

No. 003/2021

24 February 2021

RE: Management Discussion and Analysis for Year 2020

TO: President, Stock Exchange of Thailand

Principal Capital Public Company Limited ("Company") would like to submit the following Management Discussion and Analysis on the Company and Consolidated Financial Statements for Year 2020, ended 31 December 2020, compare with Year 2019 as follows.

Major developments in Year 2020

On March 2, 2020, Principal Healthcare - Chumphon Co., Ltd., a subsidiary of which shares are held indirectly by the Company, acquired and accepted the Entire Business Transfer (EBT) of "Virajsilp Hospital", located in Chumphon Province. The objective was to expand the coverage of the Business Group's private hospital business network, especially in southern area of Thailand, in order to enhance the Group's future revenue generating capability also enhance effectiveness and competitiveness to gain more revenue. The subsidiary paid a consideration of 512.2 million Baht. The transaction resulted in a intangible assets of 298.3 million Baht, including goodwill of 166.8 million Baht, trademarks 101.5 million Baht and customers relationship 30.0 million Baht in the Consolidate Financial Statement.

On March 18, 2020, the Company incorporated a new subsidiary, Principal NKG Company Limited, with the objective of investing in elderly care business. The Company holds 51% of the shares in the new company and the other 49% is held by Nihon Keiei (Thailand) Company Limited. The company's concept of elderly care focuses on self-reliance, whereby elderly people resume their healthy condition and capability of conducting their Activities of Daily Living (ADL) with their family members. The aim is to assist the elderly in rehabilitating their physical and mental strength for maximum self-reliance.

The AGM of the Company year 2020 on 10 August 2020 resolved to approve V Brilliant Group Holding Co., Ltd., the Company's subsidiary to dispose of assets to Miss Satita Viddayakorn who is a related person of the Company, as comply with the sales and purchase agreement of the shares on 8 August 2016, details are as follow;

1. Ordinary shares in V33 Company Limited and Udon Business District Company Limited, both are V Brilliant Group Holding Co., Ltd.'s subsidiaries which held 99.99 % of shares. The selling are higher than the fair value of the two subsidiaries.

2. Vacant lands in Ang-Thong province and Saraburi province, owned by V Brilliant Group Holding Co., Ltd. The selling price are higher than the book value.

The Board of Directors' meeting of V Brilliant Group Holding Co., Ltd. on 10 August 2020 resolved to approved to set up VMEA Company Limited, registered capital 1 Million Baht comprising of 100,000 ordinary shares of par Baht 10 each. V Brilliant Group Holding Co., Ltd. held 99.99% of shares. The subsidiary was registered with the Ministry of Commerce on 20 August 2020 and increase its authorised share capital to be 200,000,000 ordinary shares of par Baht 10 each. The subsidiary registered the increased share capital with the Ministry of Commerce on 28 October 2020. This subsidiary set up for acceptance of Partial Business Transfer (PRT) of the Marriott Executive Apartment Sathorn Vista-Bangkok from the Company as the approval of the AGM on 10 August 2020

On 29 December 2020 the indirect holding company (VMEA Co., Ltd.) has approved the acquisition and accepted the Partial Business Transfer (PBT) of the property rental business from the Company under the name "The Marriott Executive Apartment Sathorn Vista – Bangkok" in order to re-structure the business to achieve the Company's strategy plan for managing each business clearly, which would build the sustainable business and enhance the growth, also increase the opportunities to expand the business, as the subsidiaries paid a consideration of 1,966.0 million Baht. The transaction resulted in gain from disposal of a business unit in the amount of 704.7 Baht in the separate financial statements since this list is an inter-company transaction, it does not affect the operating results in the consolidated financial statements.

On 1 September 2020, the subsidiary that the Company held share indirectly (Principal Healthcare - Ubon Ratchathani Company Limited) acquired and accepted the Entire Business Transfer (EBT) of a private hospital name "Sunpasitinter Hospital" in Ubon Ratchathani Province which would enhance the growth, capability and competitiveness of the Group as well as increase its future potential profitability. The subsidiary paid a consideration of 494.3 million Bant. The transaction resulted in gain on bargain purchase of 30.7 million Baht in the Consolidate Financial Statement.

The economic and industrial situations affecting the operation and business policies, strategies and decisions

The outbreak Covid-19 in early 2020 has adverse effects on operating results for the year ended 31 December 2020.

