

MBK Public Company Limited and its subsidiaries

Management discussion and analysis

For the three-month and nine-month periods ended 30 September 2018 (The third quarter)

Analysis of operating results

1. Overall operating results

The operating results of MBK Public Company Limited and its subsidiaries (“the Group”) for the three-month and nine-month periods ended 30 September 2018 and 2017 are as follows:

(Unit: Million Baht)

	For the three-month periods ended 30 September				For the nine-month periods ended 30 September			
	2018	2017	Inc/(Dec)		2018	2017	Inc/(Dec)	
1) Operating revenue	2,549	2,336	213	9%	7,787	7,144	643	9%
2) Operating profit	331	360	(29)	(8%)	1,184	1,283	(99)	(8%)
3) Share of profit from investments in associates and joint venture	108	45	63	140%	290	148	142	96%
4) Other income	744	58	686	1,183%	1,748	342	1,406	411%
5) Finance costs	(51)	(69)	18	26%	(208)	(202)	(6)	(3%)
6) Income tax expense	(208)	(85)	(123)	(145%)	(541)	(269)	(272)	(101%)
7) Net profit	924	309	615	199%	2,473	1,302	1,171	90%
8) Loss (profit) attributable to non- controlling interest of the subsidiaries	8	5	3	60%	17	9	8	89%
9) Net profit – attributable to equity holders of the Company	932	314	618	197%	2,490	1,311	1,179	90%
10) Earnings per share (Baht)	0.70	0.24	0.46	192%	1.87	0.98	0.89	91%

1.1 The operating results for the three-month period (The third quarter)

The overall operating results of the Group for the three-month period ended 30 September 2018 in comparison with the same period of last year showed that the operating revenue for the three-month periods ended 30 September 2018 and 2017 were Baht 2,549 million and Baht 2,336 million, respectively, increased by Baht 213 million or 9%. The net profit attributable to equity holders of the Company (“the net profit”) for the three-month periods ended 30 September 2018 and 2017 were Baht 932 million and Baht 314 million, respectively, increased by Baht 618 million or 197%. The significant changes were as follows:

- a) The significant changes in operating revenue and operating profit (loss) of the Group business segments were as followings.

(Unit: Million Baht)

Segment	Operating revenue increase / (decrease)	Operating profit increase / (decrease)
Finance	112	13
Food Solution	128	9
Real-estate	(90)	(25)

The details of above changes were noted in No. 2.1 - Operating revenue – by segment and No. 2.2 – Operating profit (loss) – by segment.

- b) Other income increased sharply by Baht 686 million or 1,183%. The major reason was that during the third quarter of 2018, the Group recognized gain on sale of investment in an associate that operated hotel business, amounting to Baht 701 million (Baht 571 million, net of related tax impact).

1.2 The operating results for the nine-month period

The overall operating results of the Group for the nine-month period ended 30 September 2018 in comparison with the same period of last year showed that the operating revenue for the nine-month periods ended 30 September 2018 and 2017 were Baht 7,787 million and Baht 7,144 million, respectively, increased by Baht 643 million or 9%. The net profit for the nine-month periods ended 30 September 2018 and 2017 were Baht 2,490 million and Baht 1,311 million, respectively, increased by Baht 1,179 million or 90%. The significant changes were as follows:

- a) The significant changes in operating revenue and operating profit (loss) of the Group business segments were as followings.

(Unit: Million Baht)

Segment	Operating revenue increase / (decrease)	Operating profit increase / (decrease)
Finance	354	(6)
Food Solution	477	6
Real-estate	(333)	(101)

The details of above changes were noted in No. 2.1 - Operating revenue – by segment and No. 2.2 – Operating profit (loss) – by segment.

- b) Other income increased sharply by Baht 1,406 million or 411% mainly due to the recognition gain on sales of available-for-sale investment in marketable securities and investment in an associate for a total of Baht 1,440 million (Baht 1,163 million, net of related tax impact) in the current period.

