



No. PACE IR2018/010  
Date: 28 February 2018  
Subject: Explanation of the Operating Results for the year ended 31 December 2017 changing over 20%  
To: The President  
The Stock Exchange of Thailand

PACE Development Corporation Public Company Limited (“the Company”) would like to report the operating results for the year ended 31 December 2017. The details are as follows:

### **Executive Summary**

The operating results for the year ended 31 December 2017 were that the Company generated total revenues of 9,271 million Baht; or an increase of 69.6% as compared with the total revenues for the year 2016 of 5,467 million Baht, comprising of: (1) revenue from sales of residential condominium units of 5,924 million Baht (64% of total revenues); increasing by 330.8% as compared to the year 2016 of 1,375 million Baht. The significant increase was mainly due to the ability to continually transfer of The Ritz-Carlton Residences, Bangkok at MahaNakhon totaling of 94 residences, and to recognize revenue from transfer 2 villas of MahaSamutr project, (2) revenue from Food and Beverages of DEAN & DELUCA of 3,142 Million Baht (34% of total revenues); slightly decreased by 2.9% as compared to the year 2016 of 3,236 million Baht, (3) revenue from rental and service income of 17 million Baht (0.2% of total revenues); significantly decreased by 68.7% as compared to the year 2016 of 54 million Baht, and (4) other income including trademark and trade name fees of DEAN & DELUCA of 189 million Baht (2% of total revenues); significantly decreased by 76.5% as compared to the year 2016 of 803 million Baht.

The total gross profits for the year 2017 was 2,944 million Baht (32% of total revenues); increased by 56% as compared to the year 2016 of 1,882 million Baht, comprising of: (1) gross profit from property business of 1,473 million Baht (25% of total revenues from property business); significantly increased by 326% as compared to the year 2016 of 346 million Baht. The significant increase was primarily due to the transfer of The Ritz-Carlton Residences, Bangkok at MahaNakhon totaling of 94 residences in 2017 whereas the total residences transferred in 2016 were 24 residences, (2) gross profit from gourmet food and beverage of 1,483 million Baht (47% of total revenues from gourmet food and beverage); slightly decreased by 6.5% as compared to the year 2016 of 1,586 million Baht.

The Company had total expenses and impairment loss of 8,175 million Baht (88% of total revenues); increased by 83.7% as compared to the year of 4,451 million Baht. This comprised of: (1) cost of sales of residential condominium units of 3,304 million Baht; increased by 40.2 as compared to last year of 2,357 million Baht, (2) administrative expenses of 2,508 million Baht; increased by 35.4% as compared to previous year of 1,852 million Baht, (3) impairment loss of 2,314 million Baht; increased by 1,161.5% as compared to previous year of 183 million Baht, and (4) other expenses of 59.3 million Baht of which were close to the year 2016 of 59.1 million Baht.

In 2017, the Company had a total finance costs of 1,458 million Baht; increased by 13% as compared to the year 2016 of 1,293 million Baht. These comprised of: (1) finance costs of 976 million Baht and (2) borrowing costs capitalized as the costs of assets during the period totaling of 482 million Baht.

Moreover, the Company approved the proposed investment by 2 new investors, namely Apollo Asia Sprint Holding Company Limited and Goldman Sachs Investments Holdings (Asia) Limited in 2 subsidiaries which were Pace Project One Co., Ltd. and Pace Project Three Co., Ltd. in 1Q2017. Accordingly, the Company engaged an independent financial advisory to evaluate the fair value measurement of the investments by using income approach method and discounted cash flow to present value. As a result, the fair value of the investments were 8,231 million Baht.

Consequently, the Company received the letter from the Securities and Exchange Commission, Thailand (SEC) of the SEC Kor Chor. 2008/2560 dated 16 November 2017 to notify the Company in order to clarify the reasonableness of the assumptions used in the fair value measurement as well as publicly disclose the information. The Company engaged the 2<sup>nd</sup> independent financial advisory firm to reevaluate the fair value of the investments by using income approach method, discounted cash flow to present value, and Black-Scholes option pricing model. Based on report of the 2<sup>nd</sup> independent financial advisory firm dated February 2, 2018, the fair value of such investment amounted to 6,487 million Baht and the Company recorded such investment in the consolidated statement of financial position as at 31 December 2017 amounting to 6,487 million Baht and recognized effect from loss of control in subsidiaries in the consolidated statements of comprehensive income for the year ended 31 December 2017 amounting to 7,113 million Baht.

As a result, the Company recorded net Profit of 171 million Baht.

