

MBK Public Company Limited and its subsidiaries
Management discussion and analysis of the financial statements
For the third quarter period ended 30 September 2014

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 2014 and 2013 are as follows:

(Unit: Million Baht)

	For the three-month periods ended 30 September				For the nine-month periods ended 30 September			
	2014	2013	Increase/Decrease		2014	2013	Increase/Decrease	
Operating revenue	2,224	2,304	(80)	(3%)	6,641	6,912	(271)	(4%)
Operating profit	308	261	47	18%	983	1,118	(135)	(12%)
Share of profit from investments in associates	87	59	28	47%	213	210	3	1%
Other revenue/(expense) - net	112	1,002	(890)	(89%)	187	3,162	(2,975)	(94%)
Income tax expense	(110)	(271)	161	59%	(241)	(715)	474	66%
Non-controlling interest of the subsidiaries	9	(15)	24	160%	2	(54)	56	104%
Net profit for the period – attributable to equity of the Company	406	1,036	(630)	(61%)	1,144	3,721	(2,577)	(69%)
Earnings per share (Baht)	0.30	0.76	(0.46)	(61%)	0.86	2.57	(1.71)	(67%)

Net profit from normal business operations

(Unit: Million Baht)

	For the three-month periods ended 30 September				For the nine-month periods ended 30 September			
	2014	2013	Increase/Decrease		2014	2013	Increase/Decrease	
Net profit – attributable to equity of the Company	406	1,036	(630)	(61%)	1,144	3,721	(2,577)	(69%)
<u>Less:</u> Gain on sale of investments–net tax	(149)	-	(149)	(100%)	(149)	(1,609)	1,460	91%
<u>Less:</u> Gain on sale of assets–net tax	-	(797)	797	100%	(36)	(797)	761	95%
Net profit - attributable to equity of the Company (Excluded extra income)	257	239	18	8%	959	1,315	(356)	(27%)

- **The operating results for the three-month period** (Third quarter)

The overall operating results of the Group for the three-month period ended 30 September 2014 in comparison with the same period of last year, showed that the operating revenue for the three-month periods ended 30 September 2014 and 2013 were Baht 2,224 million and Baht 2,304 million, respectively, decreased by Baht 80 million or 3%. The net profit attributable to equity holders of the Company ("the net profit") for the three-month periods ended 30 September 2014 and 2013 were Baht 406 million and Baht 1,036 million, respectively, decreased by Baht 630 million or 61%. The major factors were that in the same quarter of last year, there was recognition gain on sale of the land in Samui, Surat Thani of Baht 797 million, net of related tax impact. However, in the current quarter, there was recognition gain on sale of investments in available-for-sale marketable securities of Baht 149 million, net of related tax impact.

However, if the mentioned gain on sale of land and investments transactions were excluded, the net profit for the three-month periods ended 30 September 2014 and 2013 would be Baht 257 million and Baht 239 million, respectively, which increased by Baht 18 million or 8%.

- **The operating results for the nine-month period**

The overall operating results of the Group for the nine-month period ended 30 September 2014 in comparison with the same period of last year, presented that the operating revenue for the nine-month periods ended 30 September 2014 and 2013 were Baht 6,641 million and Baht 6,912 million, respectively, decreased by Baht 271 million or 4%. The net profit for the nine-month periods ended 30 September 2014 and 2013 were Baht 1,144 million and Baht 3,721 million, respectively, decreased by Baht 2,577 million or 69%. The major factor was that during the last year period, the Group recognised gain on sale of investment in a subsidiary, investments in available-for-sale marketable securities and gain on sale of the land in Samui as mentioned above, a total of Baht 2,406 million, net of related tax impact. Whereas, in the current period the Group recognized gain on sale of investments in available-for-sale marketable securities and gain on sale of the land in Rayong, a total of Baht 185 million, net of related tax impact.

However, if the mentioned gain on sale of investments and land transactions were excluded, the net profit for the nine-month periods ended 30 September 2014 and 2013 would be Baht 959 million and Baht 1,315 million, respectively, which decreased by Baht 356 million or 27%. The major reasons were that the recognition of the new lease agreement with Chulalongkorn University which became effective on 22 April 2013. The new rental rate increased significantly resulted in higher rental expense by Baht 346 million, net of related tax impact. Furthermore, the impact of a major political rally during the first quarter of 2014 and the announcement of martial law, MBK Shopping Center reduced the rental and service fees to assist the tenants amounting to Baht 50 million and Pathumwan Princess Hotel's occupancy rate and revenue decreased when compared to the same period of last year.

