

13 November 2017

Subject: Management Discussion and Analysis of Operating Results for the Third Quarter of 2017

To President  
The Stock Exchange of Thailand

Quality Houses Public Company Limited and its subsidiaries (the "Company and its subsidiaries") would like to report the Third quarter 2017 net profit which increased by Baht 360 million or 47% and 9-month net profit ended 30 September 2017 which increased by Baht 150 million or 6%, compared with the same period in the previous year with the details as follows:

#### I. Revenues from operations by business segment

In the Third quarter performance of 2017, the Company and its subsidiaries' revenues from sales of real estate increased and 9-month performance of 2017, the revenues from sales of real estate decreased compared with the same period of last year. While in the Third quarter and 9-month performance of 2017 the property rental business generated higher revenues compared with the same period of last year. The quarterly comparison of its performance in different business categories is shown in the table below:

	Third quarter				9-month period			
	<u>2017</u>	<u>2016</u>	<u>Difference</u>	<u>%</u>	<u>2017</u>	<u>2016</u>	<u>Difference</u>	<u>%</u>
	(Unit: Million Baht)							
Sales of real estate	4,804	4,200	604	14	12,062	14,313	(2,251)	(16)
Rental and Service Income	315	310	5	2	917	889	28	3
	712	-	712	n.a	712	-	712	n.a
Other Income	<u>89</u>	<u>40</u>	<u>49</u>	123	<u>215</u>	<u>124</u>	<u>91</u>	73
Total Revenues	5,920	4,550	1,370	30	13,906	15,326	(1,420)	(9)

The Company and its subsidiaries' total revenues in Q3/2017 and Q3/2016 are Baht 5,920 million and Baht 4,550 million respectively, which increased by Baht 1,370 million or 30% increase compared with the same period of last year. The Company and its subsidiaries' total revenues for 9-month period of 2017 and 2016 are Baht 13,906 million and Baht 15,326 million respectively, which decreased by Baht 1,420 million or 9% decrease compared with the same period of last year with the details as follows:

1. **Sales of real estate** for the Third quarter of 2017 increased by Baht 604 million, or 14% increase compared with the same period in the precedent year, mainly due to the revenue derived from transferring

ownership of condominium units increased by Baht 642 million or 186% increase compared with the same period in the precedent year. In the Third quarter of 2017, the subsidiary realized revenue for new condominium project – The Trust Condo @BTS Erawan. While the revenue from transferring ownership of housing projects for the Third quarter period of 2017 decreased by Baht 38 million or 1% decrease compared with the same period in the precedent year.

The sale of real estate for the 9-month period of 2017 decreased by Baht 2,251 million or 16% decrease compared with the same period in the precedent year. The revenue decrease is due to revenue from transferring ownership of housing projects decreased by Baht 1,476 million or 13% decrease and revenue from transferring ownership of condominium units decreased by Baht 775 million or 30% decrease compared with the same period in the precedent year, which is the result from the real estate sector stimulus package from government by reducing the transfer fee and mortgage fee which is in effective from 29 October 2015 to 28 April 2016.

During the 9-months period of 2017, the Company and its subsidiaries had revenue from five new housing projects with a total project value of Baht 5,874 million. The Company and its subsidiaries had completed eleven housing projects and one condominium project.

**2. Rental and Service Income** in the Third quarter and 9-month period of 2017 increased by Baht 5 million or 2% increase and Baht 28 million or 3% increase compared with the same period of the precedent year, respectively. The revenue increase is mainly contributed by revenue from its hotel business due to the higher room rate and occupancy rate.

While the revenues from office buildings for rent in the Third quarter and 9-month period of 2017 is slightly changed when compared with the same period of the precedent year.

**3. Gain on change in shareholders' equity of associate** in the Third quarter of 2017, LH Financial Group Public Company Limited (“LHFG”) issued 7,544,342 new ordinary shares to CTBC Bank Co., Ltd. (“CTBC”) under a private placement scheme at Baht 2.20 per share. Upon the completion of the transaction, the shares held by CTBC in LHFG will be 35.6 % of total paid-up capital of LHFG, whereby the shareholding of the Company in LHFG has diluted from 21.3% to 13.7% of total paid-up capital of LHFG . As the result, the Company recognized an accounting gain of Baht 712 million from this transaction.

