

No. 029/2017

November 14, 2017

Re: Management Discussion and Analysis for the 3rd 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 3rd Quarter of 2017, ending September 30, 2017.

Management Discussion and Analysis: MD&A

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

In the third quarter of 2017, the Thai economy expanded more strongly than in the second quarter, driven by strong export growth. Both in terms of product and export markets and the tourism sector has continued to grow. Export growth in the high rate resulted in accelerated industrial production. Even the consumption of goods in the country overall recovery is also gradual and private investment remained low. Nonetheless, government spending has expanded to cover both regular expenditures and capital expenditures. Headline inflation rising from energy price, while core inflation close to the previous quarter, reflect the gradual recovery and concentration of domestic demand.

In the third quarter of 2017, operators in almost every region assessed business growth is driven by tourism. The number of foreign tourists increased, especially Chinese and Russian tourists. This is partly due to the political conflict between China and South Korea, Chinese tourists change the target to Thailand. It is also a growing FIT (Free and Independent Traveler) Chinese tourist who has a buying power.

Real estate business grew slightly in the third quarter of 2017, the entrepreneurs saw that the hilly housing sector expanded in almost every region, especially middle-class housing on the demand for housing and expansion of the city. Except in the lower north, purchasing power is not strong. Meanwhile, high-rise housing expanded at a slower pace, with excess supply in some areas. Except for the upper condominium market in central Bangkok growing well, especially from Chinese and Taiwanese customers.

For office rental business, tenants in the office market in Bangkok got a problem with the rising rental rates over the past six years, by the quality and location are not different. Planning is a necessary things, and requires careful analysis and consideration of office space plan for at least one year before the lease expires or longer if there are additional space requirements or a foreign organization.

Financial Performance and Analysis

In Q3/2017 the Company had 8 subsidiaries direct and indirect company, while in Q3/2016 its had only 3 subsidiaries direct company.

The Separate financial information of Q3/2017 (July – September) showed revenues from sales and services of Baht 72.5 million, cost of sales and services of Baht 37.1 million, other income of Baht 7.2 million, total service and administrative expenses of Baht 35.5 million and income tax expense of Baht 1.0 million, lead to net profit for the period of Baht 3.8 million, which increased from Q3/2016 by Baht 6.7 million, mainly from Q3/2017 the Marriott Executive Apartment Sathorn Vista – Bangkok increased its revenues of Baht 2.7 million and revenue from service and office building management business increased of Baht 1.6 million, and also the Company had increase in interest income from Short-term loan to a subsidiaries in the amount of Baht 5.6 million, while the the administrative expenses decreased of Baht 6.7 million from Q3/2016 the Company had the financial consultant expenses of Baht 7.7 million from the acquisition of the businesses of V Brilliant Group Holding Company Limited (“VB”) through the acquisition of total issued ordinary shares and preference shares.

For the Q3/2017 Consolidated financial information showed total revenues from sales and services of Baht 149.5 million, total cost of sales and services of Baht 111.7 million, other income of Baht 5.7 million, total service and administrative expenses of Baht 61.7 million, finance costs of Baht 4.9 million and income tax expense of Baht 4.8 million, lead to net loss for the period of Baht 27.8 million, decreasing from Q3/2016 by Baht 22.1 million mainly due to the increased of service and administrative expenses of the subsidiaries company of Baht 15.7 million, the finance costs of Baht 4.8 million and also had an amortization of intangible assets and depreciation of assets resulting from the acquisition of new business of Baht 10.1 million.

