthermore, to reduce the mentioned risk above, the Company will need to be listed on the Lao Securities Exchange to help increase the competitiveness advantage, more opportunities to succeed in stable business operations because the increase of fund mobilization channels and be able to expand the business as well as market share in the future.

3.1.1 Macro economic risk

Financial leasing business is categorized under financial sector which is sensitive with the changes in economic conditions compared to other sectors, therefore the economic situation is playing a significant role in this business because business operations might not perform as planned. In the case of economic growth, employment rate will increase, and there will be more consumption in goods and services; people will buy more necessary assets with long term usage, such as motorcycles, cars, appliances, houses and others; therefore, leasing business has the tendency to move in the same direction of the country's economy. In contrast, poor economic conditions will affect lower consumption and decrease inability to pay back the Company.

Nevertheless, the impacts from the country's economy are external factors that are inevitable and uncontrollable. To reduce such risks and possible effects the Company will need to pay close and continuous attention in monitoring the economic situation for the Company to have the least impact.

3.1.2 Marketing and competitive risk

With small capital funding, good technique and "know how", anyone can enter the motorcycle leasing business. With the increasing number of competitors, the Company could have a risk of increasing market share in the future with varieties of products and more promotion terms offering by the competitors. However with new businesses in the market, the Company can enter in to new partnerships that can lead to have a bargaining power for the Company.

With high competition, the Company is using strategy on interest rate policy, fees, and other services that is different from the competitors with the advantage of having the management team that have experience in doing this business in Laos and aboard for more than 20 years. Furthermore, if the Company is allowed to issue IPO and be listed on LSX, the Company will have lower cost of capital that, in some extent, can compete in terms of interest rates. In addition, after listing on the LSX, the Company will have better management as LSCO, LSX, external auditor and other advisers will monitor, control and provide full assistance in making the Company more reliable and gain public trust to attract more customers.

3.1.3 Revenue risk from non- diversified products

The main revenue of the Company is from motorcycle leasing. Therefore, the Company may face a revenue risk from non-diversified products which may affect in the future performance of the Company. In order to reduce this risk, the Company plans to expand more services, such as providing financial lease for cars, electronic appliances, machinery etc, because the advantage is that the Company is granted a license for all non-real estate leasing services from Financial Institution Supervision Department. In addition, the Company will expand to other financial businesses according to the approval from related authorities in the future.

3.2 Financial risk

3.2.1 Risk from Nonperforming Loan (NPL)

Motorcycle leasing business is a highly profitable business. The determination of financial conditions, such as installment rate, interest rate and the contract duration depends on the market mechanism controlled by the Bank of Lao PDR which currently has no fixed ceiling rate. As a result, motorcycle lease entrepreneurs can operate with full competition depending on the potential of the companies that make the competitive situation in this business quite high.

Considering the Company business status is at the beginning stage, the Company will need to expand its customer base in a high rate to increase market share. Therefore, the balance between the expansion of credit customers base to the lease contract and the flexibility of the credit approval to get a quality credit must be taken into the consideration. If the Company is unable to maintain this balance, risk of decreasing quality of credit will affect the company's performance, as it need to acknowledge more bad debts and doubtful accounts from more provisions.

To protect the risk of bad debtors, the Company can confiscate the motorcycle if certain conditions are met as indicated in the lease contract (the Company may confiscate its debtors' motorcycles if debtors skipped to pay the installment over a specified timeframe) to request for outstanding payments. In a case where customers unable to make payments, the Company will confiscate the motorcycle and sell it as soon as possible.

Along with these measures, the Company has a strict guideline in approving credit by paying more attention to the approval process. Before the approval, customer's information will be checked from the Company database system. In addition to the collateral (motorcycle), the Company also required a third party to guarantee to prevent risk from the debtors as well as appropriate amount of down payment depending on the risk of each debtor is required. The Company will also setup a controlling system of the debt installments payment by creating a unit to track debt and follow up with customers by separating into several levels base on customer payment behavior.