**4. Other Income** in the Third quarter and 9-month period of 2017 increased by Baht 49 million or 123% increase and Baht 91 million or 73% increase compared with the same period of the precedent year, respectively, mainly due to increasing in management fee of office rental business and increasing in the revenue recorded from the retention guarantee forfeited from the contractors who breached the conditions of service or construction agreements.

## II Share of profit from investment in associates

During the Third quarter of 2017, the Company's share of profit from investments in associated companies was Baht 397 million, increased by Baht 5 million or 1% increase and it was Baht 1,196 million, increased by Baht 46 million or 4% increase for 9-month period of 2017, compared with the same period of the precedent year, respectively. The details of the Company's profit sharing from four associated companies are as follows :

(Unit: Million Baht)

	Third quarter				9-month period			
	<u>2017</u>	<u>2016</u>	<u>Difference</u>	<u>%</u>	<u>2017</u>	<u>2016</u>	<u>Difference</u>	<u>%</u>
- Home Product Center Plc	235	189	46	24	667	558	109	20
- LH Financial Group Plc.	106	149	(43)	(29)	363	442	(79)	(18)
- Quality Houses Leasehold Property Fund	41	40	1	3	123	114	9	8
- Quality Houses Hotel and Residence Freehold and Leasehold Property Fund	15	14	1	7	43	36	7	19
Total	397	392	5	1	1,196	1,150	46	4

## III Cost of sales by business segment

(Unit: Million Baht)

	Third quarter				9-month period			
	<u>2017</u>	<u>2016</u>	<u>Difference</u>	<u>%</u>	<u>2017</u>	<u>2016</u>	<u>Difference</u>	<u>%</u>
Cost of real estate sold	3,427	2,920	507	17	8,666	10,042	(1,376)	(14)
Cost of rental and services	202	198	4	2	582	563	19	3
Total cost of sales	3,629	3,118	511	16	9,248	10,605	(1,357)	(13)

The total cost of sales for the Third quarter of 2017 increased by Baht 511 million or 16% increase and 9-month period of 2017 decreased by Baht 1,357 million or 13% decrease, compared with the same period of the precedent year, respectively, which is in line with the revenue in each business segment which details are shown in the above table of revenues from operations by business segment.

## IV Expenses

(Unit: Million Baht)

	Third quarter				9-month period			
	<u>2017</u>	<u>2016</u>	<u>Difference</u>	<u>%</u>	<u>2017</u>	<u>2016</u>	<u>Difference</u>	<u>%</u>
Selling expenses	330	368	(38)	(11)	858	1,204	(346)	(29)
Administrative expenses	1,103	503	600	119	1,967	1,652	315	19
Finance cost	94	81	13	16	261	254	7	3
Income tax expenses	33	104	(71)	(68)	211	354	(143)	(40)

1. **Selling Expenses** in the Third quarter of 2017 decreased from the same period of the precedent year by Baht 38 million or 10% decrease because the Company and its subsidiaries' advertising and public relation expenses decreased by Baht 46 million, sales promotion expenses decreased by Baht 17 million. While the the transfer fee and specific business taxes increased by Baht 25 million which is in line with the increase in the transfer of residential properties. The selling expenses for 9-month period of 2017 decreased from the same period of the precedent year in the amount of Baht 346 million, or 29% decrease. This is mainly due to the decrease of advertising and public relation expenses by Baht 177 million, the decrease in sales promotion expenses by Baht 108 million, the decrease in other selling expenses by Baht 12 million and the specific business taxes decreased by Baht 76 million. While the transfer fee increased by Baht 27 million.

2. **Administrative Expenses** in the Third quarter of 2017 increased by Baht 600 million or 119 % increase compared with the same period of the precedent year due to the increase in provision for the damage from the Company and its subsidiary litigation by Baht 135 million, the increase in provision for impairment of housing and condominium projects by Baht 409 million and the increase in other administrative expenses by Baht 56 million. Administrative expenses for the 9-month period increased by Baht 315 million or 19% increase compared with the same period of the precedent year, mainly due to the increase in provision for impairment of housing and condominium projects by Baht 400 million and the decrease in other administrative expenses by Baht 85 million.

