

MBK Public Company Limited and its subsidiaries

Management discussion and analysis

For the three-month and nine-month periods ended 30 September 2019 (The third 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 nine-month periods ended 30 September 2019 and 2018 are as follows:

(Unit: Million Baht)

	For the three-month periods ended				For the nine-month periods ended			
	30 September				30 September			
	2019	2018	Inc./Dec.		2019	2018	Inc./Dec.	
1) Operating revenue	2,546	2,549	(3)	-	7,743	7,787	(44)	(1%)
2) Operating profit	362	331	31	9%	1,146	1,184	(38)	(3%)
3) Share of profit from investments in associates and joint venture	347	108	239	221%	573	290	283	98%
4) Other income	52	744	(692)	(93%)	404	1,748	(1,344)	(77%)
5) Finance costs	(85)	(51)	(34)	(67%)	(261)	(208)	(53)	(25%)
6) Income tax expense	(114)	(208)	94	45%	(267)	(541)	274	51%
7) Net profit	562	924	(362)	(39%)	1,595	2,473	(878)	(36%)
8) Loss (profit) attributable to non-controlling interest of the subsidiaries	1	8	(7)	(88%)	8	17	(9)	(53%)
9) Net profit – attributable to equity holders of the Company	563	932	(369)	(40%)	1,603	2,490	(887)	(36%)
10) Earnings per share (Baht)	0.43	0.70	(0.27)	(39%)	1.21	1.87	(0.66)	(35%)

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

	For the three-month periods ended				For the nine-month periods ended			
	30 September				30 September			
	2019	2018	Inc./Dec.		2019	2018	Inc./Dec.	
9) Net profit – the Company	563	932	(369)	(40%)	1,603	2,490	(887)	(36%)
<u>Less</u> Gain on sales of investments – net tax	-	(600)	600	100%	(31)	(1,175)	1,144	97%
Net profit – before gain on sales of investments	563	332	231	70%	1,572	1,315	257	20%

1.1 The operating results for the three-month period (The third quarter)

The overall operating results of the Group for the three-month period ended 30 September 2019 in comparison with the same period of last year showed that the operating revenue for the three-month periods ended 30 September 2019 and 2018 were Baht 2,546 million and Baht 2,549 million, respectively, decreased slightly by Baht 3 million. The net profit attributable to equity holders of the Company (“the net profit”) for the three-month periods ended 30 September 2019 and 2018 were Baht 563 million and Baht 932 million, respectively, decreased by Baht 369 million or 40%. However, if the net profit excluded gain on sales of investments in marketable securities and associate, the net profit for the three-month periods ended 30 September 2019 and 2018 would be Baht 563 million and Baht 332 million, respectively, increased by Baht 231 million or 70%. 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) Share of profit from investments in associates and joint venture increased by Baht 239 million or 221% because an associate that operated in hotel business in foreign country sold its operating assets to Freehold and Leasehold Real Estate Investment Trust (“REIT”) and incurred gain on sales of the assets. The Group recognized profit sharing from the sales of assets transaction amounting to Baht 250 million.
- c) Other income decreased sharply by Baht 692 million or 93%. The major reason was that in the same quarter of last year, the Group sold investment in an associate that operated hotel business and recognized gain on sale of the investment amounting to Baht 701 million, (Baht 571 million, net of related tax impact).

1.2 The operating results for the nine-month period

The overall operating results of the Group for the nine-month period ended 30 September 2019 in comparison with the same period of last year showed that the operating revenue for the nine-month periods ended 30 September 2019 and 2018 were Baht 7,743 million and Baht 7,787 million, respectively, decreased by Baht 44 million or 1%. The net profit for the nine-month periods ended 30 September 2019 and 2018 were Baht 1,603 million and Baht 2,490 million, respectively, decreased by Baht 887 million or 36%. However, if the net profit excluded gain on sales of investments in marketable securities and associate, the net profit for the nine-month periods ended 30 September 2019 and 2018 would be Baht 1,572 million and Baht 1,315 million, respectively, increased by Baht 257 million or 20%. 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) Share of profit from investments in associates and joint venture increased by Baht 283 million or 98%.
- The profit sharing from an associate that operated hotel business in foreign country increased by Baht 254 million due to the sales of assets transaction as mentioned in the operating results for the three-month period above.
 - The profit sharing from an associate that engages in shopping business increased by Baht 85 million. The major reasons were that the grand opening of ICON SIAM shopping center on 9 November 2018, the real-estate development projects that started to recognize revenue since the second quarter of current year. In addition, during the second quarter of last year, the Company purchased additional shares in the associate resulted in higher profit sharing interests from 30.72% to 48.66%.
- c) Other income decreased sharply by Baht 1,344 million or 77%. In the same period of last year, the Group recognized gain on sales of investment in a company that operated hotel business which classified as available-for-sale investment in marketable securities, and investment in an associate that operated hotel business, for a total of Baht 1,440 million. (Baht 1,163 million, net of related tax impact). On the other hand, dividend income and other income increased by Baht 30 million and Baht 48 million, respectively.
- d) Income tax expense decreased by Baht 274 million or 51% according to the lower profit. The decrease of Baht 277 million was related to the gain on sale of the investment as mentioned above.

