

26 February 2020

Management's Discussion and Analysis for the performance of the year 2019**Business Overview**

For the ended of the year 2019, S Hotels and Resorts Public Company Limited ("the Company") had total revenue of THB 3,818.1 million, increased 48.2% from the ended of the year 2018 as a result of commercially available for two hotels as part of the Project CROSSROADS Phase 1 which commenced the operation on September 1, 2019.

Significant Developments

On September 1, 2019, two hotels as part of the Project CROSSROADS Phase 1 in the Emboodhoo Lagoon in the Republic of Maldives including; SAii Lagoon Maldives Curio Collection by Hilton (198 keys), and Hard Rock Hotel Maldives (178 keys) commenced its operation.

On November 8, 2019, the Company received payment for additional ordinary shares for the amount of 1,437,456,000 shares offered for initially offering to the public. Such ordinary shares have a par value of THB 5 per share, which was offered at the price of THB 5.20 per share, totalling the net offering of THB 7,351.6 million (after deduction of related fees and expenses).

In addition, the Company had repaid loans from the related parties, which was utilized in the acquisition of the Outrigger Hotels in 2018 and other projects amounting of THB 5,357.8 million. For the ended of the year 2019, financial costs for loans from related parties was THB 172.8 million which no longer needs to pay afterward. The capital increase from Initial Public Offering would result in the marked decrease in Debt-to-Equity ratio and financial costs going forward.

On November 14, 2019, the Company entered into the Joint Venture Agreement in accordance with the investment in high-end lifestyle resort on Island 3 of Project CROSSROADS (the "Project") with our strategic partner – Wai Eco World Developer – a conglomerate business partner from Myanmar who invests in various businesses including property, mining automotive, manufacturing and food and beverage. Resort on Island 3 of CROSSROADS project is composed of 80 villas with the price point of \$900-\$1,000 per night. We expect to start construction in 2020 and commercially open by 2022. 50% of share transfer of the joint venture company – Prime Location Management 3 Limited – has been completed on February 19, 2020

Discussion of results of operations: Year 2018 and Year 2019

	Year 2018		Year 2019		Change	
	THB million	%	THB million	%	THB million	%
Revenue from services	2,575.7	100.0%	3,818.1	100.0%	1,242.4	48.2%
Costs of services	(1,469.3)	(57.0%)	(2,490.4)	(65.2%)	(1,021.1)	69.5%
Gross profit	1,106.4	43.0%	1,327.7	34.8%	221.3	20.0%
Selling expenses	(239.0)	(9.3%)	(366.3)	(9.6%)	(127.3)	53.3%
Administrative expenses	(663.1)	(25.7%)	(1,083.8)	(28.4%)	(420.7)	63.5%
Other income	489.6	19.0%	199.8	5.2%	(289.8)	(59.2%)
Share of profit (loss) from investment in an associate and joint ventures	83.6	3.2%	20.2	0.5%	(63.3)	(75.8%)
Finance costs (Interest expenses)	(292.7)	(11.4%)	(424.6)	(11.1%)	(132.0)	45.1%
<i>Finance costs - Loans for projects</i>	(175.0)	(6.8%)	(251.8)	(6.6%)	(76.8)	43.9%
<i>Finance costs - Loans from related parties</i>	(117.7)	(4.6%)	(172.8) ¹	(4.5%)	(55.1)	46.8%
Profit (loss) before income taxes	484.8	18.8%	(327.0)	(8.6%)	(811.8)	(167.5%)
Income tax expenses	(34.7)	(1.3%)	(139.8)	(3.7%)	(105.1)	302.9%
Profit (loss) of the year	450.1	17.5%	(466.9)	(12.2%)	(916.9)	(203.7%)
<u>Adjusted items</u>						
Net unrealized loss on exchange rate	-	-	39.2	1.0%	39.2	-
Non-recurring items ²	(138.7)	(5.4%)	329.3	8.6%	467.9	(337.5%)
Adjusted EBITDA³	997.0	38.7%	1,132.5	29.7%	135.6	13.6%
Adjusted Net Profit of the year after	311.4	12.1%	(98.4)	(2.6%)	(409.8)	(131.6%)