3. **Finance Costs**, for the Third quarter and 9-month period of 2017, which consist of interest expense, bank charges and financial advisory fees increased by Baht 13 million, or 16% increase and Baht 7 million, or 3% increase compared with the same period of the precedent year, respectively, because the number of complete condominiums projects is higher number compared to the same period in the Third quarter and 9-month period of 2017 which make the interest expense could not be capitalized as part of project cost .

4. **Income Tax Expenses** for the Third quarter performance and 9-month period of 2017 decreased by Baht 71 million, or 68% decrease and Baht 143 million, or 40% decrease compared with the same period of the precedent year, respectively. These expenses (exclude gain on change in shareholders' equity of associates) varied with the normal operating results of the Company.

#### V Profit for the period

	(Unit: Million Baht)							
	Third quarter				9-month period			
	<u>2017</u>	<u>2016</u>	<u>Difference</u>	<u>%</u>	<u>2017</u>	<u>2016</u>	<u>Difference</u>	<u>%</u>
Profit for the period	1,128	768	360	47	2,557	2,407	150	6

In the Third quarter and 9-month period of 2017, the Company and its subsidiaries total profit increased by Baht 360 million, or 47% increase and Baht 150 million, or 6% increase, compared with the same period of the precedent year, respectively. The detail can be summarized as follows:

1. In the Third quarter of 2017, the Company and its subsidiaries had gain on change in shareholders' equity of associate increased by Baht 712 million, gross profit from real estate for sales increased by Baht 97 million, gross profit from rental business increased by Baht 1, share of profit from investment in associates increased by Baht 5 million, other income increased by Baht 49 million, selling expense decreased by Baht 38 million and income tax expenses decreased by Baht 71 million while administrative expenses increased by Baht 600 million and finance cost increased by Baht 13 million.
2. In the 9-month period of 2017, the Company and its subsidiaries had gain on change in shareholders' equity of associates increased by Baht 712 million, gross profit from real estate for sales decreased by Baht 875 million, gross profit from rental business increased by Baht 9 million, share of profit from investment in associates increased by Baht 46 million, other income increased by Baht 91 million, selling expense decreased by Baht 346 million and income tax expenses decreased by Baht 143 million while administrative expenses increased by Baht 315 million and finance cost increased by Baht 7 million.

## VI Financial Position

	(Unit: Million Baht)			
	<u>30 September 2017</u>	<u>31 December 2016</u>	<u>Difference</u>	<u>(%)</u>
Total assets	52,496	53,014	(518)	(1)
Total liabilities	28,633	30,075	(1,442)	(5)
Total shareholders' equity	23,863	22,939	924	4

### 1. Financial Position

As of the 30 September 2017, the Company and its subsidiaries' total assets decreased by Baht 518 million or 1% decrease compared with 2016 (as of 31 December 2016) due to the increase in the Company and its subsidiaries' cash and cash equivalents in amount of Baht 928 million, the increase in associated companies investment Baht 756 million, the increase in deposits for new land acquisition Baht 175 million and the increase in deferred tax Baht 118 million while advance for construction work decreased by Baht 317 million, land and construction in progress and project development cost decreased by Baht 2,105 million and other assets decreased by Baht 73 million.

Total liabilities decreased from 2016 (as of 31 December 2016) by Baht 1,442 million or 5% decrease. The change in total liabilities is the result of debenture decreased by Baht 2,500 million, account payable and

other payable decreased by Baht 112 million and other liabilities decreased by Baht 13 million while short-term loan increased by Baht 999 million and long-term provisions increased by Baht 184 million

## 2. Shareholders' Equity

As of 30 September 2017, the shareholders' equity of the Company and its subsidiaries increased by Baht 924 million or 4% increase, compared with 2016 (as of 31 December 2016), due to the following factors:

- The Company and its subsidiaries' net profit for the 9- month period ended 30 September 2017 is Baht 2,557 million.
- Other components of shareholders' equity decreased by Baht 26 million due to loss from share of other comprehensive income of associates - net of income taxes.
- During May 2017, the Company paid dividend in the amount of Baht 857 million in accordance with the resolution of the Annual General Meeting of Shareholders No.1/2017 dated 18 April 2017 and paid interim dividend in September 2017 in the amount of Baht 750 million for the six months performance ended 30 June 2017 and/or retained earnings in accordance with the resolution of the Board of Directors on 8 August 2017.

Please be informed accordingly.

Sincerely yours,

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Senior Executive Vice President

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