

**M^HA  
N\_KHON**



### Executive Summary

For the second quarter of 2017, 3-month operating period ended June 30<sup>th</sup>, 2017 (“Q2 2017”), the total revenues of the Company was recorded 2,579.1 Million Baht, increasing by 45.4% as compared to Q2 2016 of 1,773.3 Million Baht. This was mainly due to the increasing revenue from property business, specifically The Ritz-Carlton Residences, Bangkok (“RCR”) of 1,692.5 Million Baht (65.6 % of total revenues) from the transfer of 33 residences, and also the increasing revenue from Food and Beverages of DEAN & DELUCA of 801.5 Million Baht (31.1% of total revenues), and also the increasing revenue from other income, including trademark and trade name fees of DEAN & DELUCA of 85.1 Million Baht.

The total gross profits in Q2 2017 was 761.8 Million Baht or 31.3 of the total revenue, improved greatly 190.2 Million baht or 28.2%. The rise was primarily contributed by property business. The gross profit from property business in Q2 2017 was recorded 418.0 Million Baht or 24.7% of revenue from property business which rose significantly than that of Q2 2016. This was mainly due to the 33 residences that were transferred and recognized income in Q2 2017; hence increasing the revenue from property business of 54% greater than the revenue from property business in Q2 2016.

In the meantime, the gross profit from food & beverages business in Q2 2017 was 362.4 Million Baht or 45.2% of revenue from food & beverages business which slightly decreased from 49.7% in Q2 2016.

Total expenses were 2,553.8 Million Baht or 99% of total revenues, comprising of selling expenses of 1,075 Million Baht, administrative expenses of 1,466.1 Million Baht and also other expenses of 12.6 Million Baht.

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February 9, 2018

**PACE Development  
Corporation PLC.**

CRC Tower All Seasons Place 45th  
Floor, Wireless Road, Lumpini,  
Pathumwan, Bangkok 10330

Telephone 02-6543344 Ext.119

# M^HA N\_KHON



## Executive Summary (continued)

The rising expenses were mainly related to the development of consumer product and significant marketing activation cost of PGA tour event and brand building initiatives of DEAN & DELUCA and also selling and marketing activities to boost up sales and transfer of MahaNakhon, MahaSamutr and Nimit Langsuan Projects.

The total interest paid equaled to 288.8 Million Baht, comprising of financing costs of 223.6 Million Baht and capitalized interest of 65.2 Million Baht.

According to the joint venture of 2 new investors in Pace Project One Co., Ltd. and Pace Project Three Co., Ltd., the Company engaged independent financial advisory firm to measure the fair values of investments in these 2 subsidiaries by adopting the income approach and the discounted cash flow to present value and consequently realized the fair values in amounting of 8,231 Million baht. Regarding the letter of the SEC 2008/2560 on November 16, 2017 that notified the Company to clarify the appropriateness of the assumptions used in the fair value measurement of investments, therefore, the Company appointed another independent financial advisory firm to re-evaluate the fair value of such investments with the use of the income-based approach and the discounted cash flow and Black-Scholes option pricing model.

Based on the selection of most appropriated methodologies from 2 independent financial advisory firms, the Company recognized the effect from loss of control in these two subsidiaries recorded in the consolidated statements of comprehensive income in amounting of 7,113 Million Baht.

As a result, the Company recorded net profit of 3,915.3 Million Baht

**Note** : The key assumptions for the valuation of Pace Project One Co., Ltd. and Pace Project Three Co, Ltd. were indicated in notes to consolidated financial statement of the Company for the period ended June 30, 2017 (Revised version)

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## The following is the overall business operations and significant changes during Q2 2017:

In Q2 2017, the Company is continually developing its current real estate projects: MahaNakhon, MahaSamutr, and Nimit Langsuan projects. Despite of competitive in pricing action, the Company has handover 33 residences of MahaNakhon Project to the customers which realized higher number of the residences transfer in Q2 2017. As well as the rest of good backlog quality, the Company expected to transfer and generate income by Q1 2018. Additionally, the Company started to develop a new project "Windshell Naradhiwas", and already pre-sale in Q2 2017. This project is expected to be completed and be able to generate revenues by 2019.