	Q2/2017	Q3/2017	
	Consolidated financial information	Consolidated financial information	Separate financial information
EBITDA	17.4	37.4	18.9
Finance costs	(9.5)	(4.9)	(2.3)
Income tax expense	(138.2)	(4.8)	(1.0)
Depreciation	(48.0)	(55.5)	(11.8)
Net profit (loss)	(178.3)	(27.8)	3.8

From the above table, the results of the consolidated financial information are profit, the trend is increasing because of the building AIM of the Somerset Ekamai Bangkok was opened in May 2017 and the revenue growth of the Marriott Executive Apartments Sathorn Vista – Bangkok, but the net loss arises from the depreciation, income tax expenses, and finance costs incurred during the period. In the Q3/2017, the

Company The Company had lower finance costs than Q2/2017 due to during the second quarter, the two subsidiaries had repaid the long-term borrowings from a financial institutions before maturity. While the income tax expenses decreased from the Q2/2017, due to the subsidiary company's investment property were sold lead to the gains from disposals of investment property.

The Performance of the Q3/2017 could explain the main changes are as follows.

Revenues from sales and services

Unit : Baht in million	Q3/2017		Q3/2016		Change
	Amount	%	Amount	%	%
Serviced apartments business	99.3	66.4	57.3	68.5	73.3
Office building rental business	29.6	19.8	10.7	12.8	176.6
Information system implementation business	18.3	12.2	15.7	18.7	16.6
Property development and property rental business	2.3	1.6	-	-	100.0
Total	149.5	100.0	83.7	100.0	78.7

For the Q3/2017, the Consolidated generated revenues from sales and services of Baht 149.5 million, increasing by Baht 65.8 million or 78.7% from Q3/2016 as a result of

- Serviced apartments business generated revenue of Baht 99.3 million, increasing of Baht 42.0 million, or 73.3% from Q3/2016 as a result of the revenue from the Somerset Ekamai Bangkok in consolidated financial information of Baht 39.3 million (the building AIM started operation in May 2017) and the growth in revenue from the Marriott Executive Apartments Sathorn Vista – Bangkok by Baht 2.7 million from the increase in occupancy rate from 92.5% in Q3/2016 to 92.9% in Q3/2017.
- Office building rental business generated revenue of Baht 29.6 million, increasing by Baht 18.9 million from Q3/2016 as a result of the inclusion of rental and service revenues of Bangkok Business Center Building amounted to Baht 28.5 million to the consolidated financial information.
- The Information system implementation business generated increasing revenue of Baht 2.6 million, or 16.6%

Costs of sales and services

Unit : Baht in million	Q3/2017		Q3/2016		Change
	Amount	%	Amount	%	%
Serviced apartments business	62.3	55.8	24.7	54.4	152.2
Office building rental business	32.5	29.1	7.3	16.1	345.2
Information system implementation business	15.1	13.5	13.4	29.5	12.7
Property development and property rental business	1.8	1.6	-	-	100.0
Total	111.7	100.0	45.4	100.0	146.2

The cost of sales and services in Q3/2017 was Baht 111.7 million, increasing by Baht 66.3 million, 146.2% from Q3/2016 as a result of

- Serviced apartments business by Baht 62.3 million, increasing by Baht 37.6 million, or 152.2% from Q3/2016, the Somerset Ekamai Bangkok added Baht 37.3 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 Q3/2016.
- The cost of office building rental business by Baht 32.5 million, increasing by Baht 25.2 million, from the Bangkok Business Center Building had cost of rental and services in Baht 20.4 million (included an amortization of investment property and property, plant and equipment resulting from the acquisition of Baht 7.7 million) and the increased in cost of the service and office building management business of Baht 4.8 million.

Service Expenses and Administrative Expenses

For the Q3/2017, the service expenses of the company financial information, mainly marketing expenses of the residential building service business (Marriott Executive Apartments Sathorn Vista – Bangkok) was close to Q3/2016. While the consolidated financial information, serviced expenses increased by Baht 7.0 million from the company financial information, from the building AIM of the Somerset Ekamai Bangkok was opened.

Total administrative expenses were Baht 51.6 million increasing by Baht 8.7 million, due to:

1. The administrative expenses of 5 subsidiaries company were added to the consolidated financial information amounted to Baht 11.1 million.
2. The Information system implementation business had a higher administrative expenses of Baht 3.4 million from the staff expenses of SAP project ,which to be support the growth of the company in the future.

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.

