

No. 010/2017

May 9, 2017

Re: Management Discussion and Analysis for the 1st Quarter of 2017

To: President, Stock Exchange of Thailand

Principal Capital Public Company Limited ("the Company") would like to submit the following Management Discussion and Analysis of the Consolidated financial information and Company financial information for the 1st Quarter of 2017, ending March 31, 2017.

Management Discussion and Analysis: MD&A

Economic and Industry Condition influencing the operation, policy, strategy and business decision

The Thai economy in the first quarter of 2017 has improved direction. The main driving force is from more expansive product exports. Private consumption expanded, especially durable goods. Based on overall confidence and Household income in the improved farming sector. While the government still played a role in propelling the economy, although slowing down after accelerating in the previous quarter. However, private investment has eased somewhat after some businesses have already invested in the previous period. Economic stability headline inflation accelerated from the previous quarter as domestic retail oil prices were key. Meanwhile, the seasonally adjusted unemployment rate rose slightly but remained at a low level. The current account surplus was in surplus due to a surplus trade balance with improved export value. For export, distribution rebound in many more products. While real estate sector overall still stable except for the expanding upper housing market.

Entrepreneurs overall saw tourism in the first quarter of 2017 recover faster. By Chinese tourists increased sequentially after decline during the illegal tour suppression in the last quarter of last year. The number of Free Individual Travelers (FIT) increased, partly as a result of the extension of the visa, it also received positive results from the Chinese authorities banned the Chinese people travel to South Korea. Due to political problems, some Chinese tourists have chosen to visit Thailand from March onwards. Travel recovery is faster and distributed in all regions except for southern Malaysia, which is mainly dependent on Malaysian tourists. The negative impact of rising retail oil prices in Malaysia, which has an impact on the cost of entry into Thailand and the weakening of the ringgit.

In early 2017 the hotel sector in Bangkok had strong performance by the 3-5 star brands have average occupancy rates of around 75%. The Thai hospitality sector has been thriving due to the rapid expansion of the tourism sector. This has been reinforced by the increase in international routes especially the low cost airline that makes it easier for foreign tourists to come to Thailand, which make believe that Bangkok Hotel Business trends will remain positive.

Financial Performance and Analysis

The Separate financial information of Q1/2017 showed revenues from sales and services of Baht 71.8 million, cost of sales and services of Baht 33.5 million, total service and administrative expenses of Baht 30.6 million, lead to net profit for the period of Baht 13.2 million, which increased from Q1/2016 by Baht 4.8 million or 56.1%, mainly from Q1/2017 the Marriott Executive Apartment Sathorn Vista – Bangkok increased its revenues of Baht 3.6 million and revenue from office building management business increased of Baht 2.0 million, and also the Company had increase in interest income from Short-term loan to a subsidiary in the amount of Baht 5.6 million while the decreased in service and administrative expenses of Baht 1.7 million due to in Q1/2016 the Company had a expenses of acquisition of the new subsidiary group of Baht 1.0 million

While Q1/2017 Consolidated financial information showed total revenues from sales and services of Baht 121.4 million, total cost of sales and services of Baht 92.1 million, total service and administrative expenses of Baht 49.4 million and finance costs of Baht 7.3 million, lead to net loss for the period of Baht 25.9 million, decreasing from Q1/2016 by Baht 31.4 million mainly due to the increased in costs of sales and services of 94.7% while the total revenues increased of 40.4% and also had an amortization of intangible assets and depreciation of assets resulting from the acquisition of new business of Baht 9.9 million

In Q1/2017 the Company had 8 subsidiaries direct and indirect company, while in Q1/2016 its had only 3 subsidiaries direct company.

The Performance of the Q1/2017 could explain the main changes are as follows.

