

No. 022/2017

August 9, 2017

Re: Management Discussion and Analysis for the 2nd 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 2nd Quarter of 2017, ending June 30, 2017.

Management Discussion and Analysis: MD&A

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

Overall economic activity in the second quarter of 2017 continued to expand, driven by export of goods which showed a high and more broad-based expansion. But the hotel business is facing higher competition. While real estate sector Construction is modest, but growth is limited in some areas. The domestic economy recovered at a modest pace. Public spending and private consumption remained to be the main growth drivers albeit lower growth due to slowdown in capital spending and spending on durable goods which accelerated in the previous quarter, respectively. Private investment remained at a similar level compared to the same period last year, as investment expansion in machinery and equipment was compensated with the decline in investment activities of the construction sector.

Tourism in the second quarter of 2017 improved compared to the same period last year. According to the increase in the number of foreign travel is the main. Including group tours, Chinese tourists began to increase sequentially. By touring in the North and South, benefit from the increase in direct flights and cancellation of visa fees. Meanwhile, the tourism activity in the Northeast region decreased as a result of the reduction of the government's seminar, because the government has asked for cooperation from the government organize meetings and seminars within the organization instead of offsite to save budget. The hotel business in the Northeast was impacted because the proportion of revenue from conferences is higher than other sectors.

The revenue of the hotel business, particularly the medium-small ones, has not improved much. Hotel operators in all regions agree that there are more hotels and accommodation, especially in the central and southern regions. There is a higher price competition. The entrepreneur must adapt in many ways, in addition to reducing room rates, such as finding new customers, improve the modern rooms and add online booking channels.

Financial Performance and Analysis

In Q2/2017 the Company had 8 subsidiaries direct and indirect company, while in Q2/2016 its had only 3 subsidiaries direct company.

The Separate financial information of Q2/2017 (April – June) showed revenues from sales and services of Baht 67.1 million, cost of sales and services of Baht 33.4 million, other income of Baht 123.2 million, total service and administrative expenses of Baht 54.1 million and income tax expense of Baht 7.7 million, lead to net profit for the period of Baht 92.9 million, which increased from Q2/2016 by Baht 97.9 million, mainly from Q2/2017 the Company had the income from investment property sale service agreement to the subsidiary company of Baht 116.8 Million, the Marriott Executive Apartment Sathorn Vista – Bangkok increased its revenues of Baht 5.3 million and revenue from service and office building management business increased of Baht 1.5 million, and also the Company had increase in interest income from Short-term loan to a subsidiary in the amount of Baht 4.6 million.

For the Q2/2017 Consolidated financial information showed total revenues from sales and services of Baht 121.1 million, total cost of sales and services of Baht 99.6 million, gains from disposals of investment property from subsidiary company of Baht 104.4 million, total service and administrative expenses of Baht 163.0 million, finance costs of Baht 9.5 million and income tax expense of Baht 138.2 million, lead to net loss for the period of Baht 178.3 million, decreasing from Q2/2016 by Baht 159.4 million mainly due to the increased income tax expense of Baht 138.2 million and also had an amortization of intangible assets and depreciation of assets resulting from the acquisition of new business of Baht 10.0 million.

Income tax expense of Baht 138.2 million in Consolidated financial information included of:

1. Principal Capital Public Company Limited of Baht 7.7 million, from the profit operation.
2. Bangkok Management Company Limited of Baht 130.5 million, from gains from disposals of investment property

In summary, the Consolidated financial information and Separate financial information had earnings before interest, taxes, depreciation and amortization (EBITDA) are as follows

Q2/2017	Consolidated financial information	Separate financial information
EBITDA	17.4	114.3
Finance costs	(9.5)	(2.2)
Income tax expense	(138.2)	(7.7)
Depreciation	(48.0)	(11.5)
Net profit (loss)	(178.3)	92.9

The results of the Consolidated financial information are profit, the trend is increasing because of the opening of the Somerset Ekamai Bangkok operation and the revenue growth of the Marriott Executive Apartments Sathorn Vista – Bangkok, but the net loss arises from the income tax expenses, depreciation and

finance costs incurred during the period. In the third quarter of 2017, the Company expects the finance costs to drop significantly from this quarter, as in this quarter, the 2 subsidiaries had repaid the long-term borrowings from a financial institutions before maturity.

The Performance of the Q2/2017 could explain the main changes are as follows.