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 business engages in hotel room for accommodation, food and beverage, and other services.
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 business.
6. Finance business engages in providing general loan for housing and bridge loan of which the security is marketable property in good location, and motorcycle hire-purchase business.
7. Other business engages in the business of car and motorcycle auction and motorcycle dealer business.
8. Supporting business performs as a back office functions for the Group.

The significant movements in operating revenue and operating profit/(loss) by segment, and other income (expense) for the three-month and nine-month periods ended 30 September 2014 when compared to the same period of 2013 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			
	2014	2013	Increase/Decrease		2014	2013	Increase/Decrease	
Shopping Center	995	964	31	3%	2,906	2,818	88	3%
Hotel	240	240	-	-	774	873	(99)	(11%)
Golf	74	77	(3)	(4%)	274	279	(5)	(2%)
Real-estate	115	105	10	10%	394	221	173	78%
Food Solution	505	568	(63)	(11%)	1,361	1,722	(361)	(21%)
Finance	293	314	(21)	(7%)	890	856	34	4%
Other	-	35	(35)	(100%)	37	140	(103)	(74%)
Supporting	2	1	1	100%	5	3	2	67%
Total	2,224	2,304	(80)	(3%)	6,641	6,912	(271)	(4%)

The operating revenue of the Group for the three-month and nine-month periods ended 30 September 2014 were Baht 2,224 million and Baht 6,641 million, respectively, which decreased by Baht 80 million or 3% and Baht 271 million or 4%, respectively. The major changes in operating revenue by segment were as follows:

2.1.1 The revenue of shopping center business for the three-month period increased by Baht 31 million or 3% (nine-month period: increased by Baht 88 million or 3%). The main changes were as follows:

- The revenue of MBK Shopping Center for the three-month period increased by Baht 30 million (nine-month period: increased by Baht 87 million) due to the increase in annual rental rate according to the economic conditions. The overall revenue is still better than the same period of last year although there was a reduction in rental and service fees to assist the tenants amounting to Baht 50 million due to the impact of a major political rally during on 9 January – 2 March 2014.
- The Nine Center opened its new building in February 2014 to operate the second branch of Seri Market and car park service. As a result, the revenue for the three-month and nine-month periods increased by Baht 6 million and Baht 17 million, respectively.

- During the second quarter of 2014, Paradise Park Shopping Center closed the partial space for rent to renovate as a new department store, the second branch of Tokyu Department Store, under the joint venture agreement with Bangkok-Tokyu Department Store Co.,Ltd. in order to provide comprehensive products within the shopping center. The new department store is expected to open in the first quarter of 2015. As a result, the revenue for the three-month and nine-month periods dropped by Baht 15 million and Baht 40 million, respectively.

2.1.2 The revenue of hotel business for the three-month period decreased slightly by Baht 0.5 million (nine-month period: decreased by Baht 99 million or 11%) due to the continuous impact of the political rally and the announcement of martial law that resulted in the lower number of foreign tourists. Consequently, the occupancy rate of Pathumwan Princess Hotel was down and the revenue for the three-month and nine-month periods decreased by Baht 20 million and Baht 130 million, respectively.

2.1.3 The revenue of real-estate business for the three-month period increased by Baht 10 million or 10% (nine-month period: increased by Baht 173 million or 78%) because the number of transferred houses went up by 12 units but plots of land went down by 2 units, resulted in the net increase in revenue by Baht 6 million (nine-month period: the number of transferred houses went up by 60 units but plot of land went down by 1 unit, resulted in the net increase in revenue by Baht 187 million). The revenue recognition for sale of houses were from the residential project "Sabai Village 2" in Phuket which started its revenue recognition since August 2013, and the project "Baan Rommai Borwin" in Chonburi which was the project of a new subsidiary acquired on 1 November 2013.

2.1.4 The revenue of food solution business for the three-month period decreased by Baht 63 million or 11% (nine-month period: decreased by Baht 361 million or 21%). The major factors were:

- The sale of rice decreased by Baht 30 million (nine-month period: decreased by Baht 334 million) because the government rice-pledging scheme has still impacted on the higher cost of raw materials and higher market competition. In addition, the customers suspended their orders to wait for the stability of Thailand market rice price.
- The sale of plastic bag decreased by Baht 24 million (nine-month period: decreased by Baht 33 million) because the customer changed the design of the bag products. Consequently, the bag production process was required to adjust in order to meet the needs of customer.

2.1.5 The revenue of other business for the three-month period decreased by Baht 35 million or 100% (nine-month period: decreased by Baht 103 million or 74%) mainly due to the fact that the two subsidiaries who engaged in motorcycle dealer business ceased its operations since June 2014.

