



No. PACE IR2018/015
Date: 14 August 2018
Subject: Explanation of the Operating Results for the second quarter of the year 2018 ended 30 June 2018 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 second quarter of the year 2018 ended 30 June 2018 (“Q2 2018”). The details are as follows:

Executive Summary

The operating results of the second quarter of the year 2018, for the three-month period ended 30 June 2018 (Q2 2018), the Company generated total revenues of 5,619 million Baht; or increasing by 118% as compared to the total revenues in Q2 2017 of 2,579 million Baht. This was mainly due to the increase in revenue from sales of the residences “The Ritz-Carlton Residences, Bangkok” at MahaNakhon transferred in the Q2 2018 of 58 residences which was greater than the same period last year of 33 residences.

The Company’s gross profit from operation, excluding the reversal of impairment loss from investments was 1,352 million Baht (25% of total revenues from operation), increasing by 73% as compared to the same period last year of 780 million Baht. The key reason was from the result of the transfer of 58 residences of MahaNakhon project in Q2 2018 which significantly increased as compared to the same period last year.

The Company had total selling and administrative expenses of 1,146 million Baht (20% of total revenues), significantly decreasing by 55% as compared to the same period last year of 2,554 million Baht. This was mainly due to: (1) the decrease in selling and administrative expenses of gourmet food and beverages “DEAN & DELUCA”; regarding that the Company made a great effort to reduce unnecessary costs including marketing expenses, and (2) the Company recorded the doubtful accounts on long-term loan to joint ventures of 910 million Baht in the same period last year.

In Q2 2018, the Company had finance cost of 198 million Baht, decreasing by 12% as compared to the same period last year of 224 million Baht.

The Company had operating profit before financial costs and income tax, excluding reversal of impairment loss from investments and allowance for doubtful accounts of 344 million Baht (6% of total revenues), increasing by 144% as compared to the same period last year of (778) million Baht.

Significant event in Q2 2018

On 6 April 2018, the Company, Pace Project One Co., Ltd. (“PP1”), Pace Project Three Co., Ltd. (“PP3”), and a director entered into buyout agreement on disposal of assets in PP1 and PP3 in total of not exceeding to 12,800 million

Baht to King Power MahaNakhon Co., Ltd. (“KPM”). On the same day, the Company and KPM entered into a Business Procurement Agreement, and KPM committed to pay operating costs of the transaction to complete the disposal of the subsidiaries’ assets of not exceeding to 1,200 million Baht for the Company. The total value of the 2 agreements were 14,000 million Baht. The summary of significant details are as follows:

- (a) Disposition of the assets in PP1 and PP3 included: land, hotel, Observation Deck, Retail Cube Building, sculptures and artworks, the licenses and contracts which are relevant to the operation of PP1 (Hotel) and PP3 (Observation Deck and Retail Cube) in the MahaNakhon Project; having the total value of not exceeding 12,617 million Baht.
- (b) Disposition of land that is jointly owned by PP1, Pace Project Two Co., Ltd. (“PP2”), PP3, and PRE having the total value of not exceeding 183 million Baht.
- (c) The Company shall receive the Business Procurement compensation for seeking purchasers, negotiating with relevant parties including managing and implementing the completion of the disposal of asset in the amount of not exceeding 1,200 million Baht.

On 9 April 2018, the Company, PP1 and PP3 entered into Investment Buy-Out Agreement with Apollo Asia Sprint Company Limited (“Apollo”) and Goldman Sachs Investments Holding (Asia) Limited (“Goldman”), (investment partners) in order to purchase shares in PP1 and PP3 totaling of not exceeding to USD 320 million or, not exceeding to 10,000 million Baht. The details are as follows:

