

## MBK Public Company Limited and its subsidiaries

### Management discussion and analysis

#### For the three-month and six-month periods ended 30 June 2019 (The second quarter)

##### Analysis of operating results

##### 1. Overall operating results

The operating results of MBK Public Company Limited and its subsidiaries (“the Group”) for the three-month and six-month periods ended 30 June 2019 and 2018 are as follows:

(Unit: Million Baht)

	For the three-month periods ended 30 June				For the six-month periods ended 30 June			
	2019	2018	Inc./Dec.		2019	2018	Inc./Dec.	
<b>1) Operating revenue</b>	<b>2,482</b>	<b>2,651</b>	<b>(169)</b>	<b>(6%)</b>	<b>5,197</b>	<b>5,238</b>	<b>(41)</b>	<b>(1%)</b>
<b>2) Operating profit</b>	<b>270</b>	<b>311</b>	<b>(41)</b>	<b>(13%)</b>	<b>784</b>	<b>850</b>	<b>(66)</b>	<b>(8%)</b>
3) Share of profit from investments in associates and joint venture	118	89	29	33%	225	182	43	24%
4) Other income	294	988	(694)	(70%)	352	1,006	(654)	(65%)
5) Finance costs	(90)	(110)	20	18%	(175)	(157)	(18)	(11%)
6) Income tax expense	(38)	(225)	187	83%	(153)	(333)	180	54%
<b>7) Net profit</b>	<b>554</b>	<b>1,053</b>	<b>(499)</b>	<b>(47%)</b>	<b>1,033</b>	<b>1,548</b>	<b>(515)</b>	<b>(33%)</b>
8) Loss (profit) attributable to non-controlling interest of the subsidiaries	7	13	(6)	(46%)	7	10	(3)	(30%)
<b>9) Net profit – attributable to equity holders of the Company</b>	<b>561</b>	<b>1,066</b>	<b>(505)</b>	<b>(47%)</b>	<b>1,040</b>	<b>1,558</b>	<b>(518)</b>	<b>(33%)</b>
<b>10) Earnings per share (Baht)</b>	<b>0.42</b>	<b>0.80</b>	<b>(0.38)</b>	<b>(48%)</b>	<b>0.79</b>	<b>1.17</b>	<b>(0.38)</b>	<b>(32%)</b>

Net profit attributable to equity holders of the Company – Excluded gain on sales of investments

	For the three-month periods ended 30 June				For the six-month periods ended 30 June			
	2019	2018	Inc./Dec.		2019	2018	Inc./Dec.	
<b>9) Net profit</b>	<b>561</b>	<b>1,066</b>	<b>(505)</b>	<b>(47%)</b>	<b>1,040</b>	<b>1,558</b>	<b>(518)</b>	<b>(33%)</b>
<u>Less</u> Gain on sales of investments – net tax	(4)	(591)	587	99%	(30)	(591)	561	95%
<b>Net profit – before gain on sales of investments</b>	<b>557</b>	<b>475</b>	<b>82</b>	<b>17%</b>	<b>1,010</b>	<b>967</b>	<b>43</b>	<b>4%</b>

### **1.1 The operating results for the three-month period (The second quarter)**

The overall operating results of the Group for the three-month period ended 30 June 2019 in comparison with the same period of last year showed that the operating revenue for the three-month periods ended 30 June 2019 and 2018 were Baht 2,482 million and Baht 2,651 million, respectively, decreased by Baht 169 million or 6%. The net profit attributable to equity holders of the Company (“the net profit”) for the three-month periods ended 30 June 2019 and 2018 were Baht 561 million and Baht 1,066 million, respectively, decreased by Baht 505 million or 47%. The major reason was that during the second quarter of last year, the Group recognized gain on sale of investment in a company that operated hotel business which classified as available-for-sale investment in marketable securities, amounting to Baht 591 million, net of related tax impact. However, if the mentioned gain on sales of the investments was excluded, the net profit for the three-month periods ended 30 June 2019 and 2018 would be Baht 557 million and Baht 475 million, respectively, increased by Baht 82 million or 17%. The other significant changes were as follows.