For food and beverages business, Dean & DeLuca, Inc. (DDUS) has continued its efforts to take corrective actions to improve existing store profitability while also keeping its eye on new store development, Consumer Brands product launch and new international franchise opportunities. Financial and Operational controls have been reassessed and repositioned to allow the company to see better returns on existing store profitability. In Consumer Brands Group (CBG), the PGA tournament DEAN & DELUCA Performance Bar launch successfully validated product profitability with the official launch of the DEAN & DELUCA Performance Bar launching in Q3. In May, Galaxy Group officially signed a franchise agreement to open their first location in Macau

## Financial Summary

### Statement of Financial Performance

#### Revenues

For Q2 2017 fiscal year ended 30 June 2017, the Company had total revenues of 2,579.1 Million Baht, increasing by 42.2% from Q2 2016 of 1,773.3 Million Baht. Major sources of revenues arose from the followings;

I Property Business: the Company will be able to recognize revenues only when the construction is completed and the ownership of such construction project has been transferred to the customers.

#### MahaNakhon Project:

The Ritz-Carlton Residences, Bangkok ("RCR") of MahaNakhon project has started transferring the residences to the customers since April 2016, and also showed all-time high in term of revenues and number of units transfer over 2 periods. For the 2<sup>nd</sup> quarter of 2017, there were 33 residences transferred to the customers which generated importantly the revenues to the property business of 1,692.5 Million Baht, increasing by 75% as compared to Q2 2016 of 969.3 Million Baht. Additionally, the revenues from other incomes such as trademark and trade name fees, rental and service income, interior and creative service income, and other incomes were totaling of 14 Million Baht.

The Company also gave priority to launch a new campaign in selling and marketing to boost up the remaining residences of MahaNakhon project for sale which are expected to transfer by Q1 2018.

#### Nimit Langsuan Project:

Currently, the tower core slip form casting has already passed level 5. Level 2 of the floor slab is fully completed, and level 3 is now in the process of casting continually.

#### MahaSamutr Project:

The constructive progression of MahaSamutr Villa is almost completed. The diagonal roofing façade structure at Country Club is now reaching its highest point. In addition, the other parts are now in the progress of construction as planned. The MahaSamutr Villa is expected to start transferring to the owners since Q4 2017 onward.

As of August 15<sup>th</sup>, 2017, the Company has company-operated stores and licensed stores as following.

Country	Company-operated Stores	Licensed Stores	Total
United States	10	-	10
United States (Hawaii)	-	1	1
Thailand	13	-	13
Japan	15 (50% JV)	16	31
South Korea	-	2	2
Singapore	-	3	3
Kuwait	-	1	1
UAE	-	1	1
Philippines	-	2	2
<b>Total</b>	<b>38</b>	<b>26</b>	<b>64</b>

The total revenues of DEAN & DELUCA in Q2 2017 were 801.5 Million Baht or increase 7.6 %, compared to Q2 2016 of 745.0 Million Baht. The growth on sales were primarily from E-commerce and hospitality business (B2B) and also Easter holiday fell into Q2 2017 in this year while it was in Q1 2016.

## Gross Profits

In Q2 2017, total gross profits from property, food & beverages business were 780.4 Million Baht or 31.3% of the total revenues. Details are as follows:

### I Property Business,

Gross profit from transferred residences was recorded 418 Million Baht or 24.7% of the revenue. The gross profit of the property business was greater than that of past transferring period as the most of residences transferred in Q2 2017 which were sold at higher prices. Through full marketing and selling supports will be given to drive sales and transfers. The Company expected that the remaining residences of MahaNakhon project for sale will be handover to the customers by Q1 2018; as well as maintain the construction cost, the gross profit margin will be relatively high in 2017.

### II Food & beverages business

Total Gross Profit was 362.4 Million Baht or 45.2% of revenue which slightly decrease 9.9 Million Baht. Gross Profit for DDUS was 322.5 Million Baht representing a 3.5% decrease in gross profit versus prior year due to a challenging US retail environment higher food costs, changing product mix and 2017 carry over benefit of \$700K from Japan perpetual license deal. Corrective actions and controls are in place to mitigate rising labor costs and improve forecasting and purchasing practices.

## Selling and Administrative Expenses

In Q2 2017, selling and administrative expenses were 2,553.8 Million Baht or 99.0 % of total revenues. The selling expenses were 1,075 Million Baht, increased 433.3 Million Baht or 67.5% from Q2 2016. The administrative expenses were 1,466.1 Million Baht, increased 1,001.9 Million Baht or 215.8% from Q2 2016.

For property business, the increase in selling expenses contributed to selling and marketing strategies which include sales promotion, the communication to the public through social media for MahaNakhon, MahaSamutr and Nimit Langsuan Projects.