While in the Q3/2016, the Company had the financial consultant expenses of Baht 7.7 million from the acquisition of the businesses of V Brilliant Group Holding Company Limited (“VB”) through the acquisition of total issued ordinary shares and preference shares.

Finance Costs

For Q3/2017, the finance costs of the Company Baht 2.3 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 4.9 million increasing from the separate financial information from the increase in interest paid to the remaining financial institutions of subsidiary company .

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

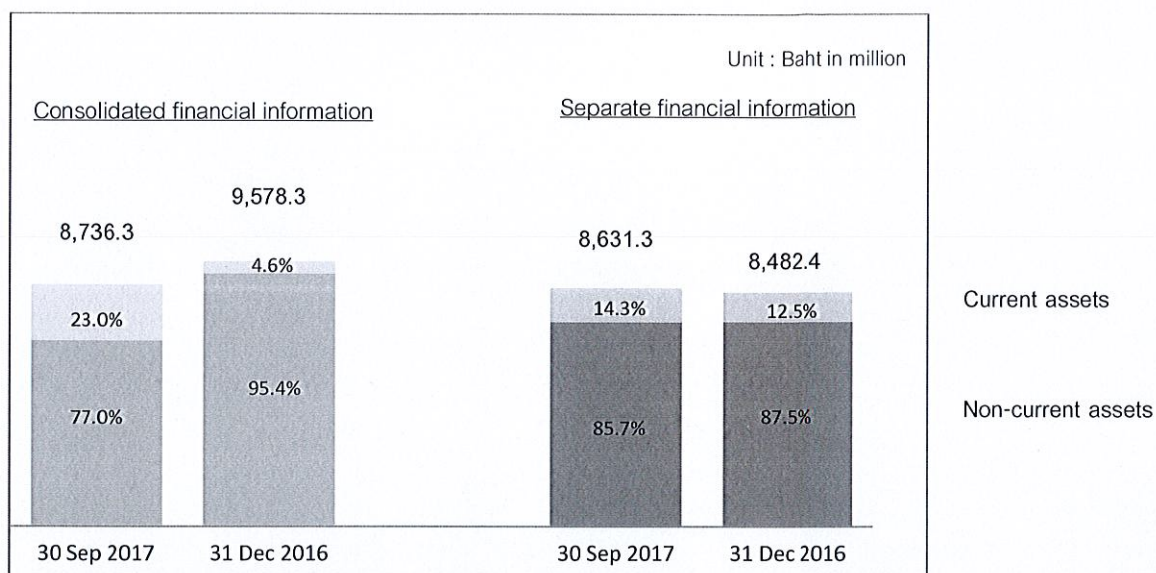
	Consolidated financial information		Separate financial information	
	Q3/2017	Q3/2016	Q3/2017	Q3/2016
Gross Profit Margin	25.3%	45.8%	48.8%	53.3%
Net Profit (Loss) Margin	-18.6%	-6.8%	5.2%	-4.2%
Return on Equity (ROE)	-0.4%	-0.2%	0.05%	-0.1%

For the Separate financial information, gross profit margin in Q3/2017 was 48.8% decreased from Q3/2016 due to the higher cost of revenues from service and office building management from the staff addition ,which to be support the growth of the company in the future and in consolidated financial information gross profit margin was 25.3% lower than Q3/2016 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 8.8 million.

For the Separate financial information, net profit margin was increased from Q3/2016 from increasing of revenues from sales and services while the administrative expenses were decreased. The consolidated financial information in Q3/2017, there was net loss of 18.6% while in Q3/2016 recording net loss of 6.8% 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 0.05% of return on equity (ROE) while the consolidated financial information resulted in negative of return on equity (ROE) in 0.4%.