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			
	2014	2013	Increase/Decrease		2014	2013	Increase/Decrease	
Shopping Center	248	256	(8)	(3%)	726	957	(231)	(24%)
Hotel	(47)	(50)	3	6%	(111)	(9)	(102)	(1,133%)
Golf	(15)	(12)	(3)	(25%)	2	13	(11)	(85%)
Real-estate	7	26	(19)	(73%)	48	(15)	63	420%
Food Solution	22	17	5	29%	35	39	(4)	(10%)
Finance	93	43	50	116%	297	154	143	93%
Other	(1)	(18)	17	94%	(14)	(19)	5	26%
Supporting	1	(1)	2	200%	-	(2)	2	100%
Total	308	261	47	18%	983	1,118	(135)	(12%)

The operating profit of the Group for the three-month period ended 30 September 2014 was Baht 308 million, increased by Baht 47 million or 18%, whereas the operating profit for the nine-month period was Baht 983 million, decreased by Baht 135 million or 12%. In overall, operating results varied according to the movements of revenue, normal economic conditions, the impact or political turmoil and the significant changes as follows:

2.2.1 The significant changes in expenses related to the new lease agreement

The agreement granting the right to utilize the shopping center at the Pathumwan intersection expired on 21 April 2013 and the Company extended the lease agreement with Chulalongkorn University for another 20 years starting on 22 April 2013 to 21 April 2033 as disclosed in the note to financial statements no.16. The new lease rental increased according to the economic conditions and competition situation, as a result that MBK Shopping Center and Pathumwan Princess Hotel recognized the higher expenses related to the leasehold agreements (such as depreciation for building, land rental, interest expense, and deferred income tax) for the nine-month period ended 30 September 2014 (before corporate income tax saving) increased

by Baht 376 million (three-month period: no change). Therefore, the overall operating profit of the shopping center business and the hotel business dropped in the current period in comparison with the same period of last year.

However, the Group has realized the impact of higher cost of rental and intended to maintain the level of growth in revenue and net operating profit by the followings:

- Adjust annual rental rate according to the economic situation.
- Increase new retail tenants to expand its revenue base after the long-term lease agreement with major tenants expired since April 2013.
- Promote the lending business continuously.
- Develop the new shopping center project “HA HA” on Srinakarin Road which the zoning rent for education area opened in April 2014 and the remaining area for rent will operate in October 2014.
- Develop the project “Quinn Condominium” on Ratchadapisek Road Soi 17 which opened for sales since March 2013 and will be completed and recognized revenue by July 2015.
- Study and develop several new investment projects to fulfill the expected revenue and profit for the group.

2.2.2 During 2013, the real-estate business incurred marketing and advertisement expenses to promote the new project under “Quinn Condominium” located on Ratchadapisek Road which already opened for pre-sale since March 2013. As a result, the marketing and advertisement expenses for the current quarter decreased by Baht 7 million (nine-month period: decreased by Baht 36 million).

2.2.3 The operating profit of finance business for the three-month period increased by Baht 50 million or 116% (nine-month period: increased by Baht 143 million or 93%) which increased more than the growth of revenue. The major factors were that the motorcycle hire-purchase business strengthened its quality control in the lending process according to the credit policy and improved the collection process of outstanding debt. As a result, bad debt and provision for doubtful accounts for the current quarter decreased by Baht 48 million (nine-month period: decreased by Baht 87 million).

2.3 Other income (expense) – net

(Unit: Million Baht)

	For the three-month periods ended 30 September				For the nine-month periods ended 30 September			
	2014	2013	Increase/Decrease		2014	2013	Increase/Decrease	
Interest income	7	18	(11)	(61%)	26	69	(43)	(62%)
Dividend income	-	25	(25)	(100%)	160	190	(30)	(16%)
Gain on sale of investments	186	-	186	100%	186	2,027	(1,841)	(91%)
Gain on sale of assets	-	1,001	(1,001)	(100%)	45	1,001	(956)	(96%)
Other income	30	55	(25)	(45%)	107	98	(9)	(9%)
Finance costs	(111)	(97)	(14)	(14%)	(337)	(223)	(114)	(51%)
Total	112	1,002	(890)	(89%)	187	3,162	(2,975)	(94%)

Other income (expense) – net for the three-month and nine-month periods ended 30 September 2014 were Baht 112 million and Baht 187 million, respectively, decreased by Baht 890 million or 89% and Baht 2,975 million or 94%. The significant changes were as follows:

