

12 November 2019

Subject: Management Discussion and Analysis for the Third Quarter ended 30 September 2019

To President
The Stock Exchange of Thailand

Quality Houses Public Company Limited and its subsidiaries (“The Company and its subsidiaries”) would like to report its financial performance for the Third Quarter ended 30 September 2019 and 2018 with the detail as follows:

I. The operating revenue breakdown by business segment

In the third quarter and 9-month period of 2019, the Company and its subsidiaries’ revenue from sales of real estate decreased from the same period of last year, but revenue from the property rental business increased from the same period of last year. Details are as follows:

	(Unit: Million Baht)							
	Third quarter				9-month period			
	2019	2018	Change	%	2019	2018	Change	%
Sales of real estate	2,295	4,128	(1,833)	(44)	7,340	10,042	(2,702)	(27)
Rental and service income	340	328	12	4	1,040	956	84	9
Other income	71	65	6	9	204	194	10	5
Total revenues	2,706	4,521	(1,815)	(40)	8,584	11,192	(2,608)	(23)

In summary, the Company and its subsidiaries generated total revenue in the third quarter of 2019 and the third quarter of 2018 of Baht 2,706 million and Baht 4,521 million respectively, decreasing by Baht 1,815 million or 40% decrease compared to the same period of 2018. For 9-month period ended 30 September of 2019 and 2018, the Company and its subsidiaries’ total revenues were at Baht 8,584 million and Baht 11,192 million respectively, decreasing by Baht 2,608 million or 23% decrease compared to the same period of 2018. Details are as follows:

1) **Sales of real estate:** Sales of real estate in the third quarter of 2019 decreased by Baht 1,833 million or 44% decrease compared to the same period of 2018. For 9-month period of 2019, the Company and its subsidiaries’ sales of real estate decreased by Baht 2,702 million or 27% decrease compared to the same period of 2018. In particular, revenue from housing projects in the third quarter and 9-month period of 2019 decreased by Baht 1,817 million and Baht 3,235 million, respectively or 47% and 34% decrease compared to the same period of 2018. This was due to an extra income from sales of land in the third quarter of 2018. Meanwhile, revenue from condominium projects in the third quarter of 2019 decreased by

Baht 16 million or 7% decrease compared to the same period of 2018. However, revenue from condominium projects for 9-month period of 2019 increased by Baht 533 million or 84% increase compared to the same period of 2018.

For 9-month period of 2019, the Company and its subsidiaries launched 3 new housing projects with a total project value of Baht 4,181 million baht and closed 3 housing projects.

2) Rental and service income: In the third quarter and 9-month period of 2019, rental and service income increased by Baht 12 million and Baht 84 million, respectively or 4% and 9% increase compared to the same period of 2018. This was due to an increase in revenue from hotel business by Baht 31 million and Baht 113 million in the third quarter and 9-month period of 2019, respectively or 13% and 17% increase compared to the same period of 2018. In addition, an increase in hotel revenue was mainly from Centre Point Hotel Pattaya which opened around the end of 2018.

Meanwhile, revenue from office buildings for rent in the third quarter and 9-month period of 2019 decreased by Baht 19 million and Baht 29 million, respectively or 20% and 10% decrease compared to the same period of 2018. This was due to a decrease in rental revenue from Q House Convent since lease agreement ended in May 2019.

3) Other income: Other income in the third quarter and 9-month period of 2019 increased by Baht 6 million and Baht 10 million, respectively or 9% and 5% increase compared to the same period of 2018.

II. Share of profit from investments in associates

In the third quarter of 2019, the Company's share of profit from investments in associates was Baht 466 million, which increased by Baht 27 million or 6% increase compared to the same period of 2018. For 9-month period of 2019, the Company's share of profit from investments in associates was Baht 1,391 million, which increased by Baht 108 million or 8% increase compared to the same period of 2018. Details of the Company's profit sharing from four associate companies are as follows:

	(Unit: Million Baht)							
	<u>Third quarter</u>				<u>9-month period</u>			
	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>
Home Product Center Plc	295	271	24	9	880	780	100	13
LH Financial Group Plc	105	107	(2)	(2)	321	324	(3)	(1)
Quality Houses Leasehold								
Property Fund	49	44	5	11	145	132	13	10
Quality Houses Hotel and Residence								
Freehold and Leasehold Property Fund	<u>17</u>	<u>17</u>	-	-	<u>45</u>	<u>47</u>	<u>(2)</u>	<u>(4)</u>
Total	466	439	27	6	1,391	1,283	108	8

III. Cost of sales breakdown by business segment

(Unit: Million Baht)

	Third quarter				9-month period			
	2019	2018	Change	%	2019	2018	Change	%
Cost of real estate sold	1,524	2,509	(985)	(39)	4,901	6,433	(1,532)	(24)
Cost of rentals and services	226	208	18	9	678	601	77	13
Total cost of sales	1,750	2,717	(967)	(36)	5,579	7,034	(1,455)	(21)

Total cost of sales in the third quarter of 2019 decreased from the same period of 2018 by Baht 967 million or 36%. For 9-month period of 2019, total cost of sales decreased by Baht 1,455 million or 21% compared to the same period of 2018. This was in line with the revenue in each business segment as shown in the above table of the operating revenue breakdown by business segment.