For food and beverages business, the total SG&A costs were 1,221.6 Million Baht, an increase of 49% versus prior year. The increase is attributed to development costs of Consumer Brands Group product division which included product research, legal & marketing, and marketing activations at the PGA tour event to launch CBG DEAN & DELUCA Performance Bar. CBG sales anticipated to show first results at the end of 2017 and in 2018

## **Finance Costs**

In Q2 2017, total interest paid equaled to 288.9 Million Baht, comprising of financing costs of 223.6 Million Baht and capitalized interest of 65.2 Million Baht. The rise in the costs was due to increased loans funding the construction of “MahaSamutr” and “Nimit Langsuan” projects and the expansion of DEAN & DELUCA in the United States while the Company has continued to pay back the loan for “MahaNakhon” project since it started recognizing the revenue in April 2016.

## **Profit and Loss Results**

In Q2 2017, the Company had net profit of 3,915.3 Million Baht or 152% of total revenues, significantly increase from gain on joint venture investment of totaling 7,113 Million Baht

## Statement of Financial Position

### Assets

As at June 30<sup>th</sup>, 2017, the total assets were 35,281.9 Million Baht, increased 3,450.8 Million Baht or 10.8% from as at December 31<sup>st</sup>, 2016.

The main assets comprised of investment in shares of joint venture of 6,628.9 Million baht, cash and cash equivalent of 2,313.8 Million Baht and long-term loans to related party of 1,909.3 Million Baht which was mainly from fund flow of Apollo's deal, real estate projects for sales under development of 12,987.3 Million Baht, Account Receivable of 371.5 Million Baht. Additionally, there were building improvement, sales gallery and equipment of 2,864.6 Million Baht. Moreover, the goodwill incurred from DEAN & DELUCA acquisition was 3,184.2 Million Baht. Also, the intangible assets arising from DEAN & DELUCA's business; for example, trade mark, trade name, copyrights, etc. of the DEAN & DELUCA brand were 2,117.7 Million Baht. The main assets were 92% of the total assets.

### Liabilities

As at June 30<sup>th</sup>, 2017, the total liabilities were 29,779.0 Million Baht, decreased slightly 362.9 Million Baht or 1.2% from as at December 31<sup>st</sup>, 2016 which mainly due to long-term loans repayment of MHNK project to financial institution in totaling amount of 3,958.0 Million Baht, despite, the Company issued new debenture in amounting of 1,219 Million Baht.

The main liabilities were short-term loans from financial institutions of 1,768.8 Million Baht, short-term loans from other parties of 3,922.0 Million Baht, current portion of long-term loans from financial institutions of 6,096.1 Million Baht, long-term loans from financial institutions (net) of 1,694.8 Million Baht, current portion of debentures

of 3,614.5 Million Baht, debentures (net) of 2,299.7 Million Baht and advances and deposits received from customers of 4,001.2 Million Baht, deferred tax liability on gain from JV transaction of 1,897.6 Million baht. Total interest bearing debts equaled to 19,978.4 Million Baht.

### Shareholders' Equity

As at June 30<sup>th</sup>, 2017, the total shareholder's Equity of the Company were 5,502.9 Million Baht, mainly due to the recognition value of joint venture of the Apollo's deal and realized gain from the re-measurement of the remaining investment at fair values.

### Appropriateness of the Funding Structure

At the end of the year 2016, the Company recorded total debt to equity ratio of 17.8 times. The interest bearing debt to equity ratio was 13.1 times. As of June 30<sup>th</sup>, 2017, total debt to equity ratio was reduced greatly at 5.4 times. Also, interest bearing debt to equity ratio was reduced positively at 3.6 times. This was due to the fact that net loans decreased while shareholder equity increased.

The significant decrease of total debt to total equity ratio of the Company was due to the ability of revenue recognition from The Ritz-Carlton Residences, Bangkok ("RCR") which is a part of MahaNakhon project. As a result, the Company was able to repay loans during the period. Apart from that, the capital increase from the fund of Apollo had resulted in the ability to terminate the outstanding debts to financial institutions as well.

However, the Company continues to invest in the expansion of DEAN & DELUCA. This could be said that if the Company can transfer the residences of MHNK project to the customers and recognize continuously the revenues as planned whereby reduce further its debts by repaying these to the financial institutions, the debt to equity ratio may decrease further by year end 2017.