To reduce the risk further, the Company also focuses on financing to the existing customers or customers who are working in Vientiane capital. The Company also offer commission to Credit Analyst depending on the ability of their customers to pay the installment on time. This incentive will encourage the Credit Analyst to follow up with the debtors at the beginning of the contract to enable the Company to receive payments within the installment plan. If there's a potential that debtors cannot make future payments, the Company has the right to confiscate the motorcycle without delaying in order to reduce the risk of motorbikes being taken out of the city.

Table 3: Doubtful accounts and bad debt expense

Detail	Unit	31 Dec 2014	31 Dec 2015	31 Dec 2016	31 Dec 2017
Doubtful accounts and bad debt expense	Million LAK	615.49	575.12	924,08	555.05
Doubtful accounts and bad debt expense to total revenue	%	6.00	4.63	5,48	3.22
Doubtful accounts and bad debt expense to total leases loan	%	2.05	1.64	1,84	1.18

3.2.2 Risk on a single source of fund

Accessing source of fund is an important factor in business operations, as leasing business needs to access capital for providing credit lease. Currently the Company's capital is coming from internal sources including cash from operations and external sources such as loans. On December 31, 2017 the Company has an outstanding loan of LAK 9,600,000,000 that came from a single source. The Company can face liquidity risk if the extension of loan agreement is denied. Based to the loan repayment record and the Company's history in complying with the terms and conditions in the loan agreement, this concluded that that the Company has a good repayment record and complies with all terms and condition in the loan agreement.

Knowing that depending on one source of fund may occur risk, the Company is planning to be listed on LSX that can build credibility to the Company more effectively and opportunity to access more funds from domestic and international money market, selling shares to public and corporate bond offerings.

3.2.3 Risk on interest rate

Movement of interest rate in the market may have the effect on the Company's income to decrease. In case the Company has a cost of borrowing, the margin between interest rates on loan and leasing interest rates may decrease.

If the risk on interest rate movement occur, it will not effect on a particular company, but will impact the industry as a whole. Nonetheless the changes on loan interest rate in the past had a minor impact to the Company's operations because the changes were small. The Company loan agreement is signed yearly and that can help to ease the conditions for negotiation on interest rate adjustment to align with the market rate. With conditions mentioned above, the Company will be affected by changes of interest rate in a manageable level.

3.2.4 Risk on increasing debt

Over the past years, the Company has borrowed money from foreign investors and related parties to continuously expand the business which led to a constrain use of land as collateral to access more fund from commercial banks. To keeps its business growing continuously, the Company needs to be able to access different sources of funding to respond

to the business growth and that can result for the Company to have high level of debts in the future. Moreover, relying on a single source of loan may face financial struggles assuming the Company is being asked to repay the loan amount before the maturity date.

The preventive measures for the Company is to find sources of fund that can comply with the purpose of using term, also the appropriateness of the interest rate according to the economic situation, repayment period and debt ratio in order to find the best source of fund. If the Company can be listed on the Lao Securities Exchange, there will be more channels to access sources of fund such as shares and corporate bond public offerings or access fund from banks by using customer accounts as collateral for a loan.

3.2.5 Currency risk

The dominant currency in doing business in Lao PDR is Lao Kip (LAK). The Company sources of funds are from domestic and offshore loans which cause the company to manage different currencies such as Lao Kip (LAK), US Dollar (USD) and Thai Baht (THB) depending on the source of loan. When the exchange rates fluctuates it will affect the Company debt repayments, therefore to reduce such risk, the Company needs to borrow in LAK currency. In addition, the Company may also use forward exchange, but currently financial institutions do not provide such service for the LAK or there will be a high fee associate with the service. If needed the Company will take the forward exchange into the consideration.

3.2.6 Product leasing Risk or collateral Risk

In the consideration of granting a lease with collateral, the collateral (in this case the motorcycle) of a new product (first-hand motorcycle) will base on the market price or prices that are offered or recommended from motorcycle dealers. In case of used motorcycle (second-hand motorcycle), the Company will evaluate by the market price depending on the brand, manufactured year, and condition of each motorcycle. In evaluation of collaterals, each item must be a well-known brand in the market in case there's a resell (second hand motorcycle market) and the price cannot be lower than the condition of motorcycle.