Revenues from sales and services

Unit : Baht in million	Q2/2017		Q2/2016		Change
	Amount	%	Amount	%	%
Serviced apartments business	78.3	64.7	49.2	69.6	59.1
Office building rental business	28.5	23.5	10.7	15.2	166.4
Information system implementation business	12.1	10.0	10.7	15.2	13.1
Property development and property rental business	2.2	1.8	-	-	100.0
Total	121.1	100.0	70.6	100.0	71.5

For the Q2/2017, the Consolidated generated revenues from sales and services of Baht 121.1 million, increasing by Baht 50.5 million or 71.5% from Q2/2016 as a result of

- Serviced apartments business generated increasing revenue of Baht 29.1 million, or 59.1% from Q2/2016 as a result of the revenue from the Somerset Ekamai Bangkok in consolidated financial information of Baht 23.7 million (the last building started operation in May 2017) and the growth in revenue from the Marriott Executive Apartments Sathorn Vista – Bangkok by Baht 5.3 million from the increase in occupancy rate from 79.1% in Q2/2016 to 88.3% in Q2/2017.
- Office building rental business generated revenue of Baht 28.5 million in Q2/2017, increasing by Baht 17.8 million from Q2/2016 as a result of the inclusion of rental and service revenues of Bangkok Business Center Building amounted to Baht 27.4 million to the consolidated financial information.
- The Information system implementation business generated increasing revenue of Baht 1.4 million, or 13.1%

Costs of sales and services

Unit : Baht in million	Q2/2017		Q2/2016		Change
	Amount	%	Amount	%	%
Serviced apartments business	44.7	44.9	22.9	45.8	95.2
Office building rental business	36.6	36.7	6.7	13.4	446.3%
Information system implementation business	16.7	16.8	20.4	40.8	-18.1%
Property development and property rental business	1.6	1.6	-	-	100.0
Total	99.6	100.0	50.0	100.0	99.2

The cost of sales and services in Q2/2017 was Baht 99.6 million, increasing by Baht 49.6 million, 99.2% from Q2/2016 as a result of

- Serviced apartments business by Baht 44.7 million, increasing by Baht 21.8 million, or 95.2% from Q2/2016, the Somerset Ekamai Bangkok added Baht 21.4 million cost of service in the consolidated financial information (included an amortization of investment property and property, plant and equipment resulting from the acquisition of Baht 1.1 million) while the cost of the Marriott Executive Apartments Sathorn Vista – Bangkok was close to the cost in Q2/2016.
- The cost of office building rental business by Baht 36.6 million, increasing by Baht 29.9 million, from the Bangkok Business Center Building had cost of rental and services in Baht 26.4 million (included an amortization of investment property and property, plant and equipment resulting from the acquisition of Baht 7.6 million) and the increased in cost of the service and office building management business Baht 3.3 million.

While the decrease in cost from Information system implementation business by Baht 3.7 million or 18.1% mainly due to the decrease in cost of employee, the Company low down the employee cost since May 2016 onward.

Other Income

For the Q2/2017, other income of the Consolidated financial information and Separate financial information, included of

Unit : Baht in million	Consolidated financial information	Separate financial information
Interest income	1.1	5.7
Realised gains on disposals of trading securities	0.1	-
Unrealised gains on changes in fair values of trading securities	0.7	0.1
Gains from disposals of investment property	104.4	-
Other income	4.7	117.4
Total	111.0	123.2

Gains from disposals of investment property in Consolidated financial information of Baht 104.4 million belong to Bangkok Management Company Limited and other income in Separate financial information is the income from investment property sale service agreement 116.8 million.

Service Expenses and Administrative Expenses

For the Q2/2017, the service expenses of the company financial information, mainly marketing expenses of the residential building service business (Marriott Executive Apartments Sathorn Vista – Bangkok) increasing from Q2/2016 by Baht 0.7 million from the increasing of revenue in this business, the service expenses varied according to the revenue incurred. While the consolidated financial information, serviced expenses increased by Baht 2.7 million from the company financial information, from the addition of Bangkok Business Center Building and the Somerset Ekamai Bangkok to the consolidated financial information.

Total administrative expenses were Baht 157.0 million increasing by Baht 118.3 million, due to:

1. The transfer fee and specific business tax from the sales of investment property of the subsidiary company by Baht 96.7 million.
2. The Company donated money to support the “Do good deeds for the king” program, to provide a training program for hospital administrators of Baht 10.0 million.
3. 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.
4. 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

For Q2/2017, 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 9.5 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	
	Q2/2017	Q2/2016	Q2/2017	Q2/2016
Gross Profit Margin	17.7%	29.2%	50.3%	50.9%
Net Profit (Loss) Margin	-147.2%	-26.8%	138.4%	-8.2%
Return on Equity (ROE)	-2.3%	-1.0%	1.2%	-0.2%

For the Separate financial information, gross profit margin in Q2/2017 was 50.3% decreased from Q2/2016 by 0.6% and in consolidated financial information gross profit margin was 17.7% lower than Q2/2016 was 29.2% from the depreciation in cost of services from the new subsidiaries from serviced apartments business

and office building rental business and also had an amortization of investment property and property, plant and equipment resulting from the acquisition of property development business of Baht 8.7 million.

