

NO. AC. 01/2020

28 February 2020

Subject: Clarification of changes in operating performance of more than 20%

To: The President of the Stock Exchange of Thailand

M.K. Real Estate Development Plc. would like to inform its financial results for the year 2019 which ended on 31 December 2019. The Company and its subsidiaries reported a net profit of THB 177.45 million or earnings per share of THB 0.16, comparing to a net profit of THB 305.93 million or earnings per share of THB 0.28 last year, a decrease of THB 128.48 million or 42% when comparing with the year 2018. Details were as follows:

Unit : THB'000				
Operating results : 9 months	2019	2018	Increase (Decrease)	%
Real Estate				
Revenue	3,936,766	4,152,925	(216,159)	(5.20)
Gross Profit	1,182,680	1,287,804	(105,124)	(8.16)
Gross profit margin (%)	30.04	31.01	(0.97)	(3.12)
Rental and other services				
Revenue	341,188	252,137	89,051	35.32
Gross Profit	186,351	136,320	50,031	36.70
Gross profit margin (%)	54.62	54.07	0.55	1.02
Golf Services & Property Management				
Revenue	160,157	141,745	18,411	12.99
Gross Profit	64,552	61,130	3,422	5.60
Gross profit margin (%)	40.31	43.13	(2.82)	(6.54)
All bussiness				
Sales & Seviles revenue	4,438,111	4,546,807	(108,696)	(2.39)
Gross profit	1,433,583	1,485,253	(51,671)	(3.48)
Gross profit margin (%)	32.30	32.67	(0.36)	(1.11)
Total revenue	4,602,686	4,713,138	(110,452)	(2.34)
Total Cost & Expense	4,401,175	4,385,762	15,413	0.35
Selling & Admin. Expense	1,010,766	947,221	63,546	6.71
Finance cost	328,307	296,498	31,809	10.73
Net profit	177,447	305,925	(128,478)	(42.00)
Net porofit margin (%)	3.86	6.49	(2.64)	(40.60)
Net profit per share (Baht)	0.16	0.28	(0.12)	

Total revenue was THB 4,438.11 million, a decrease of THB 108.7 million or 2.39%. The main businesses of the Company and its subsidiaries were as follows:

(1) Real Estate Business

For the year 2019, sale of real estate business was THB 3,936.77 million, a decrease of THB 216.16 million or 5.2% when comparing to the previous year. This year, the Company firstly adopted the Thai Financial Reporting Standard No. 15, subject to Revenue from Contracts Made with Customers ("TFRS15") which was effective on January 1, 2019. In order to comply with the accounting standard, the Company was required to record (a) several items of selling and administrative expenses were recorded as cost of sales; and, (b) some items were deducted from gross sales. The Financial Reporting Standard did not cause significant impact on other income. If the Company were to use the previous accounting standard, sale of real estate business this year should decrease by THB 162.67 million or 3.92%. Another significant impact toward real estate business was the Bank of Thailand housing loan control measure (Loan-to-Value: LTV). The measure had direct effect on the consumers' purchasing power. However, most of the MK customers did not have obligations with the previous housing loan agreement, this helped reducing the impact from the Bank of Thailand housing loan control measure. In addition, MK employed several strategies in order to help customers such as assisting customers to prepare the financial documents, house appraisal process, reduce transfer fee as well as house mortgage fee for the house that selling price was less than THB 3.00 million. MK housing projects were in this price range. All of these factors caused the Company to maintain sales of real estate business closed to the same level of last year. In addition, MK was focused on the construction plan that conformed with consumer behavior and modern taste. MK emphasized on well-being when designing its housing products. And this helped to enhance product value as well as to enlarge its customer base. The gross profit margin of real estate business was 31.1% when applying the previous accounting standard and lowered than the gross margin of 34.7% reported in 2018. MK's gross profit margin was also impacted by the economic slowdown. This caused most developers to delay launching new housing projects as well as speed up the sale of housing inventory. Unavoidably, these created price competitiveness among the real estate developers.