- a) The significant changes in operating revenue and operating profit (loss) of the Group business segments were noted in No. 2.1 - Operating revenue – by segment and No. 2.2 – Operating profit (loss) – by segment.
- b) Other income decreased sharply by Baht 694 million or 70%, mainly due to the recognition gain on sale of the investment as mentioned above in the last year period of Baht 739 million (Baht 591 million, net of related tax impact). On the other hand, dividend income and other income increased by Baht 26 million and Baht 13 million, respectively.
- c) The income tax expense decreased by Baht 187 million or 83% according to the lower profit. In addition, the decrease of Baht 148 million was related to the gain on sale of the investment as mentioned above.

### **1.2 The operating results for the six-month period**

The overall operating results of the Group for the six-month period ended 30 June 2019 in comparison with the same period of last year showed that the operating revenue for the six-month periods ended 30 June 2019 and 2018 were Baht 5,197 million and Baht 5,238 million, respectively, decreased slightly by Baht 41 million or 1%. The net profit for the six-month periods ended 30 June 2019 and 2018 were Baht 1,040 million and Baht 1,558 million, respectively, decreased by Baht 518 million or 33%. However, if the gain on sales of available-for-sale investments in marketable securities as mentioned in No. 1.1, was excluded, the net profit for the six-month periods ended 30 June 2019 and 2018 would be Baht 1,010 million and Baht 967 million, respectively, increased by Baht 43 million or 4%. The other significant changes were already noted in the operating results for the three-month period.

## **2. Revenue and operating results by segment**

The Group's business operations are divided into 8 principal segments as follows:

1. Shopping Center business engages in the business of rental space to retail tenants in the shopping centers and the business of office space for rent.
2. Hotel and tourism business engages in providing for lodging, food and drink, and other facilities and services related for accommodation and travel.
3. Golf business engages in golf services, clubhouse and selling golf equipment.
4. Real-estate business engages in residential for sale, property management and asset appraisal.
5. Food Solution business engages in selling rice for both local and export markets, and the food center and restaurant business.
6. Finance business engages in providing general loan for housing and bridge loan of which the security is marketable property in good location, motorcycle hire-purchase business, and life assurance business\*.
7. Other business engages in the business of car and motorcycle auction\* and water supply business.
8. Supporting business performs as back office functions for the Group.

Note: \* The company that engages in such business is classified as an associate, therefore the recognition of operating results is in the form of profit sharing.

The significant movements in operating revenue and operating profit/(loss) by segment for the three-month and six-month periods ended 30 June 2019 when compared to the same period of 2018 were as follows:

## 2.1 Operating revenue – by segment

(Unit: Million Baht)

Segment	For the three-month periods ended				For the six-month periods ended			
	30 June				30 June			
	2019	2018	Inc./Dec.		2019	2018	Inc./Dec.	
1) Shopping Center	1,000	1,019	(19)	(2%)	1,979	2,013	(34)	(2%)
2) Hotel and Tourism	278	293	(15)	(5%)	690	714	(24)	(3%)
3) Golf	97	95	2	2%	255	243	12	5%
4) Real-estate	59	83	(24)	(29%)	176	142	34	24%
5) Food Solution	488	615	(127)	(21%)	984	1,072	(88)	(8%)
6) Finance	556	543	13	2%	1,106	1,047	59	6%
7) Other	3	2	1	50%	5	4	1	25%
8) Supporting	1	1	-	-	2	3	(1)	(33%)
<b>Total</b>	<b>2,482</b>	<b>2,651</b>	<b>(169)</b>	<b>(6%)</b>	<b>5,197</b>	<b>5,238</b>	<b>(41)</b>	<b>(1%)</b>

The operating revenue of the Group for the three-month and six-month periods ended 30 June 2019 were Baht 2,482 million and Baht 5,197 million, respectively, which decreased by Baht 169 million or 6% and Baht 41 million or 1%. The major changes in operating revenue by segment were as follows:

- a) The revenue of shopping center business for the three-month and six-month periods decreased by Baht 19 million or 2% and Baht 34 million or 2%, respectively, mainly due to the factors as follows:
- The revenue of Paradise Park Shopping Center for the three-month and six-month periods decreased by Baht 8 million and Baht 20 million, respectively. The major reason was that a major tenant returned partial rental space in June 2018 and returned all the remaining rental space in February 2019. Currently, there are new tenants to fulfill this area and the tenants start to operate in April 2019 and July 2019.
  - The revenue of MBK Shopping Center for the three-month and six-month periods decreased by Baht 16 million and Baht 20 million, respectively, due to the renovation of partial space for rent, resulted in the lower saleable area when compared to last year period.