## 2017 Management Outlook and Strategy

### Profit generation capability of real estate business

1. Details and progress of the Company's residential projects are as follows:

Project	Operated By	Project Value (MB)	Total Units	Sales Progress			Actual Transferred Value (MB) in 2017	Start of Transfer in Year
				No. of Sold Units	Million Baht	% (unit)		
MahaNakhon - The Ritz-Carlton Residences, Bangkok	Pace Project Two	15,000	209	157*	10,083	75	4,796.1**	April 2016
MahaSamutr - Villa	Company	4,000	80	22	1,113	28	-	Q4'17
Nimit Langsuan	Company	8,000	179	168	6,709	94	-	2018
Windshell Naradhiwas	YLP	3,000	36	N/A	N/A	N/A	-	2019

Remark: \* In 2Q2017, there were 33 residences recognized revenue (21 residences in 1Q2017, and 24 residences in 2016). The remaining residences are expected to be transferred by Q1 2018.

\*\* The total value of transferred residences since 2016.

2. Updates for construction progress of MHNK, MHSM, NIMIT Langsuan

### MahaNakhon Project

The Company is continually handover residences of "The Ritz-Carlton Residences, Bangkok" to the customers. There are some customers moved in already since June 2017, and the residents can enjoy the outstanding facilities such as swimming pool, games room, or club lounge. Moreover, there is a new show suite on level 58 – the Sky Residences in order to sell the remaining residences. The constructive progression of the hotel "The Bangkok Edition", and retail "MHNK Observation Deck" and rooftop bar are in the process of interior decoration which are expected to be completed in Q4 2017.

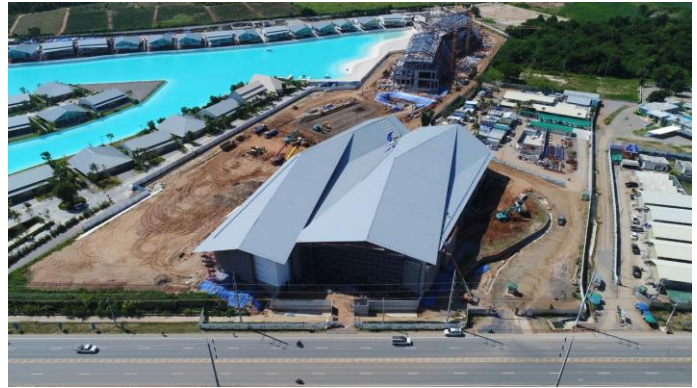


## MahaSamutr Project

The construction progress of MahaSamutr Villa is almost completed and in the process of interior decoration. The diagonal roofing façade structure at Country Club is now reaching its highest point. In addition, the other parts are now in the progress of construction as planned. The MahaSamutr Villa is expected to start transferring to the owners since Q4 2017 onward.



Overall site view of Country Club



Overall site view of Sport Club

## Nimit Langsuan Project

Currently, the tower core slip form casting has already passed level 5. Level 2 of the floor slab is fully completed, and level 3 is now in the process of casting continually. At the entrance of the project, the façade visual mock up is being tested and it will mobilize to the site during the late of the year 2017.



## **Profit generation capability & expansion plan of DEAN & DELUCA**

Presently, The United States is geared to open 3 stores of the chef led fast food concept (small format) and 1 Market store all in high foot traffic affluent areas. The smaller format is much more scalable than market stores with anticipated smaller foot print requirement, better margins and faster payback period. Emphasis will be on full market penetration within each identified city, rather than placing a fewer number of locations within a higher number of unique cities. This also allows the Company to gain efficiencies effectively in regards to distribution, production and marketing efforts.

## **Consumer Brands Group:**





The launch of the Consumer Brands Group will represent the first new DEAN & DELUCA product sold in Wholesale outside of DDUS. The DEAN & DELUCA Performance Bar was launched at the PGA Tournament and will be in stores in the end of August.

The following are key initiatives and strategies to improve performance of existing operations:

The following are key initiatives and strategies are being implemented or reviewed to improve performance of existing operations:

#### Product Assortment:

- Merchant Core - Review all existing products, reducing Stock Keeping Unit (SKU) and cutting off the unproductive tail of products, and developing new core assortment to reflect market trends which will lead to improved sales and margin.
- Review new system and reporting platform to improve visibility and analysis across all categories and consolidate the planning and open-to-buy process.
- Review of private label assortments to refresh current offerings and sourced for better high quality and relevant ingredients.
- Research new products.