- 2.3.1 During the first quarter of 2013, the Group recognized gain on sale of investment in a subsidiary that operated land rental service and gain on sale of investments in available-for-sale marketable securities totaling of Baht 2,027 million (Baht 1,609 million, net of related tax impact).
- 2.3.2 During the third quarter of 2013, the Group recognized gain on sale of the land in Samui, Surat Thani of Baht 997 million, (Baht 797 million, net of related tax impact).
- 2.3.3 During the third quarter of 2014, the Group recognized gain on sale of investments in available-for-sale marketable securities totaling of Baht 186 million (Baht 149 million, net of related tax impact).
- 2.3.4 Finance costs for the nine-month period increased by Baht 114 million. Such increase included amount of Baht 89 million which was a result of the accounted for liabilities under finance lease agreements related to the new lease agreements with Chulalongkorn University as mentioned in no. 2.2.1. The deferred interest expense is amortised over the leased period.

Analysis of financial position

The significant movements in assets, liabilities and shareholders' equity as at 30 September 2014 when compared with the balance as at 31 December 2013 were as follows:

(Unit: Million Baht)

	30 Sep. 2014	31 Dec. 2013	Increase/(Decrease)	
Total assets	37,917	37,921	(4)	-
Total liabilities	20,584	21,970	(1,386)	(6%)
Total shareholders' equity	17,333	15,951	1,382	9%

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 2014 was Baht 6,088 million, increased by Baht 832 million or 16% mainly due to the increase in fair value of the securities on hand at 30 September 2014 by Baht 788 million.

3.2 Inventories

Inventories balance as at 30 September 2014 was Baht 2,679 million, increased by Baht 280 million or 12% due to the increase of Baht 435 million in costs of development property for sale in accordance with the progress of construction work under project "Quinn Condominium", located on Ratchadapisek Road. On the other hand, the rice business decreased its stock level by Baht 119 million according to the reduction in sale.

3.3 Loans to customers

Loans to customers (including current portion) balance as at 30 September 2014 was Baht 6,736 million, decreased by Baht 298 million or 4%. The major changes were follows:

- The decrease of Baht 228 million in loan receivables due to the fact that during the current period there were many borrowers repaid its loans before maturity date which the total repayment amount was greater than the increase of loans amount resulted in lower loans portfolio balance.
- The decrease of Baht 52 million in hire-purchase receivables mainly due to the strict control over the credit policy as described in no. 2.2.3.

3.4 Investment in associates

Investment in associates balance as at 30 September 2014 was Baht 3,250 million, increased by Baht 495 million or 18%. The significant movements were as follows:

- a) On 2 June 2014, the Company purchased the ordinary shares of Siam City Life Assurance Public Company Limited, which engages in life insurance business, amounting to Baht 419 million and representing a 46.5% shareholding, therefore such company became a new associate.
- b) The increase of Baht 58 million, from the additional investments in the associate who operated the golf business.
- c) The increase of Baht 213 million, from the recognition share of profit under equity method.
- d) The decrease of Baht 207 million, from the dividend income.

3.5 Investment properties

Investment properties balance as at 30 September 2014 was Baht 10,769 million, increased by Baht 184 million or 2%. The significant movements for the nine-month period ended 30 September 2014 were as follows:

	Description	Million Baht
1	The Nine Center incurred construction costs of building for car park and Seri Market.	67
2	The construction costs of a new shopping center "HA HA" located on Srinakarin Road Soi 55 or next to Paradise Park Shopping Center	442
3	The costs of renovation MBK Shopping Center	94
4	Sale a plot of land in Rayong	(28)
5	Depreciation for the period	(466)
6	Others	75
	Total net movements	184

3.6 Property, plant and equipment

Property, plant and equipment balance as at 30 September 2014 was Baht 3,783 million, decreased by Baht 201 million or 5%. The significant movements for the nine-month period ended 30 September 2014 were as follows:

	Description	Million Baht
1	The renovation costs of Japanese food shops which is the new business of the Group	32
2	The renovation costs of food center	13
3	Depreciation for the period	(370)
4	Purchases of other operating equipment	124
	Total net movements	(201)

3.7 Prepaid rental fee

Prepaid rental fee represented advance payment to Chulalongkorn University for the lease agreements granting the right to utilize the shopping center at Pathumwan intersection as mentioned in 2.2.1. Prepaid rental fee balance as at 30 September 2014 was Baht 1,379 million, decreased by Baht 158 million or 10%. During the current period, there was advance payment for annual land rental amounting to Baht 410 million but the decrease of Baht 568 million was from the amortization of prepaid rental as an expense on a straight-line basis over the leased period.