¹ On 8 November 2019, the Company repaid a related party loan utilized in the acquisition of Outrigger Hotels in 2018 and other projects during the past year

² Non-recurring items is defined as realized gains on exchange rate, expenses relating to the Combined Offering, pre-operation expenses for Project Crossroads Phase One comprise expenses incurred in preparing for the opening of Project Crossroads Phase One that was not recorded as capital expenditure, Tax liabilities, Deferred tax adjustment and expenses relating to employee benefits

³ Adjusted EBITDA is calculated from EBT plus Finance cost, Depreciation and Amortization, Interest income from Loan to JVs and deduct Interest income, unrealized loss from exchange rates and non-recurring items

Discussion of results of operations: Quarter 4 of 2018 and Quarter 4 of 2019

	Quarter 4/2018		Quarter 4/2019		Change	
	THB million	%	THB million	%	THB million	%
Revenue from services	985.0	100.0%	1,178.4	100.0%	193.4	19.6%
Costs of services	(549.1)	(55.7%)	(808.0)	(68.6%)	(258.9)	47.1%
Gross profit	436.0	44.3%	370.4	31.4%	(65.6)	(15.0%)
Selling expenses	(90.5)	(9.2%)	(121.3)	(10.3%)	(30.8)	34.1%
Administrative expenses	(351.5)	(35.7%)	(284.4)	(24.1%)	67.1	(19.1%)
Other income	37.2	3.8%	52.3	4.4%	15.1	40.7%
Share of profit (loss) from investment in an associate and joint ventures	9.7	1.0%	21.8	1.9%	12.2	126.1%
Finance costs (Interest expenses)	(111.4)	(11.3%)	(109.9)	(9.3%)	1.4	(1.3%)
<i>Finance costs - Loans for projects</i>	(61.2)	(6.2%)	(88.8)	(7.5%)	(27.6)	45.1%
<i>Finance costs - Loans from related parties</i>	(50.2)	(5.1%)	(21.2) ⁴	(1.7%)	29.0	(57.8%)
Profit (loss) before income taxes	(70.5)	(7.2%)	(71.1)	(6.0%)	(0.6)	0.8%
Income tax expenses	56.2	5.7%	(95.8)	(8.1%)	(152.0)	(270.6%)
Profit (loss) of the year	(14.3)	(1.5%)	(167.0)	(14.2%)	(152.6)	1,064.7%
<u>Adjusted items</u>						
Net unrealized loss on exchange rate	-	-	10.2	0.9%	10.2	-
Non-recurring items ⁵	96.8	9.8%	67.51	5.7%	(29.3)	(30.3%)
Adjusted EBITDA⁶	281.2	28.6%	349.6	29.7%	68.4	24.3%
Adjusted Net Profit of the year after	82.5	8.4%	(89.3)	(7.6%)	(171.8)	(208.2%)

⁴ On 8 November 2019, the Company repaid a related party loan utilized in the acquisition of Outrigger Hotels in 2018 and other projects during the past year

⁵ Non-recurring items is defined as realized gains on exchange rate, expenses relating to the Combined Offering, pre-operation expenses for Project Crossroads Phase One comprise expenses incurred in preparing for the opening of Project Crossroads Phase One that was not recorded as capital expenditure, Tax liabilities, Deferred tax adjustment and expenses relating to employee benefits

⁶ Adjusted EBITDA is calculated from EBT plus Finance cost, Depreciation and Amortization, Interest income from Loan to JVs and deduct Interest income, unrealized loss from exchange rates and non-recurring items

Overview

The Company is a holding company engaging in the management of hotels and investments in international hotel companies. Over the past four fiscal years, the Company's consolidated total assets has grown at an average rate of 69.7% per year. The Company has a unique portfolio of hotels in desirable global holiday destinations, as follows