#### Catering:

- New recipes, leadership and marketing strategies have yielded repeat orders and new customer contracts
- Catering operations have moved to NYC Commissary which has improved operations, quality, and capacity  
Social catering program has launched and has seen strong traction

#### Sales and Marketing:

- Revised Sales and Marketing plan underway to better position as Luxury brand
- Leveraging new partnership with social media agency to spur interest across multiple platforms which has created engagement in store and through e-commerce.
- Hosted 6 store-level events in first quarter yielding strong customer engagement

#### Direct Channels (B2B & B2C):

- Updated catalog with better products and content to cater to market trends and to spur higher Average Order Value (AOV) and improve sales
- Renegotiated new freight prices through alternate supplier and packing optimization resulting in significant initial savings

#### United Kingdom

The Company has set up new operation in United Kingdom to expand DEAN & DELUCA. United Kingdom is a key region which has large opportunity for growth. The first store will be opened by end 2017 in Mayfair, heart of central London, as a brand introduction. We plan to expand many more stores in following years.

#### Thailand

As of June 30<sup>th</sup>, 2017 DEAN & DELUCA (Thailand) operates 11 stores including 5 full service restaurants with retail, 5 cafés with retail, and 1 restaurant with retail in Suvarnabhumi Airport (51% joint venture). The company has secured a second café location in the Airport which will open in Q3 2017 under the same joint venture. Additionally, the company will open one more café with retail on Silom Road in Q3 2017. We are continuing to work on our various offers, focusing on quality, discovery and innovation. We are working on expanding our prepared food offer in the cafes and continue to enhance our beverage and retail programs to become leaders in the market with our restaurants and café concepts. The company will transfer the kitchen production currently at the Cube restaurant to a central production facility in Q3, 2017. This will allow us to streamline food production and have better control on production costs. The company plans to continue to scout high traffic locations in the following years to expand our cafés which require less staff, have lower capital requirements and produce higher margins.

## Japan

As of June 30<sup>th</sup>, 2017 DDCJ has 13 cafés in operation including 2 new cafés opened during the year. It is expected that by the end of 2017 there will be a total of 19 cafés in operation. The expansion of the café format will be targeted in urban areas with high density population and transport hubs e.g. train stations in the major cities of Tokyo, Osaka and Nagoya. With a format that is not more than 200 square meters in size, these locations generate outstanding sales and provide much more return on capital comparing to other locations. The key focus is to develop a real estate pipeline that will be enough to deliver the planned café expansion.

## Macau

In May 2017, DEAN & DELUCA signed an agreement with the Galaxy Entertainment Group one of the world's leading developers and operators of integrated entertainment and resort facilities, and member of the Hang Seng index.

This agreement includes the opening of a minimum 3 café locations plus 1 Market location format over the terms of 10 years starting from 2017. The first café will be strategically anchoring itself at Macau's number 1 shopping and café society destination - the Promenade Shops in Galaxy Macau™ coming this fall. After the opening of the first café, Galaxy plans to open a second 700 square meter plus Market in Galaxy Mall by 2018.

More cafés are in the pipeline and will happen in the course of this partnership agreement. Galaxy will also have the exclusive rights to develop DEAN & DELUCA in specific parts of the People's Republic of China as well as Macau and furthermore expect to explore other investment opportunities.

## Factors that may influence business operations in the future

### Real estate business:

Nowadays, the rising cost of land becomes a major risk for operating a real estate business. Additionally, the difficulty of finding a good location of land with reasonable price point in central Bangkok has arisen. With regarding to the competition, the market shall remain highly competitive and challenging by major developers in this year in term of lower price or special offer launched in sales and promotions which cause the higher difficulty in driving sales or transfers. That being said, the Company has studied the outlook of high-end real estate business and has been proactively in acquiring new pieces of land for upcoming projects in 2-3 years for continuous revenue recognition of its real estate business.

### Food and beverages business:

Labor rules are becoming restrictive in several states and with some states and cities enacting higher wage laws. Foreign exchange with strong dollar can affect licensed partners from purchasing larger quantity of private label and DEAN & DELUCA products. Lower foot traffic in retail requires repositioning for stronger E-commerce business as people shop more online. Rising rent per square feet can affect the Company's ability to secure best locations and generate higher EBITDA. Ability to hire productive employees as the Company expands can affect operating and store performance. Management is aware of these factors and will be addressing each factor to reduce its affect.