(2) Rent and Service Business

This year, revenue from rent and service business was THB 341.19 million, an increase of THB 89.05 million or 35.32% from the previous year of THB 252.14 million. Revenue from rent and service came from leased spaces of warehouse/factory in Bangkok Free Trade Zone Project (by Prospect Development Co., Ltd.) was THB 291.88 million, an increase of THB 78.53 million, 36.81% when comparing to the same period of last year. Gross profit margin was 58.6%. When comparing to revenue from rent and service of THB 113.01 million in 2016 (MK made this investment during end of 2015), MK Group grew revenue from rent and service business by 158%. As of 31 December 2019, Prospect had a total warehouse/factory area of 193,872 sq.m. for lease, an increase of 68,105 sq.m. from the previous year. In addition, Park Court Project operated by Munkong Living, had apartment units for rent as well. Revenue of rent and service derived from Park Court Project increased continuously. Total gross profit from rent and service business this year was THB186.34 million, an increase of THB 50.02 million or 36.70%.

(3) Golf Course and Property Management Business

Since the opening of the new club house in February 2018, the new club house increased the Company's competitive advantage in services of both golf course and restaurant. Revenue from golf course increased continuously when comparing to the same period of last year. The revenue was THB 119.77 million, an increase of THB 10.52 million when comparing to last year, or 9.63%. The Company planned to improve revenue by adopting sales and marketing strategies, setting up promotion plans as well as increase channels of distribution so that golfers could play both weekdays and weekends. The Company was able to control operating costs. As a result, the Company could maintain its gross margin to be 40% same as last year. The Company could improve the efficiency of services more standardize and systematic. For the property management business operated by Yours Property Management Co., Ltd, and partially by Prospect Development Co., Ltd., revenue and gross profit increased continuously. Revenue from golf and property management business increased THB 18.42 million or 13% when comparing to the same period of last year.

Even, revenue from real estate business decreased due to unfavorable factors, MK Group was able to grow other business. As a result, total revenue from sales and services was down by THB 108.7 million, or 2.39% and maintained the gross profit margin at the same level of the previous year. Total gross profit decreased THB 51.67 million, or 3.48% when comparing to its previous year. The Company recorded total costs and expenses of THB 4,401.18 million, increase by THB 15.41 million or 0.35%, when comparing to the same period of last year. In addition, the Company realized loss of THB 25.79 million from Samakkee Cement Co., Ltd. – an associated company that MK owned 40.64%. The details of expenses were as follow

(1) Selling and Administrative Expenses

Total selling and administrative expenses increased THB 63.55 million or 6.71%. Selling expenses declined by THB 40.75 million which were in line with the decrease in revenue and applying the new accounting standard as mentioned in the above paragraph. The administrative expenses increased by THB 104.29 million due to the discount of promissory note from the sale of vacant land (increased by THB 29.76 million) and the impact of setting more provisions for employee benefits according to (a) the Labour Protection Act No. 7; and, (b) some adjustments for the employees benefit calculation. This Labour Protection Act increased the compensation for the employees who work with the Company more than 20 year. All of these affected administrative expenses and comprehensive income. If MK excluded the extraordinary items, the administrative expenses increased by THB 68.82 million or 12% when comparing to the same period of last year. The increase was mainly come from the improvement of housing projects and infrastructure before transferring to the juristic person. MK also emphasized on public area and security. The improvement of after sale services created a good image for MK housing project. In the long run, this would increase sale of real business continuously. However, the percentage of selling and administrative expenses to revenue was 22.7% for this year, 2% higher than 20.8% recorded in the previous year.

(2) Financial Costs

Financial costs increased by THB 31.81 million or 10.73% comparing to the same period of last year. The increased came from the investment by Prospect Development Co., Ltd for warehouse/factory construction. The construction increased the leasable area by 54.15%. This year, MK group realized gain from sales of investment properties for an amount of THB 79.62 million. The proceeds from sales were used for investment in wellness business. This was part of the business plan that MK would like to grow both real estate and rent & service business. The sale transaction helped to reduce the financial burden as well as maintain interest bearing debt ratio in the optimal level. As of 31 December 2019, the ratio was 1.32x.

During the past 4 years, MK Group was able to improve its gross profit margin continuously and increase the service income over total revenue (excluding sale of vacant land) from the proportion of 4.5% at the end of year 2015 to 25.8% in 2019. This was in line with business restructuring of MK Group. The objectives were to reduce the business risk and increase revenue from recurring business in the long-term. Real estate business of low-rise housing projects and condominium project remained the Company's main business. During the business restructuring, MK Group required funding to make investment in the new business while maintaining the growth of real estate business. These caused both operating costs and financial costs increased. Nevertheless, MK Group reported a net profit of THB 177.45 million for the year 2019.

Please be informed accordingly.

Yours sincerely,

(Mrs. Sutida Suriyodorn)

Senior Executive Vice President