The global and Thailand Covid-19 outbreak initiated government-imposed travelling restrictions and controls as well as upended the normal way of living and economic activities. As a result, hotel revenue significantly dropped by Baht 207.5 million which is 47.2% compared to 2019. This is due to temporary operational closures as well as previously suspended and currently diminished domestic and international travels. In response, the Group offered various promotions such as room and food and beverage discount to attract customers. Also, the protocol to prevent the spread of Covid-19 enforced restriction on transportation in many areas. The nationwide Covid-19 outbreak and decline in domestic economic resulted in dramatic decrease in hospital revenue by Baht 278.8 million which is 13.1 % compared to prior period. The management expects that both of operating results and revenue will be recover after vaccine rollout in the second half year of 2021.

Year 2020 operating results

<u>Statement of Comprehensive Income</u> <u>Unit: million</u>	<u>Y2020</u>	<u>Y2019</u>	<u>Increase</u> <u>(decrease)</u>	<u>Change</u> <u>%</u>
Revenues from hospital operations	2,290.3	2,296.2	(5.8)	-0.3
Revenues from sales and services	360.4	575.3	(214.9)	-37.4
Costs of hospital operations	2,025.2	1,879.3	145.9	7.8
Costs of sales and services	<u>307.0</u>	<u>353.3</u>	<u>(46.3)</u>	<u>-13.1</u>
Gross profit	318.5	638.9	(320.3)	-50.1
Other income	59.7	46.9	12.8	27.3
Gain on bargain purchase	30.7	-	30.7	100.0
Gain on disposal of investment in subsidiaries	17.1	240.4	(223.3)	-92.9
Selling and Administrative expenses	786.6	926.2	(139.6)	-15.1
Finance costs	<u>132.6</u>	<u>153.2</u>	<u>(20.6)</u>	<u>-13.4</u>
Gain (loss) before income tax expense	(493.3)	(153.1)	(340.2)	-222.3
Income tax expense	<u>44.2</u>	<u>2.4</u>	<u>41.7</u>	<u>1714.8</u>
Gain (loss) from continuing operations	(537.5)	(155.5)	(382.0)	-245.6
Loss from discontinued operations	-	<u>31.4</u>	<u>31.4</u>	<u>100.0</u>
Profit (loss) for the year	<u>(537.5)</u>	<u>(186.9)</u>	<u>(350.5)</u>	<u>-187.5</u>
Total comprehensive income (expense) for the year	<u>(537.3)</u>	<u>(183.6)</u>	<u>(353.6)</u>	<u>-192.6</u>

In 2020, the Company and the subsidiaries generated revenues totaling 2,290.3 million Baht from the hospital business and incurred costs totaling 2,025.2 million Baht from the hospital business, and revenues from sales and services totaling 360.4 million Baht and incurred costs of sales and services totaled 307.0 million Baht. Gain from disposal of a business unit and gain on disposal of investment in subsidiaries totaling 47.8 million Baht. Selling and administrative expenses totaled 786.6 million Baht and financial costs totaled 132.6 million Baht. As a result, the Company's loss for the year totaled 537.5 million Baht.

The following explains the operating results by business group.

Revenues from sales and services

Unit: million	Year 2020		Year 2019		Change
	Amount	%	Amount	%	
Hospital business	2,290.3	86.4	2,296.2	80.0	-0.3
Property development and property rental business and Others	360.4	13.6	575.3	20.0	-37.4
Total	2,650.7	100.0	2,871.5	100.0	-7.7

The Company and the subsidiaries generated revenues from sales and the rendering of services totaling 2,650.7 million Baht, decrease of 220.7 million Baht or 7.7% resulted from the following:

- The hospital business' revenues decreased by 5.8 million Baht, or 0.3% due mainly to:
 - Revenues of existing hospitals – Pitsanuvej Hospital, Princ Hospital Paknampo, Princ Hospital Suvarnabhumi, Pitsanuvej Pichit Hospital, – decreasing totaled 278.8 million Baht from the Covid-19 situation.
 - Revenues of the hospitals opened during 2019 and the new hospital opened in 2020 – Sirivej Lamphum Hospital, Pitsanuvej Uttaradit Hospital, Princ Hospital Uthai Thani, Virajsilp Hospital and, Princ Hospital Ubonratchathani - increasing totaled 275.8 million Baht.
- The property development, rental business and others had a revenue decrease of 214.9 million Baht, or 37.4%, due mainly to the following:
 - The Marriott Executive Apartment Sathorn Vista – Bangkok Project, had a revenue decrease of 124.2 million Baht because the occupancy rate reduces from 86.8% in 2019 to 47.9% in 2020, Average Daily Revenue (ADR) was reduced from 4,093 Baht to 3,478 Baht because the tourism business has been affected by the Covid-19 situation continuously.
 - The Somerset Ekamai Bangkok Project had a revenue decrease of 83.2 million Baht because the occupancy rate reduces from 78.0% in 2019 to 46.3% in 2020, from the impact of Covid-19 Pandemic and the current situation of the hotel that slow down, the customers in long-term rental was reduced especially Japanese customers.