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 nine-month periods ended 30 September 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 30 September				For the nine-month periods ended 30 September			
	2019	2018	Inc./Dec.		2019	2018	Inc./Dec.	
1) Shopping Center	964	1,004	(40)	(4%)	2,942	3,017	(75)	(2%)
2) Hotel and Tourism	277	297	(20)	(7%)	967	1,011	(44)	(4%)
3) Golf	95	94	1	1%	349	337	12	4%
4) Real-estate	93	101	(8)	(8%)	269	242	27	11%
5) Food Solution	515	487	28	6%	1,499	1,560	(61)	(4%)
6) Finance	596	558	38	7%	1,704	1,604	100	6%
7) Other	5	7	(2)	(29%)	10	12	(2)	(17%)
8) Supporting	1	1	-	-	3	4	(1)	(25%)
Total	2,546	2,549	(3)	-	7,743	7,787	(44)	(1%)

The operating revenue of the Group for the three-month and nine-month periods ended 30 September 2019 were Baht 2,546 million and Baht 7,743 million, respectively, which decreased by Baht 3 million and Baht 44 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 nine-month periods decreased by Baht 40 million or 4% and Baht 75 million or 2%, respectively, mainly due to the factors as follows:

- The revenue of Paradise Park Shopping Center for the three-month and nine-month periods decreased by Baht 16 million and Baht 37 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 nine-month periods decreased by Baht 23 million and Baht 44 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 hotel business for the three-month and nine-month periods decreased by Baht 20 million or 7% and Baht 44 million or 4%, respectively. Pathumwan Princess hotel had revenue for the three-month and nine-month periods decreased by Baht 16 million and Baht 32 million, respectively because a total of 148 hotel rooms were closed for renovation during May to October 2019 resulted in lower occupancy rates and average room rates during such period. The remaining of 307 hotel rooms will be closed for renovation in next year.
- c) The revenue of food solution business for the three-month periods increased by Baht 28 million or 6% while for the nine-month periods decreased by Baht 61 million or 4%. The significant changes were as follows:
- The revenue of rice business for the three-month period increased by Baht 43 million while for the nine-month period decreased by Baht 20 million. The domestic and export sales generated higher revenue however, sales of rice under project “G to G” (Government to Government) was lower.
 - The revenue of food center business for the three-month and nine-month periods decreased by Baht 16 million and Baht 41 million, respectively, mainly due to the discontinued operations of certain food centers that performed under expectation during the second and third quarters of current year.
- d) The revenue of finance business for the three-month and nine-month periods increased by Baht 38 million or 7% and Baht 100 million or 6%, respectively, due to the followings reasons:
- The revenue of hire-purchase for motorcycle business for three-month and nine-month periods increased by Baht 15 million and Baht 80 million, respectively due to the continuous growth of loans to medium and big bike segments.
 - The revenue of lending business for three-month and nine-month periods increased by Baht 22 million and Baht 15 million, respectively, according to the continued growth of loans portfolios.