## Summary of Financial Performance

### Analysis of the Operating Results

#### Revenues

For the year ended 31 December 2017, the Company generated revenues of 9,271 million Baht; increased by 69.6% as compared to last year of 5,467 million Baht. The details are as follows:

Property Business: the Company will be able to record the revenue from sales of residential condominium units in the statement of comprehensive income when the real estate project has been completed and transferred to the customers after completion of the payment.

1. As of 31 December 2017, Details and progress of the Company's residential projects are as follows:

Project	Operated By	Project Value (MB)	Total Units	Sales Progress			Cumulative Transferred Value (MB)	Start of Transfer in Year
				No. of Sold Units	Million Baht	% (unit)		
MahaNakhon - The Ritz-Carlton Residences, Bangkok	Pace Project Two	15,000	209	156*	10,182	75	7,170	April 2016
MahaSamutr - Villa	Company	4,000	80	22	1,113	28	96	Q4 2017
Nimit Langsuan	Company	8,000	187	170	6,709	91	-	2019
Windshell Naradhiwas	YLP	3,000	36	6	494	17	-	2019

Remark: \* In 2017, there were 94 residences recognized revenue (24 residences in 2016). The remaining residences are expected to be transferred in 2018.

#### **MahaNakhon Project:**

Currently, the progress construction of MahaNakhon project is still under construction and interior decoration of the Bangkok Edition hotel and MahaNakhon Observatory Deck. They are expected to be completed by Q2 2018. Meanwhile, the Company is continually transferring the Ritz-Carlton Residences, Bangkok to the customers. In 2017, there were 94 residences transferred of which were approximately 5,827 million Baht; increased by 334.1% as compared to the year 2016 of 1,342 million Baht.

#### **MahaSamutr Project:**

The construction of MahaSamutr project – villas are completed of infrastructure process and in the process of interior decoration which will be completed soon. In December 2017, there were 2 villas of MahaSamutr project transferred and recognized revenue of 96 million Baht. The Company expects to be able to transfer the rest of the villas to the customers in 2019. Besides, MahaSamutr Country Club and Sports Club are currently in the process of infrastructure including interior and exterior decoration.

#### **Nimit Langsuan Project:**

The construction of Nimit Langsuan project is in the process of tower core slip form casting reaching level 12, the floor slab of level 9 is fully completed, and continually to level 10 respectively.

## II Gourmet Food and Beverage Business

In 2017, the total revenues of DEAN & DELUCA were 3,142 million Baht; slightly decreased by 2.9 % as compared to the year 2016 of 3,236 million Baht. This was the fact that retail stores sales in United State were decrease, however, there were significantly revenue increase from three new stores opened in Thailand which are Silom Soi 1, Suvarnabhumi Airport 1, and Suvarnabhumi Airport 2.

As of 31 December 2017, the Company has company-operated stores and licensed stores as follows.

Country	Company-operated Stores	Licensed Stores	Total
United States	10	-	10
United States (Hawaii)	-	2	1
Thailand	12	-	12
Japan	17 (50% JV)	17	34
South Korea	-	2	2
Singapore	-	3	3
Kuwait	-	1	1
UAE	-	1	1
Philippines	-	2	2
Macao	-	1	1
Bahrain	-	1	1
<b>Total</b>	<b>39</b>	<b>30</b>	<b>69</b>

### **Gross Profits**

In 2017, total gross profits from property and food & beverage businesses were 2,944 million Baht or 32% of the total revenues; increased by 56.4% as compared to the year 2016 of 1,882 million Baht. Details are as follows:

#### I Property Business:

Gross profit from the transfer of residences of MahaNakhon project was recorded 1,473 million Baht or 25% of the revenue. The gross profit of the property business in 2017 increased by 326% as compared to the year 2016 of 346 million Baht. This was mainly due to the significant increase of the transfer of the residences of MahaNakhon project in 2017 whereas the year 2016, the transfer of the residences just started in April. Furthermore, the Company had gross profit from the transfer of 2 villas of MahaSamutr project in December. In addition, the Company also maintained the construction costs of all projects; hence, the gross profit of the year 2017 was greater than the year 2016.

#### II Gourmet Food & Beverage business

The total gross profit of gourmet food and beverage business was 1,483 million Baht or 47% of revenue which slightly decrease by 6.5% as compared to the year of 1,586 Million Baht. This was due to a challenging US retail environment higher food costs, changing product mix and 2017 carry over benefit of USD \$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 and impairment loss**

In 2017, The Company had total expenses and impairment loss of 8,175 million Baht (88% of total revenues); increased by 83.7% as compared to the previous year of 4,450 million Baht. This comprised of: (1) cost of sales of residential condominium units of 3,304 million Baht; increased by 40.2 as compared to the previous year of 2,357 million Baht, (2) administrative expenses of 2,508 million Baht; increased by 35.4% as compared to the previous year of 1,852 million Baht, (3) impairment loss of 2,304 million Baht; increased by 1,156.1% as compared to the previous year of 183 million Baht.