For the Separate financial information, net profit margin was increased from Q2/2016 from the income from investment property sale service agreement to the subsidiary company of Baht 116.8 Million and increasing of revenues from sales and services. The consolidated financial information in Q2/2017, there was net loss of 147.2% while in Q2/2016 recording net loss of 26.8% from the decreasing of gross profit margin while the increase in the service and administrative expenses and finance cost and also the income tax expense incurred.

From the operating's performance of Separate financial information resulted in 1.2% of return on equity (ROE) while the consolidated financial information resulted in negative of return on equity (ROE) in 2.3%.

Assets

Components of Assets

As of June 30, 2017, the Separate had total assets of Baht 8,640.7 million with the portion of current assets at 14.4% and non-current assets at 85.6%. Total assets increased by Baht 158.3 million mainly due to the increase in short-term loans to subsidiary by Baht 164.8 million while decrease in the property, plant and equipment by Baht 19.5 million from the depreciation arising during the period.

As of June 30, 2017, the Consolidated had total assets of Baht 8,848.8 million with the portion of current assets at 23.6% and non-current assets at 76.4%, total assets decreased by Baht 729.5 million mainly due to the sales of investment property of subsidiary company of Baht 2,395.6 million and the Company proceed the money to invested in short-term investments by Baht 1,628.9 million, the trading securities – investment units and held-to-maturity - Treasury bills.

Cash and cash equivalents

As of June 30, 2017, the Consolidated had increase in cash and cash equivalents by Baht 296.5 million from the held-to-maturity - Treasury bills by Baht 299.3 million.

Short-term Investments

Short-term investments of the Consolidated financial information increased from December 31, 2016 by Baht 1,329.6 million from the trading securities – investment units and held-to-maturity - Treasury bills.

Trade and Other Receivables

Unit: Baht in million	30 June 2017	31 December 2016
Trade and Other Receivables		
Not overdue	25.8	27.9
Overdue		
Up to 3 months	9.9	19.9
3 – 6 months	0.5	-
6 - 12 months	16.0	0.5
Over 12 months	3.5	3.2
	55.7	51.5
Less Allowance for doubtful accounts	(1.8)	(1.8)
Trade Receivables , net	53.9	49.7
Accrued income		
Accrued income	59.4	64.9
Less Allowance for doubtful accounts	(2.4)	(3.0)
Accrued income, net	57.0	61.9
Trade AR- related parties	0.3	-
Unbilled contract revenue	12.4	7.2
Prepaid expenses	9.6	6.2
Advances	0.9	0.4
Other receivables	0.5	0.5
Total Trade and Other Receivables	134.6	125.9
Trade Receivables Turnover (times)	9.4	8.7
Average Collection Period (day)	38	41
% Allowance for doubtful accounts to trade receivables	3.2%	3.5%
% Allowance for doubtful accounts to accrued income	4.0%	4.6%

As of June 30, 2017 and December 31, 2016, the Company had outstanding net trade receivables from other parties and related parties of Baht 54.2 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 25.8 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 3.5 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 June 30, 2017, the subsidiary had no increase in allowances for doubtful accounts of trade.
- 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 June 30, 2017, the subsidiary had write-off allowance for doubtful accounts of Baht 0.6 million, so the allowance for doubtful accounts as of June 30, 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 subsidiaries

During the Q2/2017, the Company has increase in short-term loans to subsidiaries by Baht 164.8 million.

Work in progress under construction contracts

As of June 30, 2017, the subsidiary company had work in progress under construction contracts of Baht 1.3 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 June 30, 2017, the investment property decreased by Baht 2,425.4 million from the sales of investment property of subsidiary company of Baht 2,395.6 million and depreciation during the period by Baht 29.9 million, while the addition in investment by Baht 2.7 million.

Property, plant and equipment, net

In the consolidated financial information, as of June 30, 2017, the property, plant and equipment increased by Baht 46.7 million from the addition of equipment by Baht 106.4 million, while the depreciation during the period by Baht 62.4 million.