Revenues from sales and services

Unit : Baht in million	Q1/2017		Q1/2016		Change
	Amount	%	Amount	%	%
Residential building service business	77.0	63.4	55.6	64.3	38.5
Office building management business	26.8	22.1	10.7	12.4	150.5
Information system implementation business	15.3	12.6	20.2	23.3	(24.3)
Property development and property rental business	2.3	1.9	-	-	100.0
Total	121.4	100.0	86.5	100.0	40.4

For the Q1/2017, the Consolidated generated revenues from sales and services of Baht 121.4 million, increasing by Baht 34.9 million or 40.4% from Q1/2016 as a result of

- Residential building service business generated increasing revenue of Baht 21.4 million, or 38.5% from Q1/2016 as a result of the revenue from the Somerset Ekamai Bangkok in consolidated financial information of Baht 17.8 million and the growth in revenue from Marriott Executive Apartments Sathorn Vista – Bangkok by Baht 3.6 million from the increase in occupancy rate from 88.7% in Q1/2016 to 94.7% in Q1/2017.
- Office building management business generated revenue of Baht 26.8 million in Q1/2017, increasing by Baht 16.1 million from Q1/2016 as a result of the inclusion of rental and service revenues of Bangkok Business Center Building amounted to Baht 25.7 million to the consolidated financial information.

While the decrease in revenue from Information system implementation business by Baht 4.9 million or 24.3% mainly due to the increase in number of competitors in the software market. The price competition was quite high and customers had more choices. In addition, it was the technological transition period. This prolonged the selection and decision making of the customers.

Costs of sales and services

Unit : Baht in million	Q1/2017		Q1/2016		Change
	Amount	%	Amount	%	%
Residential building service business	45.9	49.8	22.8	48.2	101.3
Office building management business	29.6	32.1	6.9	14.6	329.0
Information system implementation business	14.8	16.1	17.6	37.2	(15.9)
Property development and property rental business	1.8	2.0	-	-	100.0
Total	92.1	100.0	47.3	100.0	94.7

The cost of sales and services in Q1/2017 was Baht 92.1 million, increasing by Baht 44.8 million, 94.7% from Q1/2016 as a result of

- Residential building service business cost, the Somerset Ekamai Bangkok added Baht 22.4 million cost of service in the consolidated financial information while the cost of the Marriott Executive Apartments Sathorn Vista – Bangkok was close to the cost in Q1/2016.
- The cost of office building management business by Baht 29.6 million, increasing by Baht 22.7 million, from the increased in cost of the office building management business Baht 3.2 million due to the increasing of its revenues, and the Bangkok Business Center Building had cost of rental and services in Baht 19.5 million added to the consolidated financial information.

- There was an amortization of investment property and property, plant and equipment resulting from the acquisition of property development business of Baht 8.6 million.

While the decrease in cost from Information system implementation business by Baht 2.8 million or 15.9% mainly due to the decrease in cost of its business.

Service Expenses and Administrative Expenses

The service expenses of the Company's financial information, mainly marketing expenses of the residential building service business (Marriott Executive Apartments Sathorn Vista – Bangkok) decreasing by 13.2%. While the consolidated financial information, serviced expenses increased by 25.1% from the addition of Bangkok Business Center Building and the Somerset Ekamai Bangkok to the consolidated financial information.

Total administrative expenses were Baht 45.5 million increasing by Baht 12.1 million, 36.4% growth Q-o-Q due to:

1. The expenses of new subsidiary group to be recognized during Q1/2017 were Baht 10.8 million charge mainly related to employee expenses and other expenses related to the administration.
2. There was an amortization of depreciation of investment property and property, plant, equipment and vehicles resulting from the acquisition of property development business of Baht 1.3 million.
3. The Information system implementation business had a higher administrative expenses from the staff expenses of SAP project ,which to be support the growth of the company in the future.

Finance Costs

The finance costs of the Company Baht 2.2 million came from the interest expenses of promissory notes, which issue in order to pay for the acquisition of new subsidiary group, bears an interest rate of 1.75% per annum and is due within 3 years from the borrowing date. The consolidated financial information include the finance cost of Baht 7.3 million from the increase in interest paid to financial institutions of subsidiaries company.