2. Revenue and operating results by segment

The groups' business operation divided into 8 principal segments as follows:

1. Shopping Center business engages in the business of rental space to retail tenants in the shopping centers and the business of office space for rent.
2. Hotel and tourism business engages in providing for lodging, food and drink, and other facilities and services related for accommodation and travel.
3. Golf business engages in golf services, clubhouse and selling golf equipment.
4. Real-estate business engages in residential for sale, property management and asset appraisal.
5. Food Solution business engages in selling rice for both local and export markets, and the food center and restaurant business.
6. Finance business engages in providing general loan for housing and bridge loan of which the security is marketable property in good location, motorcycle hire-purchase business, and provision of life assurance business*.
7. Other business engages in the business of car and motorcycle auction*, and sale of raw water.
8. Supporting business performs as a back office functions for the Group.

Note: * The company that engages in such business is classified as an associate therefore the recognition of operating results is in the form of profit sharing.

The significant movements in operating revenue and operating profit/(loss) by segment for the three-month and nine-month periods ended 30 September 2018 when compared to the same period of 2017 were as follows:

2.1 Operating revenue – by segment

(Unit: Million Baht)

Segment	For the three-month periods ended 30 September				For the nine-month periods ended 30 September			
	2018	2017	Inc/(Dec)		2018	2017	Inc/(Dec)	
1) Shopping Center	1,004	975	29	3%	3,017	2,970	47	2%
2) Hotel and tourism	297	274	23	8%	1,011	925	86	9%
3) Golf	94	89	5	6%	337	333	4	1%
4) Real-estate	101	191	(90)	(47%)	243	576	(333)	(58%)
5) Food Solution	487	359	128	36%	1,559	1,082	477	44%
6) Finance	558	446	112	25%	1,605	1,251	354	28%
7) Other	7	1	6	600%	11	3	8	267%
8) Supporting	1	1	-	-	4	4	-	-
Total	2,549	2,336	213	9%	7,787	7,144	643	9%

The operating revenue of the Group for the three-month and nine-month periods ended 30 September 2018 were Baht 2,549 million and Baht 7,787 million, respectively, which increased by Baht 213 million or 9% and Baht 643 million or 9%, respectively. The major changes in operating revenue by segment were as follows:

2.1.1 The revenue of real-estate business for the three-month and nine-month periods decreased by Baht 90 million or 47%, and Baht 333 million or 58%, respectively, due to the significant reasons as follows:

- a) The project "Quinn Condominium" on Ratchadapisek Road, had the number of legal ownerships of 727 units from a total of 729 units were transferred and recognized revenue in 2015 – 2017. The remaining of 2 units were transferred in the current quarter. The project has already closed for sale resulted that the revenue for the three-month and nine-month periods decreased by Baht 9 million and Baht 177 million, respectively.
- b) The residential project "Park Riverdale" located at Riverdale Golf Course in Pathumthani opened for sale of Phase I for 41 units in August 2016. The legal ownerships transferred units in 2016 were 2 units, in 2017 were 16 units, and for the nine-month period of 2018 were 7 units. The revenue for the three-month and nine-month periods in comparison with the same periods of last year, declined by Baht 1 million and Baht 58 million, respectively.

- c) The Riverdale Residence project is the sale of plots of land for 10 units and houses for 14 units which located at Riverdale Golf Course in Pathumthani. This project opened for sale in August 2017. In the same quarter of last year, the legal ownerships transferred plots of land were 2 units amounting to Baht 47 million. There was no transferred unit in the current period. For the housing project, the sample houses are under construction which expected to be completed by December 2018.
 - d) The residential project “Baan Rom Mai” located in Chonburi and Rayong. The project generated revenue for the three-month and nine-month periods decreased by Baht 15 million and Baht 36 million, respectively.
 - e) The new residential projects commenced its construction in the current year such as Quinn Condominium on Sukhumvit 101 Road will open for pre-sale in October 2018. In addition, a sample house of the luxury residential project “Quaritz” on Rama IX Road, is currently under construction.
- 2.1.2 The revenue of food solution business for the three-month and nine-month periods increased by Baht 128 million or 36%, and Baht 477 million or 44%, respectively, mainly due to the increase in sale of rice business for the three-month and nine-month periods by Baht 140 million and Baht 503 million, respectively, as results of the higher sales volume from domestic and export markets. Furthermore, the selling price of rice was increased according to the higher cost of raw materials.
- 2.1.3 The revenue of finance business for the three-month and nine-month periods increased by Baht 112 million or 25% and Baht 354 million or 28%, respectively, mainly due to the followings reasons:
- a) The revenue of lending business for the three-month and nine-month periods increased by Baht 5 million and Baht 58 million, respectively, according to the continued growth of loans portfolios.
 - b) The revenue of hire-purchase for motorcycle business for the three-month and nine-month periods increased by Baht 107 million and Baht 296 million, respectively. During 2017, the hire-purchase for motorcycle business has expanded its market to medium and big bike segments which are continuous growth in the current year. Furthermore, in the current period, there was other income for the three-month and nine-month periods amounting to Baht 26 million and Baht 39 million, respectively, from the disposition by auction process of non-performing loan receivables portfolio, which had already been written-off to bad debts.