Since motorcycles are easily moved, tracking customers who are late or skipped on their repayments can be difficult; and if there's a chance that the Company know a particular customer will not be able to make the repayment, confiscation could take place so the Company can resell. In the occasion where the Company cannot confiscate the motorbike to recover debt it will directly affect the business in terms of financial status and performance of the Company. Although each leasing contract has motorcycle as collateral, the value can be decreased more than expected overtime due to poor maintenance by the customers.

By taking the collateral risk into the consideration, the Company policy is to provide motorcycle leasing only to the high technical standard, durable and well-known brands particularly Japanese brands such as HONDA, YAMAHA and SUZUKI that have a high demand in the second-hand market. When confiscated motorcycles are still in good condition, there is a high demand in the second-hand market comparing to those short-term life motorcycle.

3.3 Management and operational Risk

3.3.1 Risk by the Director

The quick success of the Company after its establishment for only 6 years was because it was operated by the experience individuals, who have the expertise and well-known in the industry that play an important role in various departments such as marketing, credit management, collection and debt management etc. Without the experience managers, the Company can face business operational risk.

Managers are the co-founders of the Company which hold some shares in the Company, therefore as part of the Company's owners key to success is to maximize the benefits of the Company. Moreover, Company also provide training courses to staff such as knowledge development, interpersonal skills to improve performance in their roles .

In addition, for consistency the Company have set up an operational manual and a product program to ensure that the operational performance management meet the Company standards. These manuals are approved by the Board of Directors to ensure that Company can run its business continuously and constantly.

3.3.2 Risk from Controlling by major shareholders

After the IPO, the major Company's shareholders will be Mahathuen Holding company with 67.72% of total vote from registered capital which will take almost full control of shareholder's meeting resolutions including the appointment of BOD or approval of other matters that require most of the shareholders' meeting except some agenda related to the Article of Association and laws. Therefore, other shareholders may face risk of not having enough votes to veto the votes of the major shareholders during the shareholders meeting.

For transparency and to reduce the risk in the management by major shareholder, the Company has set up BOD in which there is a balance in power of its members by having independent directors not less than one-third of the total numbers of directors to provide comments and consider important issues and directors who have conflict of interest with any agenda are unable to vote.

3.3.3 Risk by the Computer system

Motorcycle leasing business is engaged with many information and data therefore, the management information base is needed. Information technology requires close control and monitoring system with expertise skills to solve issues in case of an emergency. Risks associated with the computer system are: system programming, hardware, security software and information system.

The Company plans to prevent the above risk as follows:

- Application software: in case of emergency the Company has built a backup storage which located in a secured location. In addition, to make sure that the backup storage system is working properly, system testing is done twice a year.
- Hardware Control: There's a backup computer that support the Company's server. the quality of this computer may be lower than the main computer but it is not placed in the same location as the server instead this backup computer is placed in different

branches. The backup computer is working the same way as the main computer and being tested regularly.

- Data Risk: Equipment for data storage to replace the damaged equipment will be procured. The data will get back up every day in an external storage which located offsite or handed to the authorized person. Another backup system will also be installed in case the main storage is damaged.
- Security risks in accessing computer systems and data: The system will be access by the authorized personnel only. And to prevent the system risk such as computer virus, the Company will install security software such as Firewall and Antivirus software. Using external files such as external USB devices are restricted to avoid computer virus that may arise.

3.3.4 Risk of Staff fraud or other Parties

Leasing business is involved with direct money services especially when customers are making installment in cash, therefore chances of fraud by staff is relatively high. In order to prevent such problem, the company have setup a strong internal control policy in monitoring the technology system by the central department enquiring customers to provide identity information before making payments and printed receipt must be given to the customers for their record and Company lease control system. The Company also have an internal audit to randomly check leasing and receiving installments from customers to prevent risk and disciplines policy is introduced to violators to minimize damages.