- b) The revenue of food solution business for the three-month and six-month periods decreased by Baht 127 million or 21% and Baht 88 million or 8%, respectively, mainly due to the decrease in sale of rice for the three-month and six-month periods by Baht 117 million and Baht 63 million, respectively. The major factor was that sale of rice under project “G to G” (Government to Government) for the three-month and six-month periods decreased by Baht 106 million and Baht 69 million, respectively.
- c) The revenue of finance business for the three-month and six-month increased by Baht 13 million or 2% and Baht 59 million or 6%, respectively, which mainly derived from hire-purchase for motorcycle business by Baht 19 million and Baht 65 million, respectively, as a result of the continued growth of loans to medium and big bike segments.

## 2.2 Operating profit (loss) – by segment

(Unit: Million Baht)

Segment	For the three-month periods ended				For the six-month periods ended			
	30 June				30 June			
	2019	2018	Inc./Dec.		2019	2018	Inc./Dec.	
1) Shopping Center	175	263	(88)	(33%)	392	511	(119)	(23%)
2) Hotel and Tourism	(32)	(17)	(15)	(88%)	61	85	(24)	(28%)
3) Golf	(2)	(4)	2	50%	50	44	6	14%
4) Real-estate	(19)	(4)	(15)	(375%)	(37)	(14)	(23)	(164%)
5) Food Solution	(23)	(35)	12	34%	(31)	(33)	2	6%
6) Finance	167	120	47	39%	342	272	70	26%
7) Other	3	(4)	7	175%	5	(8)	13	163%
8) Supporting	1	(8)	9	113%	2	(7)	9	129%
<b>Total</b>	<b>270</b>	<b>311</b>	<b>(41)</b>	<b>(13%)</b>	<b>784</b>	<b>850</b>	<b>(66)</b>	<b>(8%)</b>

The operating profit of the Group for the three-month and six-month periods ended 30 June 2019 were Baht 270 million and Baht 784 million, respectively, decreased by Baht 41 million or 13% and Baht 66 million or 8%, respectively. In overall, operating results varied according to the movements of operating revenue by segment as mentioned in No.2.1, normal economic conditions. The significant changes were as follows:

- a) On 5 April 2019, Amendments to the law relating to the legal severance pay rates the Labor Protection Act (No. 7) B.E. 2562 was announced in the Royal Gazette. This stipulates additional legal severance pay rates for employees who have worked for an uninterrupted period of twenty years or more, with such employees entitled to receive not less than 400 days' compensation at the latest wage rate. The law is effective from 5 May 2019. This change is considered a post-employment benefits plan amendment and the Group has additional long-term employee benefit liabilities of Baht 55 million. The Group reflected the effect of the change by recognising past service costs as expenses in the income statement of the period in which the law is effective, which is the second quarter of 2019. The expenses by business segments were summarized as follows: Shopping Center: Baht 31 million, Hotel and Tourism: Baht 6 million, Golf: Baht 3 million, Real-estate: Baht 6 million, Food Solution: Baht 6 million and Finance: Baht 3 million.
- b) Shopping center business recognized impairment loss on investment in a joint venture of Baht 38 million, as a result of discontinued operation.
- c) Real-estate business devalued cost of inventory - a house for sale in Phuket of Baht 7 million in the first quarter of current year. In addition, marketing and administrative expenses related to the new condominium project "Quinn Sukhumvit 101" for the three-month and six-month periods increased by Baht 2 million and Baht 9 million, respectively. The project had pre-sale in October 2018 and the construction work is expected to be finished and transferred legal ownership in October 2020.
- d) Food solution business generated loss from operations mainly due to the rice market competition. The proportion of the increase in selling price of rice was lower than the increase in cost of rice resulted that the gross profit margin was lower than the same period of last year. In addition, the average margin of the rice export under G to G project is rather low.
- e) The bad debt and provision for doubtful accounts of hire-purchase for motorcycle business for the three-month and six-month periods decreased by Baht 38 million and Baht 28 million, respectively.

