

NO. AC. 004/2017

13 November 2017

Subject: Clarification of changes in operating performance of more than 20%

To: The President of the Stock Exchange of Thailand

M.K. Real Estate Development Plc. would like to inform the financial performance for the third quarter ended 30 September 2017. The Company and its subsidiaries reported a net profit of THB 34.81 million or earnings per share of THB 0.04, a decrease of THB 18.32 million or 34.48% when comparing with the same period of last year. During the third quarter of 2016, the company showed a net profit of THB53.12 million or earnings per share of THB 0.05. Details were as follows:

	2017	2016	Increase (Decrease)	%
Operating Results : 3rd Quarter				
Revenue from sales of real estate	577,164	648,457	(71,293)	(10.99)
Total revenues	702,991	717,366	(14,375)	(2.00)
Total expenses	662,055	663,759	(1,704)	(0.26)
Selling & Admin. Expense	151,667	146,849	4,818	3.28
Finance cost	59,602	42,429	17,173	40.47
Gross profit	220,013	254,702	(34,689)	(13.62)
Net profit	34,805	53,122	(18,317)	(34.48)
Gross profit margin (%)	33.69	35.94	(2.24)	(6.24)
Net profit margin (%)	4.95	7.41	(2.45)	(33.14)
Per Share (Baht)				
Net profit per share	0.04	0.05	(0.01)	

The decrease in operating performance when comparing the first nine months of last year was caused by the following reasons:

- (1) Total revenues were THB 702.99 million, a decrease of THB 14.38 million or 2.00%. The revenue from the main businesses of the Company and its subsidiaries as follows:
 - Sale of real estate business decreased by THB 71.29 million or 10.99% when comparing to the same period of last year. However, sale of real estate business derived in the third quarter was higher than the past two quarters and was more than the third quarter of the previous year.

Most of the housing units were booked during end of the third quarter and these units can be transferred and realized as revenue in the next quarter.

- Revenue from rent and service was THB 50.38 million comparing to THB 37.12 million reported during the third quarter of last year, an increase of THB 13.25 million or 35.7%. Most of the revenue came from leasing space of warehouse/factory space. Gross profit derived from this business was THB 23.37 million, which was similar to the same period of last year. However, during this quarter the gross margin declined from 63.28% to 46.39% as new warehouse/factory buildings were newly completed and introduced to potential customers. Due to the accounting standard, the company had to amortize leasehold rights of these new warehouse/ factory buildings. However, the Company expected to generate more revenue from rent and service in the long run.

- (2) The Company recorded total costs and expenses of THB 662.05 million, decrease by THB 1.70 million or 0.26%. The proportion of decreasing in total costs and expenses was lower than the declining rate in total revenue. This was due to the Company and its subsidiaries incurred financial costs during the development of real estate projects. These projects could generate recurring income when completed.

The company's financial results during the nine months of 2017 can be summarized as follows:

Unit : THB'000

Operating results : 3rd Quarter	2017	2016	Increase (Decrease)	%
Real Estate				
Revenue from sale of real estate	1,762,247	1,769,708	(7,461)	(0.42)
Gross Profit : Reals estate	586,825	606,698	(19,873)	(3.28)
Gross profit margin (%)	33.30	34.28	(0.98)	(2.87)
Rental and other services				
Revenue from rental & other services	142,456	89,623	52,833	58.95
Gross Profit : Rental & other services	75,891	51,291	24,600	47.96
Gross profit margin (%)	53.27	57.23	(3.96)	(6.91)
All bussiness				
Sales & Sevices revenue	1,978,993	1,930,642	48,351	2.50
Gross profit	695,372	692,362	3,010	0.43
Gross profit margin (%)	35.14	35.86	(0.72)	(2.02)
Total revenue	2,062,058	2,004,317	57,741	2.88
Total Cost & Expense	1,964,416	1,805,068	159,348	8.83
Selling & Admin. Expense	481,877	402,413	79,464	19.75
Finance cost	160,371	97,132	63,239	65.11
Net profit	85,440	193,946	(108,506)	(55.95)
Net porofit margin (%)	4.14	9.68	(5.53)	(57.18)
Net profit per share (Baht)	0.09	0.20	(0.11)	

During the first 9 months of this year, total revenues were THB 1,978.99 million, an increase of THB 48.35 million comparing to the same period of last year which was reported THB 1,930.64 million. The Company's total gross profit was THB 695.37 million, an increase of THB 3.01 million or 0.43%.