2.2 Operating profit (loss) – by segment

(Unit: Million Baht)

Segment	For the three-month periods ended				For the nine-month periods ended			
	30 September				30 September			
	2019	2018	Inc./Dec.		2019	2018	Inc./Dec.	
1) Shopping Center	205	236	(31)	(13%)	596	748	(152)	(20%)
2) Hotel and Tourism	(27)	(43)	16	37%	34	43	(9)	(21%)
3) Golf	(5)	(10)	5	50%	45	34	11	32%
4) Real-estate	2	7	(5)	(71%)	(35)	(7)	(28)	(400%)
5) Food Solution	(5)	(8)	3	38%	(36)	(39)	3	8%
6) Finance	190	158	32	20%	533	429	104	24%
7) Other	1	(1)	2	200%	6	(9)	15	167%
8) Supporting	1	(8)	9	113%	3	(15)	18	120%
Total	362	331	31	9%	1,146	1,184	(38)	(3%)

The operating profit of the Group for the three-month and nine-month periods ended 30 September 2019 were Baht 362 million and Baht 1,146 million, respectively. The net profit for the three-month period increased by Baht 31 million or 9%, however, for the nine-month period decreased by Baht 38 million or 3%. 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 amounting to Baht 38 million, as a result of discontinued operation.

- c) Tinidee@Bangkok Golf Club Hotel (formerly “Bangkok Golf Spa Resort”) in Pathumtani, has been closed for major renovation since July 2017 resulted that the unused building and building improvements at net book value of Baht 34 million were written-off as expense in the third quarter of last year.
- d) 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 nine-month periods increased by Baht 6 million and Baht 15 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.
- e) Food solution business generated loss from operations mainly due to the rice market competition resulted that the proportion of the increase in selling price of rice was lower than the increase in cost of rice.
- f) The hire-purchase for motorcycle business has improved credit control and debt collection management, therefore bad debt and provision for doubtful accounts for the three-month and nine-month periods decreased by Baht 35 million and Baht 23 million, respectively.

Analysis of financial position

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

(Unit: Million Baht)

	30 Sep 2019	31 Dec 2018	Increase/(Decrease)	
Total assets	52,104	49,096	3,008	6%
Total liabilities	28,275	26,412	1,863	7%
Total shareholders’ equity	23,829	22,684	1,145	5%

3. Assets

3.1 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 September 2019 was Baht 9,577 million, increased by Baht 1,033 million or 12% primarily due to the increase in fair value of marketable securities by Baht 633 million and the increase in purchases of investment in marketable securities (net of sales) by Baht 382 million.

3.2 Loans to customers

Loans to customers (including current portion), net of allowance for doubtful accounts, balance as at 30 September 2019 was Baht 15,298 million, increased by Baht 2,364 million or 18%. The major increase were from the loan receivables portfolio which secured by pledged/mortgaged of assets specified in the loan agreements increased by Baht 1,764 million according to the growth of its business. In addition, the hire-purchase receivables portfolio for motorcycle increased by Baht 636 million mainly from the market segment of a medium and big bike segments.

3.3 Inventories

Inventories balance as at 30 September 2019 was Baht 3,633 million, increased by Baht 51 million or 1%. The significant movements were as follows:

- a) The property development costs increased by Baht 367 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 262 million due to the policy of reduction in level of inventory on hand.

3.4 Investment in associates and joint venture

Investment in associates and joint venture balance as at 30 September 2019 was Baht 6,748 million, increased by Baht 331 million or 5% mainly due to the recognition share of profit under equity method amount of Baht 573 million. However, the decrease of Baht 258 million was from the dividend income.

3.5 Investment properties

Investment properties balance as at 30 September 2019 was Baht 8,398 million, decreased by Baht 337 million or 4%. The significant movements for the nine-month period were as follows:

	Description	Million Baht
1	The costs of MBK Shopping Center renovation	69
2	The costs of Paradise Park and Paradise Place renovation	30
3	The costs of land improvement for rental business in Pathum Thani	20
4	Reclassification of equipment that presented under Property, plant and equipment (Refer to No.3.6 (7))	71
5	Depreciation for the period	(551)
6	Others	24
	Total net movements	(337)

3.6 Property, plant and equipment

Property, plant and equipment balance as at 30 September 2019 was Baht 5,102 million, decreased by Baht 111 million or 2%. The significant movements for the nine-month period were as follows:

	Description	Million Baht
1	The costs of improvement and maintenance golf courses in Pathumtani and Phuket	96
2	Renovation of Pathumwan Princess hotel rooms	97
3	Purchases of exercise machine for operation of Fitness Center	18
4	The construction costs of a new resort at Tonsai Beach in Krabi	19
5	Purchases of equipment for operation of a new food center at Samyan Mitrtown	17
6	Purchases of other operating fixed assets	73
7	Reclassification of equipment to present under Investment properties (Refer to No.3.5 (4))	(71)
8	Depreciation for the period	(321)
9	Others	(39)
	Total net movements	(111)

4 Liabilities

4.1 Bank overdrafts and short-term loans from financial institutions

Bank overdrafts and short-term loans from financial institutions balance as at 30 September 2019 was Baht 790 million, decreased by Baht 1,966 million or 71%, mainly due to the issuance of long-term debentures to change the status of short-term loans to long-term loans according to the Group business operations.