Gross Profit Margin, Net Profit (Loss) Margin, and Return on Equity (ROE)

	Consolidated financial information		Separate financial information	
	Q1/2017	Q1/2016	Q1/2017	Q1/2016
Gross Profit Margin	24.1%	45.3%	53.3%	55.5%
Net Profit (Loss) Margin	-21.3%	6.4%	18.4%	12.7%
Return on Equity (ROE)	-0.3%	0.3%	0.2%	0.4%

For the Company financial information, gross profit margin in Q1/2017 was 53.3% decreased from Q1/2016 by 2.2% and in consolidated financial information gross profit margin was 24.1% lower than Q1/2016 from the reduction in revenue from Information system implementation business more than the decline in cost of services ,and depreciation in cost of services from the new subsidiaries from residential building service business and office building management business and also had an amortization of investment property and property, plant and equipment resulting from the acquisition of property development business of Baht 8.6 million.

For the Company financial information, net profit margin was increased from Q1/2016 by 5.7% from the increasing of revenues from sales and services while the service and administrative expenses decreased. The consolidated financial information in Q1/2017, there was net loss of 21.3% while in Q1/2016 recording net profit margin of 6.4% from the decreasing of gross profit margin while the increase in the service and administrative expenses and finance cost.

From the operating s performance of Company financial information resulted in 0.2% of return on equity (ROE) while the consolidated financial information resulted in negative of return on equity (ROE).

Assets

Components of Assets

As of March 31, 2017, the Company had total assets of Baht 8,491.8 million with the portion of current assets at 12.7% and non-current assets at 87.3%. Total assets increased by Baht 9.4 million mainly due to the increase in trade and other receivables by Baht 13.7 million and short-term loans to subsidiary by Baht 6.4 million while decrease in the property, plant and equipment by Baht 9.5 million from the depreciation arising during the period.

As of March 31, 2017, the Consolidated had total assets of Baht 9,581.8 million with the portion of current assets at 4.5% and non-current assets at 95.5%, total assets increased by Baht 3.5 million mainly due to the increase in property, plant and equipment net off with the decrease of investment property by Baht 5.4 million.

Short-term Investments

Short-term investments of the Consolidated financial information decreased from December 31, 2016 from the sale of short-term investments of subsidiaries.

Trade and Other Receivables

Unit: Baht in million	31 March 2017	31 December 2016
Trade and Other Receivables		
Not overdue	18.8	27.9
Overdue		
Up to 3 months	9.1	19.9
3 – 6 months	15.6	-
6 - 12 months	0.5	0.5
Over 12 months	3.0	3.2
	47.0	51.5
Less Allowance for doubtful accounts	(1.6)	(1.8)
Trade Receivables , net	45.4	49.7
Accrued income		
Accrued income	66.5	64.9
Less Allowance for doubtful accounts	(2.4)	(3.0)
Accrued income, net	64.1	61.9
Trade AR- related party	0.9	-
Unbilled contract revenue	9.9	7.2
Prepaid expenses	10.7	6.2
Advances	0.4	0.4
Other receivables	0.5	0.5
Total Trade and Other Receivables	131.9	125.9
Trade Receivables Turnover (times)	10.2	8.7
Average Collection Period (day)	35	41
% Allowance for doubtful accounts to trade receivables	3.3%	3.5%
% Allowance for doubtful accounts to accrued income	3.6%	4.6%

As of March 31, 2017 and December 31, 2016, the Company had outstanding net trade receivables from other parties and related parties of Baht 46.3 million and Baht 49.7 million respectively, which can be clarified as follows:

- From the above table showed that aging of trade receivables mostly fell in the category of "not overdue" amounting to Baht 18.8 Million in line with the Company's credit policy. In addition, trade receivable turnover and average collection period matched up with the Company's credit terms of 30-60 days.