### **Analysis of financial position**

The significant movements in assets, liabilities and shareholders' equity as at 30 June 2019 when compared with the balance as at 31 December 2018 were as follows:

(Unit: Million Baht)

	<b>30 Jun 2019</b>	<b>31 Dec 2018</b>	<b>Increase/(Decrease)</b>	
Total assets	51,176	49,096	2,080	4%
Total liabilities	27,383	26,412	971	4%
Total shareholders' equity	23,793	22,684	1,109	5%

### **3. Assets**

#### **3.1 Cash and cash equivalents**

Cash and cash equivalents balance as at 30 June 2019 was Baht 1,443 million, increased sharply by Baht 768 million or 114% mainly because as at 30 June 2019, the lending business reserved cash of Baht 669 million in order to release lending to a customer on 2 July 2019.

#### **3.2 Current investments and long-term investments**

Current investments and long-term investments mainly represented investments in equity securities which are classified as available-for-sale marketable securities. The balance as at 30 June 2019 was Baht 9,379 million, increased by Baht 835 million or 10% primarily due to the increase in fair value of marketable securities by Baht 734 million and the increase in purchases of investment in marketable securities (net of sales) by Baht 82 million.

#### **3.3 Loans to customers**

Loans to customers (including current portion), net of allowance for doubtful accounts, balance as at 30 June 2019 was Baht 13,761 million, increased by Baht 826 million or 6%. The major increase were from the loan receivables portfolio which secured by pledged/mortgaged of assets specified in the loan agreements increased by Baht 435 million according to the growth of its business. In addition, the hire-purchase receivables portfolio for motorcycle increased by Baht 427 million mainly from the market segment of a medium and big sizes of motorcycle.

### 3.4 Inventories

Inventories balance as at 30 June 2019 was Baht 3,532 million, decreased slightly by Baht 50 million or 1%. The significant movements were as follows:

a) The property development costs increased by Baht 193 million from the progress of construction work for the residential projects of Park Riverdale and Riverdale Residence in Pathumtani, Quinn Condominium Sukhumvit 101, and Quaritz Rama IX.

b) Stock of rice decreased by Baht 192 million due to the policy of reduction inventory on hand level.

### 3.5 Investment in associates and joint venture

Investment in associates and joint venture balance as at 30 June 2019 was Baht 6,434 million, increased by Baht 17 million mainly due to the recognition share of profit under equity method amount of Baht 225 million. However, the decrease of Baht 217 million was from the dividend income.

### 3.6 Investment properties

Investment properties balance as at 30 June 2019 was Baht 8,503 million, decreased by Baht 232 million or 3%. The significant movements for the six-month period were as follows:

	Description	Million Baht
1	The costs of MBK Shopping Center renovation	36
2	The costs of Paradise Park and Paradise Place renovation	19
3	Reclassification of equipment that presented under Property, plant and equipment (Refer to No.3.7 (5) )	52
4	Depreciation for the period	(365)
5	Others	26
	<b>Total net movements</b>	<b>(232)</b>

### 3.7 Property, plant and equipment

Property, plant and equipment balance as at 30 June 2019 was Baht 5,100 million, decreased by Baht 113 million or 2%. The significant movements for the six-month period were as follows:

Description		Million Baht
1	The costs of improvement and maintenance golf courses in Pathumtani and Phuket	74
2	Renovation of Pathumwan Princess hotel rooms	38
3	Purchases of exercise machine for operation of Fitness Center	15
4	Purchases of other operating fixed assets	52
5	Reclassification of equipment to present under Investment properties (Refer to No.3.6 (3) )	(52)
6	Depreciation for the period	(210)
7	Others	(30)
<b>Total net movements</b>		<b>(113)</b>

## 4 Liabilities

### 4.1 Trade and other payables

Trade and other payables balance as at 30 June 2019 was Baht 1,135 million, decreased by Baht 195 million or 15%. The major decrease of Baht 97 million was from the reduction in purchase volume of rice to minimize stock on hand level.