- (a) Purchase preferred shares in PP1 from Apollo of 1,344,700 shares with a par value of Baht 100 each; in the amount of USD 4,303,040 or equivalent to 134.9 million Baht, and from Goldman of 576,300 shares with a par value of Bath 100 each; in the amount of USD 1,844,160 or equivalent to 57.8 million Baht; totaling of 1,921,000 shares; in the amount of USD 6,147,200 or equivalent to 192.7 million Baht, in the proportion of 49.00 percent of PP1.
- (b) Purchase preferred shares in PP3 from Apollo of 665,001 shares with a par value of Baht 100 each; in the amount of USD 204,957,760 or equivalent to 6,424.9 million Baht, and from Goldman of 285,001 shares with a par value of Bath 100 each; in the amount of USD 87,839,040 or equivalent to 2,753.5 million Baht; totaling of 950,002 shares; in the amount of USD 292,796,800 or equivalent to 9,178.4 million Baht, in the proportion of 48.72 percent of PP3.

The Company received the payment of disposal of the assets from KPM totaling of 12,781 million Baht, and already transferred the ownership since 10 April 2018.

Summary of Financial Performance

Analysis of the Operating Results

Revenues

In Q2 2018, for the three-month period ended 30 June 2018, the Company generated total revenues of 5,619 million Baht; significantly increasing by 118% as compared to the same period last year of 2,579 million Baht. The details are as follows:

I 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.

MahaNakhon Project:

The Company sold 51 residences of the Ritz-Carlton Residences, Bangkok to two buyers with the total amount of 4,016 million Baht, and recognized all revenues in June 2018, and sold 7 residences to other customers with the total amount of 511 million Baht. Additionally, the Company has a plan to continually transfer the remaining residences of the Ritz-Carlton Residences, Bangkok to the customers in 2018.

MahaSamutr Project:

The construction in progress of MahaSamutr Villas are 95% completed. In Q2 2018, the Company transferred the ownership of MahaSamutr project totaling of 2 villas and recognized revenues of 101 million Baht. The Company expects to be able to sell and transfer the remaining villas to its customers in 2019. Meanwhile, MahaSamutr Country Club and Sports Club are currently in the process of restructuring and expected to be completed and operated in 2019.

Nimit Langsuan Project and Windshell Naradhiwas Project:

Nimit Langsuan and Windshell Naradhiwas projects are in the process of construction as planned. Also, the Company received credit facilities from its financial institutions which are sufficient to complete the projects, and it expects to be able to transfer the ownership of all residences to its customers as well as recognize revenues in 2019.

II Gourmet Food and Beverage Business

In Q2 2018, the total revenues of DEAN & DELUCA (D&D) were 568 million Baht; slightly decreased by 29 % as compared to the same period last year of 802 million Baht. This was from the result of the decreased revenue from sales of merchandises, gourmet food and beverages (D&D) in the United State. While, the revenues of D&D Thailand and D&D Airport were rising because of the three new stores: Silom Soi 1, Suvarnabhumi Airport 1, and Suvarnabhumi Airport 2.

III Other Income

In Q2 2018, the other income was 423 million Baht, significantly increased by 396% as compared to the same period last year of 85 million Baht. This was due to the reversal of 285 million Baht of impairment of investments.

Gross Profits

The Company's gross profit from operation, excluding the reversal of impairment loss from investments was 1,352 million Baht (25% of total revenues from operation), increasing by 73% as compared to the same period last year of 780 million Baht. Details are as follows:

I Property Business:

The gross profit of the property business in Q2 2018 was 1,082 million Baht; increasing by 159% as compared to the same period last year of 418 million Baht. This was mainly due to the transfer of 58 residences (The Ritz-Carlton Residences, Bangkok) from the MahaNakhon project in Q2 2018; significantly increased as compared to the same period last year of only 33 residences.

II Gourmet Food & Beverage business

The gross profit of gourmet food and beverages business in Q2 2018 was 270 million Baht, or 47% of total revenues from sales of merchandises, gourmet food and beverages, increasing by 2% as compared to the same period last year of 45% of the same revenues. This was due to the capability that the Company controlled the operating costs and improved forecasting, and purchasing practices.

