

MBK Public Company Limited and its subsidiaries

Management discussion and analysis

For the year ended 31 December 2019

Analysis of operating results

1. Overall operating results

The operating results of MBK Public Company Limited and its subsidiaries (“the Group”) for the years ended 31 December 2019 and 2018 are as follows:

(Unit: Million Baht)

For the years ended 31 December				
	2019	2018	Inc/(Dec)	
1) Operating revenue	10,287	10,548	(261)	(2%)
2) Operating profit	1,520	1,621	(101)	(6%)
3) Share of profit from investments in associates and joint venture	769	212	557	263%
4) Other income	1,194	1,938	(744)	(38%)
5) Finance costs	(346)	(305)	(41)	(13%)
6) Income tax expense	(345)	(605)	260	43%
7) Net profit	2,792	2,861	(69)	(2%)
8) Loss (profit) attributable to non-controlling interest of the subsidiaries	8	20	(12)	(60%)
9) Net profit – attributable to equity holders of the Company	2,800	2,881	(81)	(3%)
10) Earnings per share (Baht)	2.12	2.17	(0.05)	(2%)

Net profit attributable to equity holders of the Company – Excluded special items

For the years ended 31 December				
	2019	2018	เพิ่มขึ้น/ลดลง	
9) Net profit – the Company	2,800	2,881	(81)	(3%)
<u>Less</u> Gain on sales of investments – net tax	(31)	(1,175)	1,144	97%
<u>Less</u> Special dividend income from a related company	(533)	-	(533)	(100%)
<u>Less</u> Profit sharing from an associate - gain on sales of operating assets	(250)	-	(250)	(100%)
Net profit – the Company (Excluded special items)	1,986	1,706	280	16%

The overall operating results of the Group for the year ended 31 December 2019 in comparison with the same period of last year showed that the revenue for the years ended 31 December 2019 and 2018 were Baht 10,287 million and Baht 10,548 million, respectively, decreased by Baht 261 million or 2%. The net profit attributable to equity holders of the Company (“the net profit”) for the years ended 31 December 2019 and 2018 were Baht 2,800 million and Baht 2,881 million, respectively, decreased by Baht 81 million or 3%.

However, if the net profit excluded the following special items, (i) gain on sales of investments in marketable securities and associate, (ii) special dividend income from a related company, and (iii) profit sharing from gain on sales of operating assets, the net profit for the year ended 31 December 2019 and 2018 would be Baht 1,986 million and Baht 1,706 million, respectively, increased by Baht 280 million or 16%.

The 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 557 million or 263% due to the following reasons:
 - The associate that operated in hotel business abroad sold its operating assets to Freehold and Leasehold Real Estate Investment Trust (“REIT”) and incurred higher gain on sales of the assets. The Group recognized profit sharing from sales of assets transaction amounting to Baht 250 million.
 - Share of profit from an associate that operated in shopping center business increased by Baht 380 million due to the followings reasons:
 - The new shopping center “ICON SIAM” held grand opening on 9 November 2018, resulted in recognition the operating results for a full year in 2019.
 - Condominium development project consisted of two buildings located on Charoen Nakhon Road, where the first building was completed and commenced its revenue recognition since the fourth quarter of 2018. In addition, the second building was completed and commenced its revenue recognition since July 2019. As a result, the number of transferred units and revenue recognition in 2019 was higher than in 2018.
 - In the second quarter of 2018, the Company purchased additional investment in such associate, as a result that the percentage of revenue sharing increased from 30.72% to 47.98%.

- c) Other income decreased by Baht 744 million or 38%. The major reason were as follows:
- In 2018, 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).
 - Dividend income increased by Baht 591 million, mainly due to the fact that in December 2019, a related company which engages in financial institution business, had restructuring its group business resulted in excess liquidity, therefore, there was announcement of special interim dividend payment to shareholders. The Group recognized such dividend income of Baht 533 million.
- d) Income tax expense decreased by Baht 260 million or 43%. In 2019, the Group had higher dividend income from investments in a related company and associates, and the dividend income is exempt from corporate income tax under the Revenue Code.