### 4.2 Corporate income tax payable

Corporate income tax payable balance as at 30 June 2019 was Baht 123 million, decreased by Baht 169 million or 58%. During the second half of 2018, there was gain on sale of investment in an associate that operated in hotel business of Baht 701 million resulted in higher accrued income tax payable balance as at 31 December 2018.

### **4.3 Long-term debentures**

Long-term debentures (including current-portion) balance as at 30 June 2019 was Baht 13,891 million, increased by Baht 1,500 million or 12%. In May 2019, the Company issued the long-term debentures of Baht 1,500 million with tenor of 10 years, bearing interest at 3.88%, for the purpose of the Group business expansion.

### **4.4 Long-term liabilities under financial lease agreements**

Long-term liabilities under financial lease agreements (including current-portion) represented liabilities related to the lease agreements granting the right to utilize the shopping center at Pathumwan intersection. The balance of liabilities under financial lease agreements, which presented net of related deferred interest expense, as at 30 June 2019 was Baht 4,728 million, decreased by Baht 218 million or 4% due to the movements as follows:

- a) Liabilities under financial lease agreements decreased by Baht 360 million since the liabilities were due for annual payment in April 2019.
- b) Deferred interest expense decreased by Baht 142 million due to the amortization over the lease period as interest expense for the period.

### **4.5 Deferred tax liabilities**

Deferred tax liabilities balance as at 30 June 2019 was Baht 1,459 million, increased by Baht 150 million or 11%. The increase of Baht 147 million was from the increase in fair value of investments in available-for-sale marketable securities on hand as at 30 June 2019.

## **5 Shareholders' equity**

Total shareholders' equity balance as at 30 June 2019 was Baht 23,793 million, increased by Baht 1,109 million or 5%. The significant movements for the six-month period ended 30 June 2019 were as follows:

- a) Retained earnings increased by Baht 535 million derived from the net profit for the six-month period of Baht 1,040 million, meanwhile there was a decrease of Baht 503 million from dividend payment for the operating results for the second-half of year ended 31 December 2018.
- b) The increase of Baht 594 million in other components of shareholders' equity was mainly due to the increase of Baht 587 million in unrealized gains on available-for-sale marketable securities, net of related deferred tax liabilities impact, as a result of the higher stock market price.

## Analysis of the liquidity

6. Cash flows of the Group for the six-month periods ended 30 June 2019 and 2018 are summarised in the table below.

(Unit: Million Baht)

For the six-month periods ended 30 June				
	2019	2018	Cash flows Increase/(Decrease)	
Net income from operating activities before changes in operating assets and liabilities	1,422	1,706	(284)	(17%)
Net movements in operating assets and liabilities	(1,187)	(2,155)	968	45%
Net cash flows received from (used in) operating activities	235	(449)	684	152%
Net cash flow received from (used in) investing activities	161	(1,926)	2,087	108%
Net cash flows received from (used in) financing activities	372	2,413	(2,041)	(85%)
Net increase (decrease) in cash and cash equivalents	768	38	730	1,921%

### 6.1 Cash flows from operating activities

Net cash flows from operating activities increased by Baht 684 million or 152%. The major cash increases were from the increase in cash receipts from trade and other receivables by Baht 221 million, the decrease of loans to customers (net of cash receipts) by Baht 326 million and the decrease of purchase inventories by Baht 327 million. However, the major cash decrease was from the increase of payments to trade and other payables by Baht 95 million. The other significant movements in cash flows from operating activities and operating assets and liabilities are as mentioned in the analysis of operating results and financial status above.

### 6.2 Cash flows from investing activities

Net cash flows used in investing activities decreased by Baht 2,087 million or 108% due to the following major reasons:-

#### Factors in cash increases:

- a) During the period of 2018, there were cash payments for purchase additional investment in an associate that operated shopping center business of Baht 2,896 million.

#### Factors in cash decreases:

- b) Cash receipts from sales of investments in available-for-sale marketable securities (net of cash payments from purchases) decreased by Baht 944 million.

### 6.3 Cash flows from financing activities

Net cash flows received from financing activities decreased by Baht 2,041 million or 85% due to the decrease in cash receipts from short-term loans from financial institutions (net of cash repayments) by Baht 2,469 million. On the other hand, the increase in cash receipts from long-term debenture (net of cash repayments) of Baht 500 million.