2.2 Operating profit (loss) – by segment

(Unit: Million Baht)

Segment	For the three-month periods ended 30 September				For the nine-month periods ended 30 September			
	2018	2017	Inc/(Dec)		2018	2017	Inc/(Dec)	
1) Shopping Center	236	210	26	12%	748	690	58	8%
2) Hotel and tourism	(43)	(4)	(39)	(975%)	43	77	(34)	(44%)
3) Golf	(10)	(6)	(4)	(67%)	34	28	6	21%
4) Real-estate	7	32	(25)	(78%)	(7)	94	(101)	(107%)
5) Food Solution	(8)	(17)	9	53%	(39)	(45)	6	13%
6) Finance	158	145	13	9%	429	435	(6)	(1%)
7) Other	(1)	1	(2)	(200%)	(9)	4	(13)	(325%)
8) Supporting	(8)	(1)	(7)	(700%)	(15)	-	(15)	(100%)
Total	331	360	(29)	(8%)	1,184	1,283	(99)	(8%)

The operating profit of the Group for the three-month and nine-month periods ended 30 September 2018 was Baht 331 million and Baht 1,184 million, respectively, decreased by Baht 29 million or 8%, and Baht 99 million or 8%, respectively. In overall, operating results varied according to the movements of revenue and normal economic conditions, and the significant changes as follows:

- a) Tinidee@Bangkok Golf Club Hotel (formerly “Bangkok Golf Spa Resort”) in Pathumtani, has been closed for major renovation since July 2017 resulted that the unused building and building improvements at net book value of Baht 34 million were written-off as expense in the current quarter. At present, the renovation work has been substantial completed and the hotel will be officially opened in December 2018. Currently, the partial hotel rooms are opened for service at a special discounted price.
- b) The food solution generated loss from operations mainly due to the rice market competition. The proportion of the increase in selling price of rice was lower than the increase in cost of rice resulted that the gross profit margin was lower than the same period of last year. In addition, the average margin of the rice export under G to G project is rather low.
- c) The bad debt and provision for doubtful accounts of hire-purchase for motorcycle business for the three-month and nine-month periods increased by Baht 66 million and Baht 153 million, respectively, which related to the growth of hire-purchase portfolio. In addition, the announcement of Debt Collection Act B.E.2558 which is the consumer protection law, resulted in the slowdown of the debt collection process. Meanwhile, the management has considered improving the effectiveness of credit scoring model to cover all lending areas.

Analysis of financial position

The significant movements in total assets, liabilities and shareholders' equity as at 30 September 2018 when compared with the balance as at 31 December 2017 were as follows:

(Unit: Million Baht)

	30 Sep 2018	31 Dec 2017	Increase/(Decrease)	
Total assets	49,656	46,552	3,104	7%
Total liabilities	26,709	24,367	2,342	10%
Total shareholders' equity	22,947	22,185	762	3%

3. Assets

3.1 Current investments and long-term investments

Current investments and long-term investments mainly represented investments in equity securities which are classified as available-for-sale marketable securities. The balance as at 30 September 2018 was Baht 9,231 million, decreased by Baht 1,357 million or 13%. The significant movements were as follows:

- a) The unrealized gain from available-for-sale marketable securities decreased by Baht 931 million due to the decrease in fair value of the securities on hand as at 30 September 2018 by Baht 346 million. In addition, the investment that was sold during the period resulted in lower unrealized gain of Baht 585 million.
- b) The decrease by Baht 424 million was from sales (net of purchases) of marketable securities.

3.2 Loans to customers

Loans to customers (including current portion) balance as at 30 September 2018 was Baht 12,935 million, increased by Baht 1,621 million or 14%. The hire-purchase receivables for motorcycle portfolio increased by Baht 1,481 million due to the higher expansion of market segment to a medium and big sizes of motorcycle. In addition, the lending loan receivables portfolio increased by Baht 144 million.