- (1) Two self-manage hotels in Thailand, operate under independent branding, namely, Phi Phi Island Village Beach Resort located on Beachfront of Phi Phi Don Island in Krabi and Santiburi Hotel located on Beachfront of Koh Samui in Surat Thani "**Self-Managed Hotels**";
- (2) Six hotels operate under the Outrigger brand and manage under hotel management agreements, which consists of two hotels in Thailand, two hotels in the Republic of Fiji Islands, one hotel in the Republic of Maldives and one hotel in Mauritius "**Outrigger Hotels**";
- (3) Two upper upscale successfully developed hotels, as part of Project CROSSROADS Phase 1 in the Emboodhoo lagoon in the Republic of Maldives, consists of two islands undergoing development, (i) SAii Lagoon Maldives, Curio Collection by Hilton and (ii) Hard Rock Hotel Maldives "**Project CROSSROADS Phase 1 Hotels**"; and
- (4) 29 upper midscale hotels operated under the Mercure and Holiday Inn brands in the United Kingdom, of which the Company holds 50% in an equal joint venture "**UK Portfolio Hotels**".

Results for the UK Portfolio, operating under a joint venture, are not consolidated within the Company's hospitality business, and are instead accounted for using the equity method, pursuant to which the Company receives a share of profit or loss from the investment in the joint ventures.

As of December 31, 2019, the Self-Managed Hotels, Outrigger Hotels, UK Portfolio Hotels and Project CROSSROADS Phase 1 are comprised with the total of 39 hotels and 4,647 rooms,

Revenue from services

(Unit: THB Million)	2018		2019		Quarter 4 2018		Quarter 4 2019	
		%		%		%		%
Self-Managed Hotels	1,099.0	42.7%	995.1	26.1%	263.6	26.8%	235.8	20.0%
Outrigger Hotels	1,476.7	57.3%	2,443.9	64.0%	721.4	73.2%	646.7	54.9%
Project CROSSROADS Phase 1 Hotels	-	-	379.1	9.9%	0.0	0.0%	295.9	25.1%
Total revenue from services	2,575.7	100.0%	3,818.1	100.0%	985.0	100.0%	1,178.4	100.0%

Room revenue

The room revenue increased by 43.1% from the year 2018 to THB 2,197.1 million for the year 2019, primarily as a result of realization of the revenue from Outrigger Hotels which was acquired on June 12, 2018 and from the commercial opening of two hotels in Project CROSSROADS Phase 1.

Self-Managed Hotels

Indicators	2018	2019	%change	Quarter		%change
				4/2018	4/2019	
No. of Hotels	2	2	-	2	2	-
No. of Keys ⁽¹⁾	291	297	2.1%	297	297	-
Average Occupancy Rate (%) ⁽¹⁾	76.1	71.9	(4.2%)	71.5	69.6	(1.9%)
ADR (THB)	8,415	7,777	(7.6%)	8,054	7,350	(8.7%)
RevPAR (THB)	6,401	5,591	(12.7%)	5,757	5,117	(11.1%)

Note

- (1) Based on the weighted average number of keys for the year. In particular, the Company added 19 newly built pool villas to Santiburi Koh Samui in May 2018, thereby increasing the number of keys in Santiburi Koh Samui from 77 keys to 96 keys

In relation to the Self-Managed Hotels, the RevPAR, Average Occupancy Rate, and ADR for the year 2019 was THB 5,591, 71.9%, and THB 7,777 respectively. The changes was primarily due to impact of the economic slowdown, Thai Baht appreciation and competition in Samui market.