Leasehold rights

As of June 30, 2017, the subsidiary company had leasehold rights of Baht 15.1 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-Q2/2017	Q1-Q2/2016
Net cash from operating activities	(42.7)	4.3
Net cash from investing activities	1,032.8	(29.2)
Net cash from financing activities	(693.6)	19.1
Net increase (decrease) in cash and cash equivalents	296.5	(5.8)
Cash and cash equivalents at the beginning of the period	118.3	71.9
Cash and cash equivalents at the end of the period	414.8	66.2

For the period ended June 30, 2017, the Company had cash and cash equivalents of Baht 414.8 million. An increase of Baht 296.5 million in cash and cash equivalents was a result of proceeds from sales of investment property by Baht 2,500.0 million while cash paid for purchase of short-term investment-net by Baht 1,328.3 million of investing activities, the Company had repayments of long-term borrowings from a financial institution – net by Baht 693.6 million from financing activities.

Source of Capital

Liabilities, Shareholders' Equity and Debt to equity ratio

Unit: Baht in million	30 June 2017	31 December 2016
Trade and other payables	109.4	79.7
Advances received from customers - current	17.2	15.6
Current portion of long-term borrowings from a financial institution	36.2	161.4
Income tax payable	110.1	1.1
Deposits received from customers - current	47.9	22.9
Other current liabilities	55.3	40.5
Long-term borrowings from a financial institution	237.6	806.6
Advances received from customers	12.8	16.0
Deposits received from customers	20.3	20.7
Long-term promissory note from related party	517.0	512.5
Employee benefit obligations	15.8	13.1
Other non- current liabilities	42.7	57.5
Total liabilities	1,222.3	1,747.6
Total shareholders' equity	7,626.5	7,830.7
<i>Debt to equity ratio (times)</i>	<i>0.16</i>	<i>0.22</i>

As of June 30, 2017, the Company had total liabilities of Baht 1,222.3 million, a decrease of Baht 525.3 million, mainly due to the repayment of the long-term borrowings from a financial institutions before maturity of the subsidiaries company of Baht 694.3 million while the increase in Income tax payable by Baht 110.1 million from the Company and subsidiaries.

The decreasing of total shareholders' equity of Baht 204.2 million due to the net loss during period.

As of June 30, 2017, debt to equity ratio was 0.16 times decreasing from December 31, 2016 as a result of the decrease in total liabilities .

Commitments and contingencies

The Company had commitment as follows

1. Contingent liabilities

Unit: Baht in million	30 June 2017	31 December 2016
Building and equipment	6.0	32.5

2. Operating lease commitments

The Group has entered into non-cancellable lease agreement in respect of rental of equipment and service agreements. The lease terms are between 1 to 5 years. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Unit: Baht in million	30 June 2017	31 December 2016
Not later than 1 year	6.1	10.4
Later than 1 year but not later than 5 years	6.7	8.1
	12.8	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 six-month period ended 30 June 2017 were Baht 8.2 million.

On 14 January 2016, a subsidiary entered into management agreements with a group company of a well-known international standard hotel chain, appointing the hotel group to manage a subsidiary's serviced apartments. Under the conditions of the agreements, a subsidiary 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. Consulting fees and expenses under the contract for the six-month period ended 30 June 2017 were Baht 3.3 million.

Factors influencing future performance of the Company

Overall economic activities gradually expanded. Export-oriented manufacturing expanded well on the back of economic recovery of trading partners and signaled future investments. The tourism sector continually expanded although the hotel business faced stronger competition. Meanwhile, the real estate and the construction sectors slightly picked up but the improvement was limited to some areas. Similarly, consumer spending on durable goods has marginally improved, specifically among highincome consumers, but overall purchasing power remained weak.

In the third quarter of 2017, entrepreneurs believed that tourism was likely to expand continued from the mainstream of Chinese tourists, especially in Central, North and South. Meanwhile, entrepreneurs in the Northeast are expected to be affected by the government's policy to cooperate to organize meetings and seminars within the organization.

In the year 2017, an overview of the office building market in Bangkok, there is always endless demand for office space and also push the rent up again. Because tenants face higher rents so the tenant is expected more the facilities from buildings, not only limited to convenient access from public transportation, grand lobby and high ceilings, but also need natural light, good security system and quality restaurants that fit all employees' statements. In the future limited supply combined with increased service sector. It shows that this increase in rents is likely to increase further in the future

Please be informed accordingly,

Yours Sincerely,

Signature  _____

(Miss Preeyaporn Aphiwathwithhaya)

Accounting Services Director