- The trade receivables overdue over 12 months of Baht 3.0 million. The Company took prudent steps in creating credit policy for various customer base. Some customers were government officers with stable financial status or employees of reliable private companies. Moreover, the Company has a policy to establish an allowance for doubtful accounts based its past experiences related to debt collection and borrowers' abilities to repay. The Company also evaluated the adequacy of allowance for doubtful debt by assessing the amount of overdue trade receivables, of which the collection of debt was strictly performed. In this regards, the allowance for doubtful accounts were reviewed regularly to reflect the actual and possible collectible debts. For the period ended March 31, 2017, the subsidiary had no increase in allowances for doubtful accounts of trade receivable but the Company had write-off allowance for doubtful accounts of Baht 0.2 million, so the allowance for doubtful accounts as of March 31, 2017 decreased from the end of 2016.
- Accrued income was income from an information system implementation business, of which revenues would be recognised based on percentage-of-completion method. The stage of completion was determined by reference to the actual cost incurred to date to total estimated cost for each projects. Provision for anticipated loss on the projects will be made in the accounts as soon as the possibility of loss is ascertain. For the period ended March 31, 2017, the subsidiary had write-off allowance for doubtful accounts of Baht 0.6 million, so the allowance for doubtful accounts as of March 31, 2017 decreased from the end of 2016.
- Unbilled contract revenue derive from the aggregate of the service costs incurred and recognized profits (less losses) to date service contract exceed the progress billings .

Short-term loans to a subsidiary

During the Q1/2017, the Company has no increase in loans to its subsidiary. The incremental part of the interest income accrued.

Work in progress under construction contracts

As of March 31, 2017, the subsidiary company had work in progress under construction contracts of Baht 2.3 million, which came from the service costs incurred in the year in connection with future activity on a contract.

Investment Property

In the consolidated financial information, as of March 31, 2017, the investment property decreased by Baht 15.0 million from the depreciation during the period by Baht 14.9 million, transfer to property, plant and equipment by Baht 2.6 million, while the addition in investment by Baht 2.5 million.

Property, plant and equipment, net

In the consolidated financial information, as of March 31, 2017, the property, plant and equipment increased by Baht 20.4 million from the addition of equipment by Baht 47.8 million, transfer from investment property by Baht 2.6 million, while the depreciation during the period by Baht 30.0 million.

Leasehold rights

As of March 31, 2017, the subsidiary company had leasehold rights of Baht 12.9 million, leasehold rights are amortised using the straight-line method over the lease period.

Goodwill

The Goodwill of Baht 4.6 million represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary (Convergence Systems Company Limited) at the date of acquisition. The Company presents Goodwill at cost less accumulated impairment losses, which is tested annually for impairment or whenever there is an indication of impairment occurred.

Liquidity

Cash flows

Unit: Baht in million	Q1/2017	Q1/2016
Net cash from operating activities	13.1	8.9
Net cash from investing activities	(72.9)	(9.7)
Net cash from financing activities	50.5	11.6
Net increase (decrease) in cash and cash equivalents	(9.3)	10.8
Cash and cash equivalents at the beginning of the period	118.3	71.9
Cash and cash equivalents at the end of the period	109.0	82.7

For the period ended March 31, 2017, the Company had cash and cash equivalents of Baht 109.0 million. An decrease of Baht 9.3 million in cash and cash equivalents was a result of purchases of plant and equipment by Baht 73.0 million from investing activities, while the Company had net receipts of borrowings from a financial institution by Baht 50.5 million from financing activities.

Source of Capital

Liabilities, Shareholders' Equity and Debt to equity ratio

Unit: Baht in million	31 March 2017	31 December 2016
Trade and other payables	52.9	79.7
Advances received from customers - current	16.3	15.6
Current portion of long-term borrowings from a financial institution	164.3	161.4
Income tax payable	1.3	1.1
Deposits received from customers - current	26.5	22.9
Other current liabilities	41.7	40.5
Long-term borrowings from a financial institution	854.3	806.6
Long-term promissory note from related party	514.7	512.5
Advances received from customers	14.4	16.0
Deposits received from customers	21.0	20.7
Employee benefit obligations	14.5	13.1
Other non- current liabilities	55.1	57.5
Total liabilities	1,777.0	1,747.6
Total shareholders' equity	7,804.8	7,830.7
<i>Debt to equity ratio (times)</i>	<i>0.23</i>	<i>0.22</i>

As of March 31, 2017, the Company had total liabilities of Baht 1,777.0 million, an increase of Baht 29.4 million, mainly due to an increase in long-term borrowings from a financial institution of Baht 47.7million from the new subsidiaries group, while the decreasing of trade and other payables by Baht 26.8 million.