3.8 Property foreclosed

Property foreclosed balance as at 30 September 2014 was Baht 256 million, increased by Baht 205 million or 405%. The major assets were from the legal transferred under the agreement for sale with right of redemption that the seller did not redeem their assets within the contract period. However, there were the purchase and sale agreements made with the sellers to purchase their assets back within the agreed period of time.

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 2014 was Baht 377 million, decreased sharply by Baht 1,012 million or 73% due to the repayments of short-term loans that were due during the current period by using cash flows from operations.

4.2 Advance rental and service deposits

Advance rental and service deposits (including current portion) balance as at 30 September 2014 was Baht 3,014 million, decreased by Baht 295 million or 9% mainly due to the realization as income for the current period of Baht 369 million based on a straight-line basis over the long-term lease periods.

4.3 Deferred tax liabilities

Deferred tax liabilities balance as at 30 September 2014 was Baht 941 million, increased by Baht 170 million or 22%. The increase of Baht 156 million was from the fair value adjustment of investments in available-for-sale marketable securities on hand as at 30 September 2014.

5 Shareholders' equity

Total shareholders' equity balance as at 30 September 2014 was Baht 17,333 million, increased by Baht 1,382 million or 9%. The significant movements for the nine-month period ended 30 September 2014 were as follows:

5.1 Retained earnings increased by Baht 744 million derived from the net profit for the nine-month period of Baht 1,144 million but a decrease of Baht 400 million from dividend payment for the operating results for the second-half of year ended 31 December 2013.

5.2 The increase of Baht 644 million in other components of shareholders' equity was mainly due to the increase of Baht 632 million in unrealized gains on available-for-sale marketable securities, net of related deferred tax impact, as a result of the higher stock market price.

Analysis of the liquidity

6. Cash flows of the Group for the nine-month periods ended 30 September 2014 and 2013 are summarised in table below.

(Unit: Million Baht)

	For the nine-month periods ended 30 September			
	2014	2013	Cash flows Increase/(Decrease)	
Net income from operating activities before changes in operating assets and liabilities	1,476	1,633	(157)	(10%)
Net movements in operating assets and liabilities	61	(1,656)	1,717	104%
Net cash flows received from (used in) operating activities	1,537	(23)	1,560	6,783%
Net cash flow received from (used in) investing activities	(441)	1,100	(1,541)	(140%)
Net cash flows received from (used in) financing activities	(2,122)	(2,252)	130	6%
Net increase (decrease) in cash and cash equivalents	(1,026)	(1,175)	149	13%

6.1 Cash flows from operating activities

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 significantly by Baht 1,541 million or 140% due to the following major reasons:-

Factors in cash increases:

- a) Cash paid (net of cash receipt) for investments in available-for-sale marketable securities decreased by Baht 1,590 million.
- b) Cash outflows for short-term loans to related companies (net of cash receipts) decreased by Baht 937 million due to the entire repayment of the group associates' borrowings in December 2013.
- c) In the same period of last year, there was purchase a plot of land at Sukhumvit Road 101/1 amounting to Baht 492 million for development project in the future.

Factors in cash decreases:

- d) In the current period, there were cash payments for investments in a new associate, Siam City Life Assurance Public Company Limited and for additional investment in the associate who operated the golf business, as mentioned in no. 3.4, a total of Baht 477 million.
- e) In the same period of last year, there was cash receipt from sale of investment in a subsidiary that operated land rental service amounting to Baht 2,348 million.
- f) Cash receipts for purchase of property, plant and equipment, and investment properties (net of cash payments) decreased by Baht 1,209 million. Because in the same period of last year, there was cash receipt from sale the land in Samui Island amounting to Baht 1,300 million.
- g) In the same period of last year, there was cash receipt amounting to Baht 500 million from the share increase in Siam Delice, a subsidiary, as a source of fund of the construction of a new shopping center project.

6.3 Cash flows from financing activities

Net cash flows used in financing activities decreased by Baht 130 million or 6% mainly due to the following major reasons:-

Factors in cash increases:

- a) In the same period of last year, there was cash outflow for the share repurchase project for the financial management amounting to Baht 2,805 million.
- b) In the same period of last year, there was debenture issuance amounting to Baht 2,000 million in order to pay the debenture which the maturity date was due in the same period amounting to Baht 3,000 million.

Factors in cash decreases:

- c) Cash receipts (net of cash repayments) from short-term and long-term loans from financial institutions decreased by Baht 3,766 million because in the same period of last year, the increase in borrowings was purposed for investments in various assets projects, the expansion of finance business and the treasury stock project.