Financial Position Analysis and Investment Structure



Assets

As of September 30, 2017, the separate financial information had total assets of Baht 8,631.3 million increased by Baht 148.9 million or 1.8% from the total assets of 31 December 2016, by

1. Current assets mostly composed of short-term loans to subsidiaries, cash and cash equivalents and short-term investments, short-term loans to subsidiaries increased by Baht 171.4 million from principal amount of Baht 167.0 million and accrued interest income amount to Baht 4.4 million.
2. Non-current assets composed of investments in subsidiaries and property, plant and equipment, property, plant and equipment decreased by Baht 22.8 million from the depreciation charge during the period.

As of September 30, 2017, the consolidated financial information had total assets of Baht 8,736.3 million decreased by Baht 842.0 million or 8.8% from the total assets of 31 December 2016, by

1. Current assets mostly composed of short-term investments and cash and cash equivalents, which the 2 items increased in the amount of Baht 1,584.6 million from the proceed of sale of investment property of the subsidiary company.
2. Non-current assets composed of property, plant and equipment and Investment property, during the period the subsidiary company sold the investment property of Baht 2,395.6 million

Liquidity

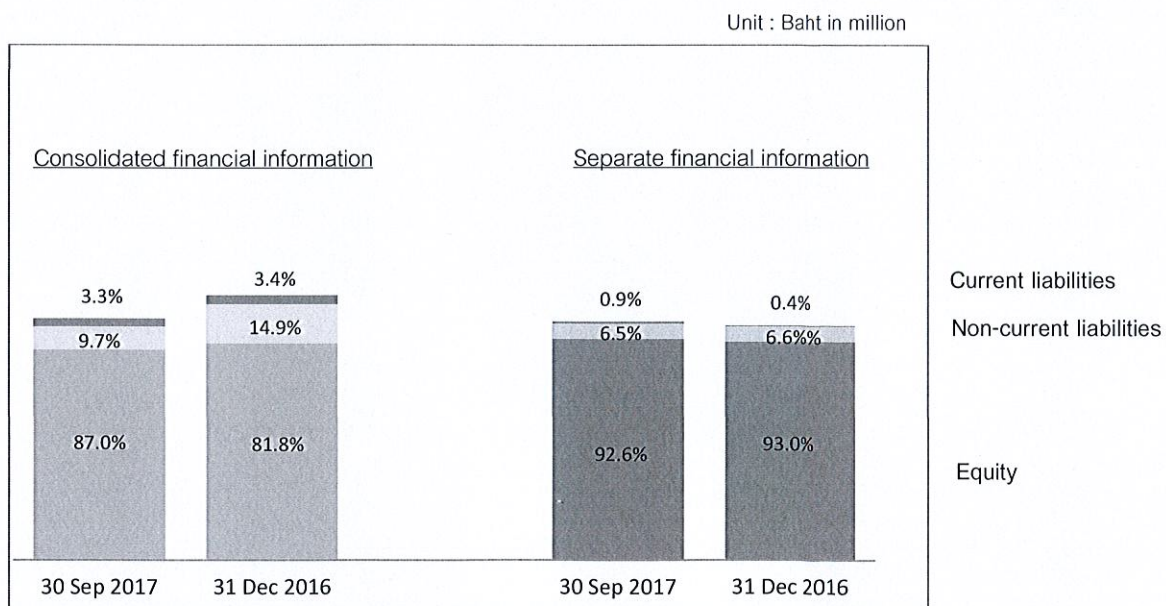
Cash flows of consolidated financial information

Unit: Baht in million	Q1-Q3/2017	Q1-Q3/2016
Net cash from operating activities	(45.2)	18.7
Net cash from investing activities	1,299.1	(47.7)
Net cash from financing activities	(721.9)	539.5
Net increase in cash and cash equivalents	532.0	510.5
Cash and cash equivalents at the beginning of the period	118.3	71.9
Cash and cash equivalents at the end of the period	650.3	528.4

For the period ended September 30, 2017, the Company had cash and cash equivalents of Baht 650.3 million. An increase of Baht 532.0 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 1,047.6 million of investing activities, the Company had repayments of long-term borrowings from a financial institution – net by Baht 721.9 million from financing activities.