4.2 Corporate income tax payable

Corporate income tax payable balance as at 30 September 2019 was Baht 73 million, decreased by Baht 219 million or 75%. 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 Other current liabilities

Other current liabilities balance as at 30 September 2019 was Baht 1,117 million, increased by Baht 582 million or 109%. The major increase of Baht 503 million was accrued interim dividend payment from the operating results for the first-half year period which is due for payment on 3 October 2019.

4.4 Long-term debentures

Long-term debentures (including current-portion) balance as at 30 September 2019 was Baht 15,889 million, increased by Baht 3,498 million or 28%. In May and August 2019, the Company issued the long-term debentures of Baht 1,500 million and Baht 2,000 million, respectively for the purpose of the Group business expansion.

4.5 Deferred tax liabilities

Deferred tax liabilities balance as at 30 September 2019 was Baht 1,499 million, increased by Baht 190 million or 15%. The increase of Baht 124 million was from the increase in fair value of investments in available-for-sale marketable securities on hand as at 30 September 2019. In addition, the increase of Baht 62 million was related to the higher profit sharing recognition in associates.

5 Shareholders' equity

Total shareholders' equity balance as at 30 September 2019 was Baht 23,829 million, increased by Baht 1,145 million or 5%. The significant movements for the nine-month period ended 30 September 2019 were as follows:

- a) Retained earnings increased by Baht 595 million derived from the net profit for the nine-month period of Baht 1,603 million, meanwhile there was a decrease of Baht 1,005 million from dividend payment.
- b) The increase of Baht 524 million in other components of shareholders' equity was mainly due to the increase of Baht 510 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 nine-month periods ended 30 September 2019 and 2018 are summarised in the table below.

(Unit: Million Baht)

For the nine-month periods ended 30 September				
	2019	2018	Cash flows Increase/(Decrease)	
Net income from operating activities before changes in operating assets and liabilities	2,376	2,307	69	3%
Net movements in operating assets and liabilities	(2,581)	(2,932)	351	12%
Net cash flows received from (used in) operating activities	(205)	(625)	420	67%
Net cash flow received from (used in) investing activities	(224)	(778)	554	71%
Net cash flows received from (used in) financing activities	259	1,346	(1,087)	(81%)
Net increase (decrease) in cash and cash equivalents	(170)	(57)	(113)	(198%)

6.1 Cash flows from operating activities

Net cash flows from operating activities increased by Baht 420 million or 67%. The major cash increases were: operating profit increased by Baht 69 million, payments for inventories purchase decreased by Baht 552 million due to the reduction in level of inventory on hand of rice business, cash receipts from rental and services income increased by Baht 158 million, cash receipts from deposits increased by Baht 53 million, and other current liabilities increased by Baht 210 million. However, the major cash decrease was loans to customers (net of cash receipts) increased by Baht 752 million according to the growth of loan portfolios. 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 554 million or 7% 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.
- b) Dividend income increased by Baht 134 million.
- c) Cash receipts (net of cash payments) from short-term loans to related parties increased by Baht 145 million.

Factors in cash decreases:

- d) Cash receipts from sales of investments in available-for-sale marketable securities (net of cash payments from purchases) decreased by Baht 1,458 million.
- e) During the period of 2018, there was cash receipt from sale of investment in associate that operated hotel business of Baht 1,145 million.

6.3 Cash flows from financing activities

Net cash flows received from financing activities decreased by Baht 1,087 million or 81% due to the following major reasons:

Factors in cash increases:

- a) The increase in cash receipts from long-term debenture (net of cash repayments) of Baht 3,198 million.

Factors in cash decreases:

- b) Cash repayments for short-term loans from financial institutions (net of cash receipts) increased by Baht 4,217 million.