Outrigger Hotels

Indicators	2018	2019	%change	Quarter		%change
				4/2018	4/2019	
No. of Hotels	6	6	-	6	6	-
No. of Keys	859	859	-	859	859	-
Average Occupancy Rate (%)	78.5	78.3	(0.2%)	81.7	82.2	0.5%
ADR (THB)	6,303	5,987	(5.0%)	6,698	6,222	(7.1%)
RevPAR (THB)	4,947	4,691	(5.2%)	5,469	5,112	(6.5%)

Note

- (2) The Company acquired the Outrigger Hotels on June 12, 2018
- (3) Reference exchange rate of 2018: 32.89THB/USD, 15.52THB/FJD, 0.95THB/MUR
Reference exchange rate of 2019: 31.05THB/USD, 14.41THB/FJD, 0.87THB/MUR

In relation to the Outrigger Hotels, the RevPAR, Average Occupancy Rate, and ADR for the year 2019 was THB 4,691, 78.3%, and THB 5,987 respectively. The changes was primarily due to the decrease in Average Occupancy Rate of Castaway Island, Fiji Resort and lower ADR of Outrigger Koh Samui Beach Resort from competition in Samui market.

Project CROSSROADS Phase 1 Hotels

Indicators	2018	2019	%change	Quarter		%change
				4/2018	4/2019	
No. of Hotels	-	2	-	-	2	-
No. of Keys	-	376	-	-	376	-
Average Occupancy Rate (%)	-	33.9	-	-	35.7	-
ADR (THB)	-	12,572	-	-	13,162	-
RevPAR (THB)	-	4,262	-	-	4,694	-

Note

- (4) Start commenced its commercial operation on 1 September 2019
- (5) Reference exchange rate of 2019: 31.05THB/USD

In relation to the Project CROSSROADS Phase 1 Hotels, the RevPAR, Average Occupancy Rate, and ADR for the year 2019 was THB 4,262, 33.9%, and THB 12,572 respectively.

UK Portfolio Hotels

Indicators	2018	2019	%change	Quarter		%change
				4/2018	4/2019	
No. of Hotels	29	29	-	29	29	-
No. of Keys	3,115	3,115	-	3,115	3,115	-
Average Occupancy Rate (%)	71.5	69.5	(2.0%)	68.9	69.1	0.2%
ADR (THB)	2,752	2,665	(3.2%)	2,678	2,572	(4.0%)
RevPAR (THB)	1,968	1,851	(5.9%)	1,846	1,777	(3.7%)

Note

- (6) Reference exchange rate of 2018: 41.07THB/GBP
Reference exchange rate of 2019: 39.65THB/GBP

In relation to the UK Portfolio hotels, the RevPAR, Average Occupancy Rate, and ADR for the year 2019 was THB 1,851 , 69.5%, and THB 2,665 respectively. The changes was primarily due to impact of the economic slowdown of UK.

Food and beverage revenue

The food and beverage revenue increased by 49.1% from the year 2018 to THB 1,140.9 million for the year 2019, primarily as a result of realization of the revenue from Outrigger Hotels and from the commercial opening of two hotels in Project CROSSROADS Phase 1.

Other revenue

The other revenue increased by 74.4% from the year 2018 to THB 480.1 million for the year 2019, primarily as a result of realization of the revenue from Outrigger Hotels and from the commercial opening of two hotels in Project CROSSROADS Phase 1.

Costs of services

The costs of services increased by 69.5% from the year 2018 to THB 2,490.4 million for the year 2019. The increase in costs of services was largely consistent with the increase in revenues from the acquisition of the Outrigger Hotel in June 2018 and from the opening Project CROSSROADS Phase 1 Hotels. The Cost of services for the Project CROSSROADS Phase 1 consists of costs relating to hotel rooms, food and beverage costs and depreciation.

Gross profit

Gross profit increased by 20.0% from the year 2018 to THB 1,327.7 million for the year 2019, which is consistent with the increase in the revenue from services.

Selling expenses

The selling expenses was THB 366.3 million for the year 2019, which increased 53.3% compared to the period of the year 2018. The increase was primarily attributable to selling expenses incurred in relation to the Outrigger Hotels and the Project CROSSROADS Phase 1.