Selling and administrative expenses

In Q2 2018, the Company had total selling and administrative expenses of 1,146 million Baht (20% of total revenues), significantly decreasing by 55% as compared to the same period last year of 2,554 million Baht. This comprised of: selling expense of 843 million Baht; decreased by 22% as compared to the same period last year of 1,075 million Baht, and administrative expenses of 304 million Baht; decreased by 79% as compared to the same period last year of 1,479 million Baht. Accordingly, the Company recorded the doubtful account on long-term loan to joint venture of 910 million Baht in the same period last year.

The selling expenses from sales of residential condominium units increased. This was mainly due to most of the expenses were related to the transfer ownership of the residences of MahaNakhon project, for instance, costs of the transfer, special business tax, etc.

Furthermore, the selling and administrative expenses of gourmet food and beverages in Q2 2018 significantly decreased as compared to the same period last year due to the reduction in the number of employees at the executive level and the control of marketing expenses.

The Company had operating profit before financial costs and income tax, excluding reversal of impairment loss from investments and allowance for doubtful accounts of 343 million Baht (6% of total revenues), increasing by 144% as compared to the same period last year of a loss of 778 million Baht.

Finance Costs

In Q2 2018, the Company had finance cost of 198 million Baht, decreasing by 12% as compared to the same period last year of 224 million Baht. The decrease in the finance costs was from a result of loan repayment regarding the capital increase in Q1 2018 and cash flow received from disposition of the assets in Q2 2018.

Profit and Loss Results

In Q2 2018, the Company recorded net income for the three-month period ended 30 June 2018 of 217 million Baht (4% of the total revenues), significantly decreased by 94% as compared to the same period last year of 3,915 million Baht. This was mainly from the effect from loss of control in subsidiaries of 7,113 million Baht in Q2 2017.

Statement of Financial Position

Assets

As at 30 June 2018, the Company had total assets of 23,653 million Baht; decreasing 27% as compared to the end of the year 2017 of 32,423 million Baht. This was mainly due to the transfer of residences totaling of 3,193 million Baht, and disposition of the hotel, Observation Deck, Retail Cube Building to King Power MahaNakhon Co., Ltd., as well as the purchase of preferred shares from investment partners in PP1 and PP3; investments in joint ventures decreased to 6,434 million Baht. The main assets consisted of: cash and cash equivalent of 2,548 million Baht, real estate development for sales of 9,154 million Baht, account receivable of 1,884 million Baht, Inventory of 193 million Baht, building improvement, sales gallery, and equipment of 3,515 million Baht. Moreover, the goodwill incurred mainly from DEAN & DELUCA acquisition was 2,513 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 1,965 million Baht. The main assets were 91% of the total assets.

Liabilities

As at 30 June 2018, the Company had the total liabilities of 21,355 million Baht; decreasing by 29% as compared to the end of the year 2017 of 30,161 million Baht. The main liabilities included: short-term loans from financial institutions of 2,976 million Baht, current portion of long-term loans from financial institutions of 5,287 million Baht, the remaining amount of debenture is 2,310 million Baht, long-term loans from financial institutions – net of current portion of 2,613 million Baht, advances and deposits received from customers of 3,469 million Baht, and trade and other payables of 3,069 million Baht. The main assets were 92% of the total assets.

Shareholders' Equity

As at 30 June 2018, the total shareholder's Equity of the Company were 2,299 million Baht; increasing by 2% as compared to the end of the year 2017 of 2,247 million Baht. This was mainly due to the proceeds from the capital increase from the ordinary shares issuance to the private placement and the existing shareholders of 3,894 million Baht. In Q2 2018, the Company also disposed the hotel, Observation Deck, Retail Cube Building which caused the Company to record the impairment loss from investments in joint ventures and impacted on the decrease in shareholders' equity.

Appropriateness of the Funding Structure

In Q2 2018, the Company had total debt to equity ratio of 9.3 times, significantly decreasing as compared to Q2 2017 of 13.3 times. The interest-bearing debt to equity ratio was 5.9 times; significantly decreasing as compared to Q2 2017 of 8.9 times.

Summary of the effect from the dispose of MahaNakhon's assets to King Power MahaNakhon Co., Ltd.