The increasing selling expenses from property business were due to the results of selling and marketing strategies which included sales promotion, the communication to the public through social media for MahaNakhon, MahaSamutr and Nimit Langsuan Projects.

The increasing selling and administrative expenses from gourmet food and beverage business of 4,847 million Baht; increased by 48.9% as compared to the year 2016 of 3,255 million Baht. The increase was due to the attribution on marketing activations at the PGA tour event to launch Consumer Brand Group DEAN & DELUCA Performance Bar and US Open sponsorship and the impairment of intangible assets.

### **Finance Costs**

In 2017, the Company had total interest paid of 1,458 million Baht, increased by 12.8% as compared to the year 2016 of 1,293 million Baht. This comprised of financing costs of 976 million Baht and capitalized interest of 482 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. Meanwhile, the Company has continued to pay back the loan for “MahaNakhon” project since it started recognizing revenue in April 2016.

### **Profit and Loss Results**

In 2017, the Company had net loss of 171 million Baht or 1.8 % of total revenues; compared to the year 2016 of 2,326 million Baht. This was due to the Company recognized the effect from loss of control in its subsidiaries and recorded a total of 7,113 million Baht in the Consolidated Financial Statements.

### **Statement of Financial Position**

#### **Assets**

As at 31 December 2017, the total assets were 32,423 million Baht; increased by 592 million Baht; or 1.9% from as at 31 December 2016 of 31,831 million Baht. The main assets comprised of investment in shares of joint venture of 6,703 million Baht, cash and cash equivalent of 1,202 million Baht, and long-term loans to related party of 1,741 million Baht which was mainly from fund flow of Apollo’s deal, real estate projects for sales under development of 12,347 million Baht, Account Receivable of 80 million Baht, Inventory of 216 million Baht, building improvement, sales gallery, and equipment of 3,515 million Baht, Moreover, the goodwill incurred mainly from DEAN & DELUCA acquisition was 2,551 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 1,981 million Baht. The main assets were 94% of the total assets.

#### **Liabilities**

As at 31 December 2017, the total liabilities were 30,161 million Baht; slightly increased by 19 million Baht, or 0.1% from as at 31 December 2016 of 30,142 million Baht. The main liabilities included: short-term loans from financial institutions of 4,341 million Baht, short-term loans from other parties of 698 million Baht, current portion of long-term loans from financial institutions of 4,831 million Baht, long-term loans from financial institutions (net) of 4,714 million Baht, the remaining amount of debenture is 4,527 million baht, advances and deposits received from customers of 3,645 million Baht, and deferred income tax liability of 1,594 million Baht. Total interest bearing debts equaled to 20,229 million Baht.



### **Shareholders' Equity**

As at 31 December 2017, the total shareholder's Equity of the Company were 2,262 million Baht; increased by 33.9% as compared to the year 2016 of 1,689 million Baht. This was mainly due to the investments from Apollo and the fair value measurement since Q2 2017.

### **Appropriateness of the Funding Structure**

In 2017, the Company had total debt to equity ratio of 13.3 times as compared to 17.8 times in 2016. The interest bearing debt to equity ratio was 8.9 times compare to 13.1 times in 2016. This was mainly due to the decrease in net loans while the shareholder equity was increased

The significant decrease of total debt to total equity ratio of the Company was primarily due to the ability to transfer and to recognize revenue from The Ritz-Carlton Residences, Bangkok ("RCR") of MahaNakhon project as well as the ability to repay loans during the year. Furthermore, the investments from Apollo had resulted in the ability to terminate the outstanding debts to financial institutions.

Additionally, the Company issued newly ordinary shares and warrants totally worth 3,894 million Baht to its existing shareholders as well as to the specific investor (Private Placement) in Q1 2018, and the process was completed in February 2018 . The proceeds from the capital increase was used for repaying the short-term loans to financial institutions and the debentures due in January 2018. Besides, if the Company is able to transfer the remaining backlog residences of MHNK project and MHSM Project to the customers and recognize continuously the revenues as planned, the Company will reduce further its debts by repaying to the financial institutions including the fund from the newly share capital increase including the issuance of warrant will be used for future repayment of Bond in upcoming maturity which will reflect to the debt to equity ratio decreasing significantly by the end of the year 2018.

Please be informed accordingly.

Yours Faithfully,

(Ms. Natha Kittiaksorn)

Chief Financial Officer

PACE Development Corporation Public Company Limited