Administrative expenses

The administrative expenses was THB 1,083.8 million for the year 2019, which increased 63.5% compare to the period of the year 2018. The increase of administrative expenses was primarily attributable to administrative expenses incurred in relation to the Outrigger Hotels and the employee expenses, administrative expenses in relation to Project CROSSROADS Phase 1. In addition, there are non-recurring items that consist of expenses related to the Company's securities offering, and expenses for Pre-operation of Project CROSSROADS Phase 1, and costs related to employee benefits in total amounted to THB 287.5 million.

Financial Costs (interest expenses)

The financial costs was THB 424.6 million for the year 2019, which increased 45.1% compared to the period of the year 2018. In this regard, financial costs are divided into two types, namely financial costs for project loans of THB 251.8 million and financial costs for loans from related parties of THB 172.8 million which was repaid on November 8, 2019.

Other income

The other income was THB 199.8 million for the year 2019, consisting of interest income from loans to joint ventures amounted to THB 112.0 million, other income, realized gains in exchange rate and Project CROSSROADS management fee amounted to THB 87.8 million.

The other income was THB 489.6 million for the year 2018, consisting of interest income from loans to joint ventures amounted to THB 119.7 million, other income and realized gains in exchange rate amounted to THB 369.9 million.

Share of profit (loss) from an associate and joint ventures

The share of profit from an associate and joint ventures was THB 20.2 million, which decreased THB 63.3 million compared to the period of the year 2018. The decrease was primarily due to the performance from joint ventures that invested in UK portfolio.

Adjusted EBITDA

Adjusted EBITDA increased 9.4% from the year 2018 to THB 1,132.5 million for the year 2019, primarily due to the acquisition of the Outrigger Hotels in June 12, 2018 and from the commercial opening of two hotels in Project CROSSROADS Phase 1.

Profit (loss) for the period

For the year 2019, the Company had a profit (loss) of THB (466.9) million due to the one-off item of expenses. The adjusted profit (loss) for the period equal to THB (98.4) million.

Analysis of Financial Position and Investment Structure

The total assets as of December 31, 2019 was THB 29,161.6 million increased from THB 4,772.0 million as of December 31, 2018, which consists of THB 5,126.6 million of total current assets and THB 24,035.0 million of total non-current asset. The total liabilities was THB 11,238.9 million, which consists of interest bearing debt in amount of THB 7,847.5 million. In 2019, the Company withdrew additional loans from financial institutions for the development of the Project CROSSROADS Phase 1, resulting in increased of Loan from financial institutions.

On November 8, 2019, the Company received payment from the capital increase totaling THB 7,474.7 million, which was used to repay loans from the related parties. Resulting in the ratio of interest-bearing debt to equity significantly decreased from 0.8 times to 0.4 times.

	December 31, 2018	December 31, 2019	Change	
	(THB million)	(THB million)	(THB million)	%
Cash and cash equivalents	1,892.9	3,591.6	1,698.7	89.7%
Total current assets	2,962.9	5,126.6	2,163.7	73.0%
Property, plant and equipments, net	16,321.5	18,768.6	2,447.1	15.0%
Total non-current assets	21,427.7	24,035.0	2,607.3	12.2%
Total assets	24,389.6	29,161.6	4,772.0	19.6%
Total interest-bearing debt	10,030.2	7,847.5	(2,182.7)	(21.8%)
Loan from related parties	5,295.8	-	(5,295.8)	(100.0%)
Loan from financial institutions	4,734.4	7,847.5	3,113.1	65.8%
Other liabilities	2,375.7	3,391.3	1,015.6	42.8%
Total liabilities	12,405.9	11,238.9	(1,167.0)	(9.4%)
Total equity	11,983.7	17,922.8	5,939.1	49.6%
Interest-bearing debt to equity (times)	0.8	0.4	(0.4)	(45.3%)

Yours faithfully,

S Hotels and Resorts Public Company Limited

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(Mr. Chairath Sivapornpan)

Chief Financial Officer / Company Secretary

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