The main businesses of the Company and its subsidiaries consisted of:

(1) Sale of real estate business

Revenue derived from sale of real estate business was THB 1,762.25 million, closed to THB 1,769.71 million which the Company generated during the first nine months of last year, a slight decrease of THB 7.46 million or 0.42%. The Company maintained its sale even though there was none of the Government stimulus measures such as reducing transfer fee which the Government adopted during the first four months of 2016. The gross margin slightly decreased from the previous year. The Company improved some of its housing projects to stimulate sales. This

caused gross margin of housing units in average declining. However, the Company generated gross profit of THB 586.83 million, a decrease of THB 19.87 million or 2.87% when comparing with the same period of last year.

(2) Rent and service business

The Company and its subsidiaries realized revenue from rent and service during the first none month of this year of THB 142.46 million, increased from THB 89.62 million of its previous year by THB 52.83 million or 58.95%. More than 90% of rent and service revenue came from leasing warehouse/factory spaces by Prospect Development Co., Ltd. (“Prospect”) – its subsidiary. Gross profit generated from this business was 75.89 million, an increase of THB 24.60 million or 47.96% comparing to the same period of last year which was reported at THB 51.29 million.

Prospect reported rent and service revenue of THB 129.17 million, a growth of 68.7% when comparing with the same period of last year which was recorded at THB 76.56 million. Prospect’s gross margin was 51.1%. Prospect held a land lease right of 350 rais to develop warehouse/factory space. After the Company acquired Prospect during the fourth quarter of 2015, Prospect could seek funding to construct more warehouse/ factory for lease. Prospect’s development was increased from 21.50% of total land area to 43.35%. Currently, Prospect has 114,775 sq.m. of total rental space, comparing with 67,569 sq.m. at the end of 2015. Occupancy rate is in the range of 85%-89%. This caused a proportion of rent and service revenue improved from 0.9% in 2015 to 7.2% at the end of the third quarter. According to its construction plan, Prospect needs additional funding to complete its project within 3 years. This would create more financial costs to the Group. If the Company is success in increasing rent and service income continuously, the revenue structure will be more stable in the long term. In additional to rent and service income, the Company recorded property management fee.

In late 2016, The Company also made investment in Park Court Project which was operated by Munkong Living Co., Ltd. Park Court was a high-end residential condominium project for lease and sale. Park Court was located in a high potential location. The Project was divided into three zones. The first zone was developing and would be completed during the late of 2017. Upon completion, the Company would start to realize revenue. After that, the next zone will be developed. This caused the Company to record cost of sales and financial costs during the development period. However, Park Court Project would generate both revenue from condominium sale and income from rent and service. This would increase a proportion of recurring income.

(3) Golf and property management business

Revenue from golf and property management business during the first nine months of this year was THB 74.29 million which was THB 71.31 million, same level as last year. For golf business, the Company is constructing a new club house. The clubhouse is expected to complete during the beginning of 2018. The new development would help to reposition golf course to a competitive level and serve the customers' needs. The Company targets to generate higher income from green fee, golf cart rent fee and food and beverage income. Currently, golf business generates a gross margin of 40%. In addition to increase golf revenue, this will help to improve the Company's image and surrounding housing projects.

During the first nine months of this year, the Company and its subsidiaries reported total revenue of THB 2,062.06 million, an increase of THB 57.74 million or 2.88% comparing to the same period of last year. However, total costs and expenses increased THB 159.35 million, of which, selling and administrative expense increased by THB 79.46 million or 19.75%. This was due to the Government stimulus measures causing selling expenses in 2016 lower than usual. In addition, the Company made investment in developing new construction techniques and modernized housing layout. The Company also allocated a higher common area capital cost for each housing project. All of these investments were made to maintain image and quality of its housing products and these would lead to customers' well acceptance in the longer term. The Company set up Yours Property Co., Ltd. in late 2015 to develop property management service more efficiently.

Since the Company adopted a policy to diversify to recurring income business, the Company was required an investment to reposition the Company's image. Its financial costs would be high when comparing to the previous years. This caused retained earnings for the first 9 months decrease by THB 108.51 million or 55.95%.

Please be informed accordingly.

Yours sincerely,

(Mrs. Sutida Suriyodorn)
Deputy Managing Director