

MBK Public Company Limited and its subsidiaries
Management discussion and analysis of the financial statements
For the three-month period ended 31 March 2017 (The first 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 periods ended 31 March 2017 and 2016 are as follows:

(Unit: Million Baht)

	For the three-month periods ended 31 March			
	2017	2016	Increase/(Decrease)	
Operating revenue	2,409	2,933	(524)	(18%)
Operating profit	511	669	(158)	(24%)
Share of profit from investments in associates and joint venture	85	59	26	44%
Other income	44	47	(3)	(6%)
Finance costs	(62)	(121)	59	49%
Income tax expense	(116)	(132)	16	12%
Net profit	462	522	(60)	(11%)
Loss (profit) attributable to Non-controlling interest of the subsidiaries	2	13	(11)	(85%)
Net profit – attributable to equity holders of the Company	464	535	(71)	(13%)
Earnings per share (Baht)	0.35	0.40	(0.05)	(13%)

The overall operating results of the Group for the three-month period ended 31 March 2017 in comparison with the same period of last year showed that the performance of the Group declined. The operating revenue for the three-month periods ended 31 March 2017 and 2016 were Baht 2,409 million and Baht 2,933 million, respectively, decreased by Baht 524 million or 18%. The net profit attributable to equity holders of the Company (“the net profit”) for the three-month periods ended 31 March 2017 and 2016 were Baht 464 million and Baht 535 million, respectively, decreased by Baht 71 million or 13%. The significant changes were as follows:

- a) The significant changes in operating revenue and operating profit (loss) of the Group business segments were as followings. The details of changes were noted in No. 2.1 - Operating revenue – by segment and No. 2.2 – Operating profit (loss) – by segment.

(Unit: Million Baht)

Segment	Operating revenue increase / (decrease)	Operating profit increase / (decrease)
Finance	82	40
Real-estate	(440)	(142)
Food Solution	(146)	-

- b) Share of profit from investments in associates and joint venture went up by Baht 26 million or 44%. The major reasons were as follows:

- Share of profit from an associate that engages in life insurance business increased by Baht 55 million which mainly due to the recognition gain on fair value adjustment of liabilities from insurance contracts. The major factors were the Government Zero Coupon Bond Yield has continued to increase since the fourth quarter of 2016 and the risk margin rate in provisioning the liability reserve was reduced. As a result, the fair value of the liabilities decreased accordingly.
- Share of profit from an associate that engages in a hotel business decreased by Baht 25 million because in the same period of last year, there was an adjustment for recognition of deferred tax asset and income tax credit from the balance of accumulated taxable losses of such associate which has continued operating profit and it is possible to utilize tax losses in the future. The Company recognized the adjustment based on shareholding of Baht 27 million.

- c) Finance costs decreased by Baht 59 million or 49% mainly due to the allocation of interest expense to direct cost of finance business by Baht 34 million according to the growth of lending portfolios. In addition, the decrease by Baht 14 million was related to the decrease in short-term loans from financial institutions.

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 provision of life assurance business*.
7. Other business engages in the business of car and motorcycle auction*.
8. Supporting business performs as a 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 period ended 31 March 2017 when compared to the same period of 2016 were as follows:

2.1 Operating revenue – by segment

(Unit: Million Baht)

Segment	For the three-month periods ended 31 March			
	2017	2016	Increase/(Decrease)	
Shopping Center	988	999	(11)	(1%)
Hotel and Tourism	380	385	(5)	(1%)
Golf	149	155	(6)	(4%)
Real-estate	160	600	(440)	(73%)
Food Solution	344	490	(146)	(30%)
Finance	386	304	82	27%
Other	1	-	1	100%
Supporting	1	-	1	100%
Total	2,409	2,933	(524)	(18%)

The operating revenue of the Group for the three-month periods ended 31 March 2017 and 2016 were Baht 2,409 million and Baht 2,933 million, respectively, which decreased by Baht 524 million or 18%. The major changes in operating revenue by segment were as follows:

- a. The revenue of shopping center business decreased slightly by Baht 11 million or 1%. The major factor was that the revenue of MBK Shopping Center decreased by Baht 23 million because the partial rental space for rent was temporarily closed for renovation to become a modern and trendy shopping center. On the other hand, the revenue of other shopping centers increased totally by Baht 12 million.
- b. The revenue of real-estate business decreased by Baht 440 million or 43% mainly due to the decrease of revenue recognition of the project “Quinn Condominium” by Baht 446 million. The construction of the condominium was completed in August 2015 and the Government stimulated the economy for real-estate sector by temporarily reduced the ownership transfer fee and mortgage collateral fee for 6 months period from 29 October 2015 to 28 April 2016, resulted in higher revenue recognition during such period. As at 31 March 2017, approximately 97% of the legal ownerships of the condominium units were transferred. In addition, there were many residential projects have been studied and developed which would be generated revenue in the future period.
- c. The revenue of food solution business decreased by Baht 146 million or 30%, mainly due to the decline in sales of rice by Baht 138 million. The sales of rice under project “G to G” (Government to Government) went down by Baht 73 million and the slow-down of rice price and higher market competition resulted in lower revenue.
- d. The revenue of finance business increased by Baht 82 million or 27% due to the growth of loans portfolio. The revenue of lending business and hire-purchase for motorcycle business increased by Baht 47 million and Baht 39 million, respectively.