3.3 Inventories

Inventories balance as at 30 September 2018 was Baht 3,450 million, increased by Baht 561 million or 19%. The significant movements were as follows:

- a) Purchased plots of land at Ratchaphruek Road nearby Wuthakat BTS station amounting to Baht 222 million for further development of a new residential project.
- b) The property development costs increased by Baht 184 million from the progress of construction work for the residential projects of Park Riverdale and Riverdale Residence in Pathumtani, Quinn Condominium Sukhumvit 101, and Quaritz Rama IX.
- c) Stock of rice increased by Baht 208 million for sale in the next quarter.
- d) The construction costs of main road and electricity system, which are used as a common area of golf course and residential projects in Pathumtani, amounting to Baht 42 million were classified to present under property, plant and equipment as referred to No.3.6(6).

3.4 Investment in associates and joint venture

Investment in associates and joint venture balance as at 30 September 2018 was Baht 5,968 million, increased sharply by Baht 2,041 million or 52%. The significant movements were as follows:

- a) During the nine-month period of 2018, the Company invested in additional ordinary shares of Siam Piwat Company Limited, an associate that engaged in shopping center business, amounting to Baht 2,939 million which was separated into 2 items for the purposes of presentation in the financial status under assets as follows: the amount of Baht 2,375 million representing the net book value of the associate is presented as investment in associate, and the amount of Baht 564 million representing the purchase price over the net book value of the associate is presented as unallocated costs of business acquisition. The Company is in the process of evaluating the value of the associate for a period of 12 months from the purchase date to adjust the estimated fair value of the above transaction and the allocation of costs of the business acquisition. As a result, the Company's shareholding in this associate increased from 30.67% as at 31 December 2017 to 47.98% as at 30 September 2018. The purpose of this investment is to expand its shopping center business as the associate has a good potential to grow and rewards a good returns regularly.
- b) The increase of Baht 290 million was from the recognition share of profit under equity method.
- c) The decrease of Baht 444 million was from sale of investment in associate that operated a hotel business, to a major shareholder of such associate.
- d) The decrease of Baht 154 million was from the dividend income.

3.5 Investment properties

Investment properties balance as at 30 September 2018 was Baht 8,867 million, decreased by Baht 649 million or 7%. The significant movements during the period were as follows:

	Description	Million Baht
1	The costs of renovation MBK Shopping Center	29
2	The costs of renovation Paradise Park and Paradise Place (formerly "HaHa Market")	35
3	Reclassification of the certain costs of Paradise Place Building for the area which was used to be a new office of subsidiaries to present under property, plant and equipment (Refer to No.3.6(5))	(176)
4	Depreciation for the period	(553)
5	Others	16
	Total net movements	(649)

3.6 Property, plant and equipment

Property, plant and equipment balance as at 30 September 2018 was Baht 5,129 million, increased by Baht 151 million or 3%. The significant movements during the period were as follows:

	Description	Million Baht
1	The costs of renovation hotel room "Tinidee@Bangkok Golf Club" (formerly Bangkok Golf Spa Resort) in Pathumtani	84
2	The construction costs of new fitness centers, located at Paradise Park Shopping Center and Tinidee@Bangkok Golf Club Hotel, and purchases of exercise machine	63
3	The costs of renovation Bangkok Golf Club in Pathumtani	42
4	Purchases of other operating fixed assets	158
5	The costs of Paradise Place Building in relation to an office space from reclassification as mentioned in No. 3.5 (3)	176
6	The costs of main road and electricity system, which are used as a common area of golf course and residential projects in Pathumtani from reclassification as mentioned in No. 3.3 (d)	42
7	Sale of a subsidiary office building at Huai Khwan District due to the relocation to a new office at Paradise Place Building	(43)
8	Written-off certain costs of building and building improvements of Tinidee@Bangkok Golf Club Hotel as a results of major renovation	(34)
9	Depreciation for the period	(307)
10	Others	(30)
	Total net movements	151

4. Liabilities

4.1 Bank overdrafts and short-term loans from financial institutions

Bank overdrafts and short-term loans from financial institutions balance as at 30 September 2018 was Baht 4,805 million, increased sharply by Baht 2,251 million or 88% in order to support the Group business expansion.