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 year ended 31 December 2019 when compared to the same period of 2018 were as follows:

2.1 Operating revenue – by segment

(Unit: Million Baht)

For the years ended 31 December				
Segment	2019	2018	Increase/(Decrease)	
1) Shopping Center	3,885	3,999	(114)	(3%)
2) Hotel and tourism	1,320	1,386	(66)	(5%)
3) Golf	480	466	14	3%
4) Real-estate	317	307	10	3%
5) Food Solution	1,965	2,190	(225)	(10%)
6) Finance	2,299	2,177	122	6%
7) Other	15	18	(3)	(17%)
8) Supporting	6	5	1	20%
Total	10,287	10,548	(261)	(2%)

The operating revenue of the Group for the years ended 31 December 2019 and 2018 were Baht 10,287 million and Baht 10,548 million, respectively, which decreased by Baht 261 million or 2%. The major changes in operating revenue by segment were as follows:

a) The revenue of shopping center business decreased by Baht 114 million or 3% due to the following factors:

- The revenue of MBK Shopping Center decreased by Baht 72 million due to the renovation of partial space for rent, resulted in the lower saleable area.
- The revenue of Paradise Park Shopping Center decreased by Baht 47 million. 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. There were new tenants to fulfill this area and the tenants started to operate in April 2019 and July 2019, respectively. In addition, the rental area of Food Bazaar zone was continuous returned and this area will be replaced by Seri Market in March 2020.

- b) The revenue of hotel business decreased by Baht 66 million or 5%. The revenue of Pathumwan Princess hotel decreased by Baht 44 million 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 2020 and 2021. Moreover, the number of foreign tourists decreased according to the global economic situation, as a results, the overall occupancy rate and revenue of hotel group decreased in comparison with last year.
- c) The revenue of golf business increased by Baht 14 million or 3%. The number of golfers increased because Bangkok Golf Club in Pathumtani improved the lighting system for night golf services, and renovated landscapes to be more beautiful scenery.
- d) The revenue of food solution business decreased by Baht 225 million or 10%. The significant changes were as follows:
- The revenue of rice business decreased by Baht 181 million. The sale of rice under project “G to G” (Government to Government) decreased by Baht 285 million. However, the general export sales increased by Baht 55 million and domestic sales increased by Baht 30 million due to the higher sales volume and selling price which increased according to the market price mechanism.
 - The revenue of food center business decreased by Baht 44 million, mainly due to the discontinued operations of certain food centers that performed under expectation during the second and third quarters of current year.
- e) The revenue of finance business increased by Baht 122 million or 6% mainly due to the followings reasons:
- The revenue of hire-purchase for motorcycle business increased by Baht 97 million due to the continuous growth of loans to medium and premium bike segments.
 - The revenue of lending business increased by Baht 22 million according to the continued growth of loan portfolios.

2.2 Operating profit (loss) – by segment

(Unit: Million Baht)

For the years ended 31 December				
Segment	2019	2018	Increase/(Decrease)	
1) Shopping Center	748	884	(136)	(15%)
2) Hotel and tourism	63	145	(82)	(57%)
3) Golf	74	65	9	14%
4) Real-estate	(44)	(30)	(14)	(47%)
5) Food Solution	(33)	(54)	21	39%
6) Finance	701	619	82	13%
7) Other	7	(9)	16	178%
8) Supporting	4	1	3	300%
Total	1,520	1,621	(101)	(6%)

The operating profit of the Group for the years ended 31 December 2019 and 2018 were Baht 1,520 million and Baht 1,621 million, decreased by Baht 101 million or 6%. In overall, operating results varied according to the movements of revenue as mentioned in No.2.1, normal economic conditions and the significant changes as follows:

- a) The Labor Protection Act (No. 7) B.E. 2562 was announced in the Royal Gazette and effective from 5 May 2019. 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 Group reflected the effect of the change by recognising expense of Baht 55 million in the income statement of the second quarter of 2019 in which the law is effective.
- b) In 2019, 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 2018.
- d) The hire-purchase for motorcycle business has improved credit control and debt collection management, therefore bad debt and provision for doubtful accounts decreased by Baht 42 million.