2.2 Operating profit (loss) – by segment

(Unit: Million Baht)

Segment	For the three-month periods ended 31 March			
	2017	2016	Increase/(Decrease)	
Shopping Center	229	267	(38)	(14%)
Hotel and Tourism	92	103	(11)	(11%)
Golf	42	44	(2)	(5%)
Real-estate	20	162	(142)	(88%)
Food Solution	(7)	(7)	-	-
Finance	141	101	40	40%
Other	1	-	1	100%
Supporting	(7)	(1)	(6)	(600%)
Total	511	669	(158)	(24%)

The operating profit of the Group for the three-month periods ended 31 March 2017 and 2016 were Baht 511 million and Baht 669 million, respectively, decreased by Baht 158 million or 24%. In overall, operating results varied according to the movements of operating revenue by segment as mentioned in No.2.1, normal economic conditions and the significant changes as follows:

- a) The operating profit of shopping center business decreased by Baht 38 million which higher than the decrease of revenue due to the renovation of MBK Shopping Center resulted in lower revenue. However, the major expenses were fixed costs.
- b) In the same quarter of last year, the food solution business recognized losses on disposals and written-off equipment of Baht 16 million.

Analysis of financial position

The significant movements in assets, liabilities and shareholders' equity as at 31 March 2017 when compared with the balance as at 31 December 2016 were as follows:

(Unit: Million Baht)

	31 Mar 2017	31 Dec 2016	Increase/(Decrease)	
Total assets	43,500	42,518	982	2%
Total liabilities	22,026	22,166	(140)	(1%)
Total shareholders' equities	21,474	20,352	1,122	6%

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 31 March 2017 was Baht 9,840 million, increased by Baht 410 million or 4% primarily due to the increase in fair value of marketable securities on hand as at 31 March 2017 by Baht 826 million. However, the decrease by Baht 416 million was from sales (net of purchases) of marketable securities during the period.

3.2 Loans to customers

Loans to customers (including current portion) balance as at 31 March 2017 was Baht 8,804 million, increased by Baht 548 million or 7%. The loan receivables and motorcycle hire-purchase receivables portfolios increased by Baht 255 million and Baht 295 million, respectively, due to the continuous growth of finance business.

3.3 Investment in associates and joint venture

Investment in associates and joint venture balance as at 31 March 2017 was Baht 3,922 million, increased by Baht 76 million or 2%. The increase by Baht 85 million was from the recognition share of profit under equity method but the decrease by Baht 9 million was from the dividend income.

3.4 Investment properties

Investment properties balance as at 31 March 2017 was Baht 9,858 million, decreased by Baht 152 million or 2%. The significant movements during the period were that the shopping center business, MBK Shopping Center and Paradise Park, had renovation costs for a total of Baht 26 million. However, the decrease by Baht 181 million was from depreciation for the period.

3.5 Property, plant and equipment

Property, plant and equipment balance as at 31 March 2017 was Baht 4,496 million, decreased by Baht 78 million or 2%. The significant movements during the period were the purchases of other operating fixed assets amounting to Baht 25 million, but the decrease by Baht 107 million from depreciation for the period.

3.6 Prepaid rental fee

Prepaid rental fee represented advance payment to Chulalongkorn University for the lease agreements granting the right to utilize the shopping center at Pathumwan intersection. Prepaid rental fee, which is land rental element, balance as at 31 March 2017 was Baht 331 million, decreased by Baht 189 million or 36% due to the amortization as an expense on a straight-line basis over the leased period.

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 March 2017 was Baht 1,039 million, decreased by Baht 291 million or 22% mainly due to the repayments of maturity short-term loan by using cash flows from operating activities.

4.2 Deferred tax liabilities

Deferred tax liabilities balance as at 31 March 2017 was Baht 1,369 million, increased by Baht 174 million or 15%. The increase of Baht 162 million was from the increase in fair value adjustment of investments in available-for-sale marketable securities on hand as at 31 March 2017.

5 Shareholders' equity

Total shareholders' equity balance as at 31 March 2017 was Baht 21,474 million, increased by Baht 1,122 million or 6%. The significant movements were as follows:

- a) Retained earnings increased by Baht 464 million derived from the net profit for the three-month period ended 31 March 2017.
- b) The increase of Baht 664 million in other components of shareholders' equity was mainly due to the increase of Baht 663 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 three-month periods ended 31 March 2017 and 2016 are summarised in the table below.

(Unit: Million Baht)

	For the three-month periods ended 31 March			
	2017	2016	Cash flows Increase/(Decrease)	
Net income from operating activities before changes in operating assets and liabilities	946	1,052	(106)	(10%)
Net movements in operating assets and liabilities	(629)	(537)	(92)	(17%)
Net cash flows from operating activities	317	515	(198)	(38%)
Net cash flow received from (used in) investing activities	396	(148)	544	368%
Net cash flows received from (used in) financing activities	(371)	(764)	393	51%
Net increase (decrease) in cash and cash equivalents	342	(397)	739	186%

6.1 Cash flows from operating activities

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.

6.2 Cash flows from investing activities

Net cash flows received from investing activities increased by Baht 544 million or 368% mainly due to the fact that in the current quarter, there were cash receipts from sales of current investments (net of cash payments) by Baht 435 million. In addition, the cash payments for purchases of property, plant and equipment, and investment properties (net of cash receipts from sales) decreased by Baht 75 million because during the fourth quarter of 2016, the Group paid for purchases many fixed assets items that are eligible as double taxable expense in the corporate income tax calculation.

6.3 Cash flows from financing activities

Net cash flows received from financing activities increased by Baht 393 million or 51% mainly due to the decrease in cash payments from short-term loans (net of cash receipts) by Baht 295 million. The major reason was that in the same period of last year, the rice business received high amount of cash from accounts receivables under the project G to G and then repaid to its short-term borrowings. In addition, cash receipts from short-term loans from related companies (net of cash payments) increased by Baht 63 million due to the purposes of financial liquidity management of the Group.