Source of Capital

Liabilities, Shareholders' Equity and Debt to equity ratio



Liabilities

As of September 30, 2017, the separate financial information had total liabilities of Baht 636.2 million increased by Baht 39.0 million or 6.5% from the total liabilities of 31 December 2016, by

1. Current liabilities mostly composed of trade and other payables and deposits received from customers – current, which the 2 items increased in the amount of Baht 40.5 million.
2. Non-current liabilities composed of long-term promissory notes from a related party and other non-current liabilities, other non-current liabilities decreased by Baht 13.2 million.

As of September 30, 2017, the consolidated financial information had total liabilities of Baht 1,137.6 million decreased by Baht 610.0 million or 34.9% from the total liabilities of 31 December 2016, by

1. Current liabilities mostly composed of trade and other payables and income tax payable, during the period the subsidiaries had repaid the long-term borrowings from a financial institutions before maturity. Its make the current portion of long-term borrowings from a financial institution decreased in the amount of Baht 151.4 million.
2. Non-current liabilities composed of long-term promissory notes from a related party and long-term borrowings from a financial institution, long-term borrowings from a financial institution by Baht 571.7 million.

Equity

As of September 30, 2017, the separate financial information had total shareholders' equity of Baht 7,995.2 million increased in the amount of Baht 110.0 million or 1.4% due to the net gain during period.

As of September 30, 2017, the consolidated financial information had total shareholders' equity of Baht 7,598.7 million decreased in the amount of Baht 232.0 million or 3.0% due to the net loss during period.

Debt to equity ratio

As of September 30, 2017, debt to equity ratio of the separate financial information was 0.08 times while the consolidated financial information was 0.15 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 September 2017	31 December 2016
Building and equipment	2.6	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 September 2017	31 December 2016
Not later than 1 year	6.4	10.4
Later than 1 year but not later than 5 years	6.0	8.1
	12.4	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 nine-month period ended 30 September 2017 were Baht 12.5 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 nine-month period ended 30 September 2017 were Baht 6.3 million.

Factors influencing future performance of the Company

Economic Outlook for the fourth quarter of 2017, most entrepreneurs expected the overall private consumption to expand slowly, but should be diversified in many business segments, following a gradual recovery after the Royal Ceremony of the reign of King Rama 9 and the entrance to the festival at the end of the year. Investment growth is expected to be driven by a gradual increase in capacity utilization and robust economic growth, driven by demand from both trading partners and domestic demand. Most of the operators who plan to invest are in the electronics parts business, machinery and equipment and medical equipment including business in the service sector, transportation and communications and the business group linked to tourism.

In the fourth quarter of 2017, entrepreneurs in all regions confident that tourism will expand, reflecting higher hotel bookings than the same period in the past several years. It is expected that growth will continue from Chinese tourists. Part of a protracted political crisis between China and South Korea. Meanwhile, tourism of the Thai people is likely to improve from improved confidence and management of various festivals at the end of the year.

In the fourth quarter of 2017, most operators expect the real estate market to improve in line with the economic outlook and public confidence. It will also benefit from infrastructure investments of the government is clear and the expansion of modern trade, which will accelerate the expansion of the city.

On 25 September 2017, the resolutions of Board of Directors' Meeting No. 7/2017 approve an acquisition of the businesses of Alliance Medical Asia Company Limited's group companies through the acquisition of approximately 99.99% of total issued shares, which all the detail the Company informed in the Information Memorandum Concerning the Acquisition of Assets and the Connected Transaction. By acquiring the businesses of AMA Group Companies, the Company aims to expand its scope of business and diversify risks from the previous sole focus on real estate business. The acquisition of AMA Group Company at this time will therefore be able to enhance the growth and increase potential profitability of the Company's group companies in the future. The Company propose to the Extraordinary General Meeting of Shareholders No. 1/2017 (the "EGM") on 24 November 2017 to consider and approve the transaction.

Please be informed accordingly,

Yours Sincerely,

Signature  _____

(Miss Preeyaporn Aphiwathwithaya)

Accounting Services Director