IV. Expense

(Unit: Million Baht)

	Third quarter				9-month period			
	2019	2018	Change	%	2019	2018	Change	%
Selling expenses	146	242	(96)	(40)	452	571	(119)	(21)
Administrative expenses	396	368	28	8	1,254	1,133	121	11
Finance cost	97	86	11	13	298	257	41	16
Income tax expenses	67	226	(159)	(70)	214	464	(250)	(54)

1) **Selling expenses** in the third quarter and 9-month period of 2019 decreased by Baht 96 million and Baht 119 million, respectively or 40% and 21% decrease compared to the same period of 2018. This was mainly due to a decrease in specific business tax and transfer fee, following a decrease in transfer of real estate compared to the same period of 2018.

2) **Administrative expenses** in the third quarter and 9-month period of 2019 increased by Baht 28 million and Baht 121 million, respectively or 8% and 11% increase compared to the same period of 2018. This was mainly due to an increase in employee benefit provision of Baht 46 million, based on the Labor Protection Act (Issue 7) B.E. 2562 with an increase in rate of severance pay. Administrative expenses also increased from an operation of Centre Point Hotel Pattaya which opened in the end of 2018. In addition, reversal of net legal provision decreased by Baht 62 million.

3) **Finance cost** in the third quarter and 9-month period of 2019, consisting of interest expenses, bank charges and financial advisory fees, increased by Baht 11 million and Baht 41 million, respectively or 13% and 16% increase compared to the same period of 2018. This was mainly because the Company and

its subsidiaries had higher number of finished condominium projects compared to the same period of 2018. As a result, this interest expense could not be capitalized as part of the project cost.

4) **Income tax expenses** in the third quarter and 9-month period of 2019 decreased by Baht 159 million and Baht 250 million, respectively or 70% and 54% decrease compared to the same period of 2018. This expense varied with the operating results (excluding share of profit from investments in associates) of the Company and its subsidiaries as mentioned above.

V. Net Profit

	(Unit: Million Baht)							
	<u>Third quarter</u>				<u>9-month period</u>			
	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>%</u>
Net Profit	716	1,322	(606)	(46)	2,179	3,017	(838)	(28)

In the third quarter and 9-month period of 2019, the Company and its subsidiaries' net profit decreased by Baht 606 million and Baht 838 million, respectively or 46% and 28% decrease compared to the same period of 2018. Details are as follows:

1. In the third quarter and 9-month period of 2019, the Company and its subsidiaries' gross profit from sales of real estate decreased by Baht 849 million due to extra profit from sales of land in the third quarter of 2018. Meanwhile, gross profit from the property rental business decreased by Baht 6 million. Administrative expenses increased by Baht 28 million and finance cost increased by Baht 11 million. However, share of profit from investments in associates increased by Baht 27 million and other income increased by Baht 6 million. In addition, selling expenses decreased by Baht 96 million and income tax expenses decreased by Baht 159 million.
2. For 9-month period of 2019 ended 30 September 2019, the Company and its subsidiaries' gross profit from sales of real estate decreased by Baht 1,170 million. Administrative expenses increased by Baht 121 million and finance cost increased by Baht 41 million. However, gross profit from the property rental business increased by Baht 7 million. Share of profit from investments in associates increased by Baht 108 million and other income increased by Baht 10 million. Meanwhile, selling expenses decreased by Baht 119 million and income tax expenses decreased by Baht 250 million.

VI. Financial Position

(Unit: Million Baht)

	<u>30 Sep 2019</u>	<u>31 Dec 2018</u>	<u>Change</u>	<u>Change (%)</u>
Total assets	51,117	54,164	(3,047)	(6)
Total liabilities	24,681	27,878	(3,197)	(11)
Total shareholders' equity	26,436	26,286	150	0.6

- **Financial position**

As of 30 September 2019, the Company and its subsidiaries' total assets decreased by Baht 3,047 million or 6% decrease from the end of 2018 (as of 31 December 2018) and total liabilities decreased by Baht 3,197 million or 11% decrease from the end of 2018 (as of 31 December 2018). This was mainly due to net debenture repayment of Baht 3,100 million.

- **Shareholders' Equity**

As of 30 September 2019, the shareholders' equity of the Company and its subsidiaries increased by Baht 150 million or 0.6% increase from the end of 2018 (as of 31 December 2018) since the Company and its subsidiaries recorded net profit for the period of 9 months ending 30 September 2019 of Baht 2,179 million, and other components of shareholders' equity increased by Baht 221 million due to profit from share of other comprehensive income of associates - net of income tax. In addition, the Company and its subsidiaries paid dividend in May 2019 in the amount of Baht 1,500 million in accordance with the resolution of the Annual General Meeting of Shareholders No.1/2019 dated 18 April 2019. The Company and its subsidiaries also paid an interim dividend in September 2019 in the amount of Baht 750 million based on 6-month performance ended 30 June 2019 in accordance with the resolution of the Board of Director Meeting dated 13 August 2019.

Please be informed accordingly.

Sincerely yours,

(Miss Apinya Jarutrakulchai)
Senior Executive Vice President

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