Analysis of financial position

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

(Unit: Million Baht)

	31 Dec 2019	31 Dec 2018	Increase/(Decrease)	
Total assets	52,443	49,096	3,347	7%
Total liabilities	27,737	26,412	1,325	5%
Total shareholders' equity	24,706	22,684	2,022	9%

3. Assets

3.1 Current investments and other long-term investments

Current investments and other long-term investments mainly represented investments in equity securities which are classified as available-for-sale marketable securities. The balance as at 31 December 2019 was Baht 9,086 million, increased by Baht 542 million or 6% primarily due to the increase in fair value of marketable securities by Baht 140 million and the increase in purchases of investment in marketable securities (net of sales) by Baht 382 million.

3.2 Accrued dividend income

Accrued dividend income balance as at 31 December 2019 was Baht 533 million because a related company which engages in financial institution business, had restructuring its group business resulted in excess liquidity, therefore, there was announcement of special interim dividend payment to shareholders. The Group recognized accrued dividend income of Baht 533 million in December 2019 and received the dividend in January 2020.

3.3 Loans to customers

Loans to customers (including current portion), net of allowance for doubtful accounts, balance as at 31 December 2019 was Baht 15,520 million, increased by Baht 2,585 million or 20%. The major increases were from the loan receivables portfolio which secured by pledged/mortgaged of assets specified in the loan agreements by Baht 1,775 million, and the hire-purchase receivables portfolio for motorcycle by Baht 846 million according to the growth of its business.

3.4 Inventories

Inventories balance as at 31 December 2019 was Baht 3,709 million, increased by Baht 241 million or 7%. The significant movements were as follows:

- a) The property development costs increased by Baht 537 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.

The followings projects are under construction and have not recognised revenue:

- The project “Quinn Sukhumvit 101” is a new condominium located on Sukhumvit 101 Road which has a total of 347 units for sale. The pre-sale was launched in October 2018. The construction work is expected to be finished and transferred ownership in the fourth quarter of 2020.
- The luxury residential development project “Quaritz Rama IX” located on Rama IX Road. The project consists of plot of land for 8 units and residence for 6 units. The sample houses are under construction and expected to be completed by the second quarter of 2020. The opening for sale will be in the third quarter of 2020.

- b) Stock of rice decreased by Baht 245 million due to the policy of reduction in level of inventory on hand.

3.5 Investment in associates and joint venture

Investment in associates and joint venture balance as at 31 December 2019 was Baht 6,481 million, increased by Baht 63 million or 1%. The significant movements were as follows:

- a) The increase of Baht 769 million was from the recognition share of profit under equity method.
- b) The decrease of Baht 527 million was from the dividend income.
- c) The decrease of Baht 190 million was due to the fact that in December 2019, the Company purchased additional shares in Apple Auto Auction (Thailand) Limited, as a result, the shareholding interests increased from 49.99% to 53.56%. Therefore, the investment in such company was reclassified from associate to subsidiary since 31 December 2019.

3.6 Investment properties

Investment properties balance as at 31 December 2019 was Baht 8,239 million, decreased by Baht 496 million or 6%. The significant movements were as follows:

Description		Million Baht
1	The costs of MBK Shopping Center renovation	86
2	The costs of Paradise Park and Paradise Place renovation	37
3	The costs of land improvement for rental business in Pathum Thani	32
4	The costs of land improvement for a new shopping center “ The Nine Center Tiwanon” in Pathum Thani	13
5	Reclassification of equipment that presented under Property, plant and equipment (Refer to No.3.7 (9))	63
6	Depreciation	(736)
7	Others	9
	Total net movements	(496)

3.7 Property, plant and equipment

Property, plant and equipment balance as at 31 December 2019 was Baht 5,160 million, decreased by Baht 53 million or 1%. The significant movements were as follows:

Description		Million Baht
1	The costs of improvement and maintenance golf courses in Pathumtani and Phuket	118
2	Renovation of Pathumwan Princess hotel rooms	154
3	Renovation of Dusit Krabi Resort in Krabi	30
4	Recognition of building and equipment of an associate that changed status to a subsidiary	34
5	Purchases of exercise machine for operation of Fitness Center	22
6	The construction costs of a new resort at Tonsai Beach in Krabi	21
7	Purchases of equipment for operation of a new food center under Samyan Mitrtown project	18
8	Purchases of other operating fixed assets	79
9	Reclassification of equipment to present under Investment properties (Refer to No.3.6 (5))	(63)
10	Depreciation	(430)
11	Others	(36)
Total net movements		(53)

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 31 December 2019 was Baht 687 million, decreased by Baht 2,069 million or 75%, 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 Long-term debentures

Long-term debentures (including current-portion) balance as at 31 December 2019 was Baht 15,890 million, increased by Baht 3,499 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.

5. Shareholders' equity

Total shareholders' equity balance as at 31 December 2019 was Baht 24,706 million, increased by Baht 2,022 million or 9%. The significant movements were as follows:

- a) Retained earnings increased by Baht 1,757 million derived from the net profit for the year of Baht 2,800 million, meanwhile there was a decrease of Baht 1,005 million from dividend payment.
- b) The increase of Baht 120 million in other components of shareholders' equity was mainly due to the increase of Baht 117 million in unrealized gains on available-for-sale marketable securities, net of related deferred tax liabilities, as a result of the higher stock market price.
- c) Non-controlling interests of subsidiaries increased by Baht 145 million. The increase of Baht 168 million was minority interests arising from the consolidated financial position as at 31 December 2019 of an associate that changed the status to be a subsidiary as mentioned in No.3.5 (c).

Analysis of the liquidity

6. Cash flows of the Group for the years ended 31 December 2019 and 2018 are summarised in table below.

(Unit: Million Baht)

For the years ended 31 December				
	2019	2018	Cash flows	
			Increase/(Decrease)	
Net income from operating activities before changes in operating assets and liabilities	3,245	3,227	18	1%
Net movements in operating assets and liabilities	(3,024)	(2,937)	(87)	(3%)
Net cash flows received from (used in) operating activities	221	290	(69)	(24%)
Net cash flow received from (used in) investing activities	125	(844)	969	115%
Net cash flows received from (used in) financing activities	(235)	753	(988)	(131%)
Net increase (decrease) in cash and cash equivalents	111	199	(88)	(44%)

6.1 Cash flows from operating activities

Cash flows from operating activities decreased by Baht 69 million or 24%. The 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 and the significant changes as follows:

- a) Cash payments (net of cash receipts) for lending business increased by Baht 965 million.
- b) Cash payments for inventories and real-estate development costs decreased by Baht 529 million.

6.2 Cash flows from investing activities

Net cash flows received from investing activities increased by Baht 969 million or 115% due to the following major reasons:-

Factors in cash increases:

- a) In 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 430 million.
- c) Cash receipts (net of cash payments) from short-term loans to related parties increased by Baht 161 million.

Factors in cash decreases:

- d) Cash payments from purchases of investments in available-for-sale marketable securities (net of cash receipts from sales) increased by Baht 356 million.
- e) In 2018, there were cash receipts from sales of investments in hotel business for two companies that classified as investment in available-for-sale marketable security and investment in associate, for a total of Baht 2,279 million.

6.3 Cash flows from financing activities

Net cash flows received from financing activities decreased by Baht 988 million or 131% due to the following major reasons:-

Factors in cash increases:

- a) Cash receipts from long-term debenture(net of cash repayments) increased by Baht 1,200 million.
- b) Cash receipts from long-term loans from financial institution increased by Baht 200 million.

Factors in cash decreases:

- c) Cash repayments for short-term loans from financial institutions (net of cash receipts) increased by Baht 2,271 million.