According to the announcement in Q1 2017 that the Company had 2 new investment partners: 1) Apollo Asia Sprint Holding Company Limited, and 2) Goldman Sachs Investments Holding (Asia) Limited which own a combined 49 percent stake in The Bangkok Edition Hotel, Rooftop Bar, Observation Deck, and retail Cube Building, this caused the Company to lose control in its subsidiaries. Afterward, the Company engaged the independent financial advisory firm to remeasure fair value of investments in the amount of 6,487 million Baht and recorded such investments in the consolidated statement of financial position as at December 31, 2017, and recorded loss on impairment of investments in the amount of 7,113 million Baht in the Statement of Comprehensive Income for the period ended 31 December 2017, respectively. The details of the total value of the two subsidiaries' assets are as follows:

Pace Project One Co., Ltd. (PP1)

	1 st Independent financial advisory	
Method	Business valuation	Common Share Value
Equity value (Low Case)	5,058 million Baht	(910)* million Baht

* The Company recorded the doubtful account on long-term loan to joint venture of 910 million Baht in Q2 2017, and considered and recorded the allowance for impairment of the investments in joint venture for 724 million Baht in Q4 2017; totaling 1,634 million Baht.

Pace Project Three Co., Ltd. (PP3)

	1 st Independent financial advisory	
Method	Business valuation	Common Share Value
Equity value (Low Case)	13,920 million Baht	8,231 million Baht

	2 nd Independent financial advisory	
Method	Business valuation	Common Share Value
Equity value	12,124 million Baht	6,487* million Baht

* The Company evaluated the value of the investments in ordinary shares of PP3 at fair value with the use of Income Approach and Discount Cash Flow to the present value, and Black-Scholes option pricing model in the amount of 6,487 million Baht as of the fair value of the investments.

The Company's outlook after disposing of the Bangkok Edition Hotel, Observation Deck, Retail Cube Building:

Property Business

Although the Company disposed some assets, it still have some property projects for sale and revenue recognition in the future of 17,107 million Baht. The property projects are currently under construction, expected to be completed, and able to recognize revenues as planned.

1. As of 30 June 2018, 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	14,500	209	206*	14,199	99	12,137	April 2016
MahaSamutr - Villa	Company	4,000	80	14	905	22	256	Q4 2017
Nimit Langsuan	Company	8,000	187	171	6,914	91	-	2019
Windshell Naradhiwas	YLP	3,000	36	10	792	28	-	2019

Remark: * In 2018, there were 64 residences recognized revenue (94 residences in 2017, 24 residences in 2016). The remaining residences are expected to be transferred in 2018.

According to the value of the developing projects, it shows that the net value of the projects after deducting the value recognized of over than 20 billion Baht. The Company is aiming to sell and develop the projects as planned in the next 1 – 2 year later. In addition, the Company is ready to consider developing potential projects with the use of appropriate fund regarding the Company's cash flow in order to reduce the risk in its liquidity management.

As of 30 June 2018, the Company has company-operated stores and licensed stores as follows:

Country	Company-operated Stores	Licensed Stores	Total
United States	6	-	6
United States (Hawaii)	-	2	2
Thailand	11	-	11
Japan	21 DDCJ (Café)	18 DDJ (Markets)	39
South Korea	-	2	2
Singapore	-	3	3
Kuwait	-	1	1
UAE	-	1	1
Philippines	-	3	3

Macao	-	1	1
Bahrain	-	1	1
Total	38	32	70

In the future, the Company has a plan to focus on lower investment in projects and maximize brand value. For example, the Company will focus on franchising businesses to grow the brand both domestic and international. This attempt will emphasize countries where there is economic growth, the number of population that can drive brand growth, and opportunity to make more profit such as China. Also, in order to maximize the brand value of DEAN & DELUCA (D&D), the Company is developing consumer products to sell in D&D stores and other distribution channels to help the Company generate more revenues.

In the future, the company plans to focus on low-cost investment and maximize brand value.

Please be informed accordingly.

Yours Faithfully,

(Ms. Natha Kittiaksom)
Chief Financial Officer
PACE Development Corporation Public Company Limited