The decreasing of total shareholders' equity of Baht 25.9 million due to the net loss during period.

As of March 31, 2017, debt to equity ratio was 0.23 times increasing from December 31, 2016 as a result of the higher growth in total liabilities while the lower in equity.

Commitments and contingencies

The Company had commitment as follows

1. Contingent liabilities

Unit: Baht in million	31 March 2017	31 December 2016
Building and equipment	26.3	32.5

2. Operating lease commitments

The Company and its subsidiaries entered into several operating leases with respect to leases of equipment and service agreements. The terms of the agreements generally range between 1 to 5 years.

Future minimum payments required under these operating leases contracts and relevant service agreements were as follows:

Unit: Baht in million	31 March 2017	31 December 2016
Not later than 1 year	8.0	10.4
Later than 1 year but not later than 5 years	7.5	8.1
	15.5	18.5

3. Long-term service commitments

On 24 January 2007, the Company entered into management agreements with a group company of a well-known international standard hotel chain, appointing the hotel group to manage the Company's serviced apartments. Under the conditions of the agreements, the Company has to pay service fees to the hotel group at the rates stipulated in the agreements. The terms of the serviced apartment management agreements are 30 years, starting from the commencement of operations, and could be extended for a further period of at least 10 years, depending upon certain conditions specified in the agreements. Consulting fees and expenses under the contract for the three-month period ended 31 March 2017 were Baht 4.4 million.

On 14 January 2016, the Group entered into management agreements with a group company of a well-known international standard hotel chain, appointing the hotel group to manage the Company's serviced apartments. Under the conditions of the agreements, the Company has to pay service fees to the hotel group at the rates stipulated in the agreements. The terms of the serviced apartment management agreements are 10 years, starting from the commencement of operations, and could be extended for a further period of at least 10 years, depending upon certain conditions specified in the agreements. fees and expenses under the contract for the three-month period ended 31 March 2017 were Baht 1.7 million.

Factors influencing future performance of the Company

Looking forward, business conditions in the second quarter of 2017 are expected to continue expanding in all aspects. Overall business confidence and advance orders are expected to improve compared to the previous quarter. Private consumption is expected to continue improving due to a gradual recovery of agricultural income. In addition, a government spending targeting to the grass root households could support their purchasing power. Businesses continue to believe in potential of the tourism sector that would continue to expand well. Merchandise exports are expected to continue expanding while private investment is expected to improve slightly on the back of the investment in trade and services sector.

For the second quarter of 2017, operators are confident that tourism will continue to expand across all regions. Except in the south, due to Malaysian tourists are likely to decline from negative factors that continued from the previous quarter.

In the year 2017, an overview of the office building market in Bangkok still inadequate to meet demand. There is not enough supply for expansion of demand. As a result, rents are likely to rise again. Including a limited amount of space. It is a factor that drives rent growth. Tenants are becoming increasingly concerned about their workplace strategy, and demand for space in advance will continue to increase in quality office space.

For hotel business, new operators investing in hotel construction are likely to drive the hotel business in 2017 and new entrants into the market will result in higher hotel and hotel rooms and the competition in the hotel business market. This puts pressure on increasing occupancy rates and rising room rates in 2017. Bangkok hotel industry, in short to medium tends to be good from the tourism sector is likely to continue to grow. This will result in the demand for hotel rooms to expand.

Please be informed accordingly,

Yours Sincerely,

Signature  _____

(Miss Preeyaporn Aphiwathwithaya)

Accounting Services Director