4.2 Other current liabilities

Other current liabilities balance as at 30 September 2018 was Baht 1,021 million, increased by Baht 380 million or 59% mainly due to the accrued interim dividend payment of Baht 442 million from the operating results for the first-half of 2018. The dividend payment date is on 4 October 2018.

4.3 Long-term debentures

Long-term debentures (including current-portion) balance as at 30 September 2018 was Baht 10,393 million, increased by Baht 299 million or 3%. In April 2018, the Company issued the long-term debentures of Baht 1,000 million with tenor of 10 years, bearing interest at 3.5%, for long-term investment in an associate. In addition, In June 2018, the Company issued the long-term debentures of Baht 1,000 million with tenor of 15 years, bearing interest at 3.9%, for redemption of the debenture of Baht 1,000 million that was due for repayment in the same month. In August 2018, the debenture of Baht 700 million which due for repayment was redeemed.

5. Shareholders' equity

Total shareholders' equity balance as at 30 September 2018 was Baht 22,947 million, increased by Baht 762 million or 3%. The significant movements for the nine-month period ended 30 September 2018 were as follows:

- a) Retained earnings increased by Baht 1,506 million derived from the net profit for the nine-month period of Baht 2,490 million, meanwhile there was a decrease of Baht 984 million from dividend payment.
- b) The decrease of Baht 768 million in other components of shareholders' equity was mainly due to the decrease of Baht 747 million in unrealized gains on available-for-sale marketable securities, net of related deferred tax liabilities, as a result of the lower stock market price and sale of investment in marketable security during the current period as mentioned in No. 3.1 - Current investments and long-term investments.

Analysis of the liquidity

6. Cash flows of the Group for the nine-month periods ended 30 September 2018 and 2017 are summarised in table below.

(Unit: Million Baht)

	For the nine-month periods ended 30 September			
	2018	2017	Cash flows Increase/(Decrease)	
Net income from operating activities before changes in operating assets and liabilities	2,307	2,367	(60)	(3%)
Net movements in operating assets and liabilities	(2,958)	(2,352)	(606)	(26%)
Net cash flows received from (used in) operating activities	(651)	15	(666)	(4,440%)
Net cash flow received from (used in) investing activities	(752)	(216)	(536)	(248%)
Net cash flows received from (used in) financing activities	1,346	172	1,174	683%
Net increase (decrease) in cash and cash equivalents	(57)	(29)	(28)	(97%)

6.1 Cash flows from operating activities

Net cash flows used in operating activities increased by Baht 666 million or 4,440%. The significant movements in cash flows from operating activities and operating assets and liabilities are as mentioned in the analysis of operating results and financial status above.

6.2 Cash flows from investing activities

Net cash flows used in investing activities increased by Baht 536 million or 248% due to the following major reasons:-

Factors in cash increases:

- Cash receipts from sales of investments in available-for-sale marketable securities (net of cash payments from purchases) increased by Baht 650 million.
- Cash receipt from sale of investment in associate that operated hotel business of Baht 1,145 million.
- In July 2017, there was cash payment amounting to Baht 715 million to purchase additional investments in Paradise Park Company Limited and Paradise Place Suanluang Company Limited (Formerly "Siam Delice Company Limited"), subsidiaries, from Siam Piwat Holding Company Limited.

Factors in cash decreases:

- d) During the period of 2018, there were cash payments for purchase of investment in an associate that operated shopping center business amounting to Baht 2,939 million as mentioned in No. 3.4 – Investment in associates and joint venture.
- c) Cash payments for purchases of property, plant and equipment, and investment properties (net of cash receipts from sales) increased by Baht 91 million.

6.3 Cash flows from financing activities

Net cash flows received from financing activities increased by Baht 1,174 million or 683% due to the following major reasons:-

Factors in cash increases:

- a) Cash receipts from short-term loans from financial institutions (net of cash repayments) increased by Baht 2,046 million mainly for the purposes of financial liquidity management of the Group.

Factors in cash decreases:

- b) Cash receipts from issuance of long-term debentures (net of the redemption of debenture that was due for repayment) decreased by Baht 701 million since there were debentures that were due for repayment in the current period.
- c) Cash paid for interest expense increased by Baht 147 million according to the higher borrowings.