Gross profit was 320.3 million Baht (50.1%) lower than 2019, for the following main reasons:

- Revenue from both businesses extremely decreased from the spreading of Covid-19 with the major impact to the business.

- Costs of the hospitals decreased less than the revenue that decreased from the new opened hospitals which is cost from doctor and medical staff that increasing to enhance the efficiency to provide the service and support the customer need.
- Depreciation of both new and existing hospitals increased.

Gain on bargain purchase were 30.7 million Baht caused by approved the acquisition and accepted the transfer of Principal Healthcare – Ubon Ratchathani Co., Ltd. in Q3/2020

Gain on disposal of investment in subsidiaries were 17.1 million Baht arising from the disposal of the ordinary shares of V33 Co., Ltd. and Udon Business District Co., Ltd. While in 2019, were 240.4 million Baht because of the disposal of the ordinary shares of Bangkok Management Co., Ltd.

Selling and administrative expenses in 2020 were 786.8 million Baht lower than 2019 in the amount of 139.6 million Baht (15.1%) because the Company aware of the impact of Covid-19 to the revenue. The Company and its subsidiaries highly pay attention to reduce cost by announcing the policy such as partially close the service area or temporary close some departments to reduce the cost from operation, reduce the temporary staff wage and reduce hiring of replacement employees and voluntary leave without pay and also the executives and employees are voluntary reduce the salary to reduce the cost of the Company

EBITDA:

Unit: million	Year 2020	Year 2019	Increase (Decrease)	Change %
EBITDA	211.1	472.5	(261.5)	-55.3
Finance costs	132.6	153.2	(20.6)	-13.4
Depreciation and amortisation	571.9	472.4	99.5	21.1
Gain (loss) before income tax	(493.3)	(153.1)	(340.2)	-222.3
Income tax expense (income)	44.2	2.4	41.7	1714.8
Gain (loss) for the year	(537.5)	(155.5)	(382.0)	-245.6
<i>EBITDA -excluded the one-time gain transaction</i>	163.3	232.2	(68.9)	-29.7

EBITDA of 2020 were in total 211.1 million Baht lower than the last year in amount of 261.5 million Baht because in 2019, the Company has a one-time transaction from the gain from disposal of a business unit (Bangkok Management Co., Ltd.) in the amount of 240.4 million Baht. If excluded that list, the Company would have EBITDA in 2019 in the amount of 232.2 million Baht. Meanwhile in this year were got the gain on disposal of

investment in subsidiaries (V 33 Co., Ltd. and Udon Business District Co., Ltd.) in the amount of 17.1 million Baht and the gain on disposal of investment in subsidiaries of the hospital business were 30.7 million Baht. If excluded that list, the Company would have EBITDA in 2020 in the amount of 163.3 million Baht lower than the previous year due to the COVID-19 pandemic situation.

Interest expenses of 2020 were 132.6 million Baht lower than 2019 in the amount of 20.6 million Baht (13.4%), due to the decrease of interest rate, including the higher the loan rate during the year has got the lower interest rate.

Depreciation in 2020 were 571.9 million Baht, higher than 2019 in the amount of 99.5 million Baht as there were the new hospitals and the renovated of some hospitals had been completed; hence, higher depreciation was booked.

Loss for the year in 2020 the Company and the subsidiaries incurred a loss of 537.5 million Baht, higher than 2019 in the amount of 382.0 million Baht, it resulted from the revenue decreased also the decreased cost is lower than the decreased income. Moreover, in the past year, there was a gain from disposal of a business unit (one-time transaction) including the depreciation increased because of the new hospital opened.

Financial Position

Statement of Financial Position	31 December	31 December	Increase	Change
Unit: million	2020	2019	(Decrease)	%
Total assets	15,415.1	14,620.0	795.1	5.4
Total liabilities	6,090.2	4,908.8	1,181.4	24.1
Equity attributable to owners of the parent	8,297.1	8,809.7	(512.6)	-5.8
Debt to Equity Ratio (times)	0.73	0.56		

As at 31 December 2020, the Company and the subsidiaries has assets totaling 15.415.1 million Baht, increasing from total assets as at 31 December 2019 by 795.1 million Baht, resulting from:

- Property, plant and equipment increased by 1,091.4 million Baht from the purchase of Virajsilp Hospital and Princ Hospital Ubonratchathani, totaling 735.6 million Baht and from the Princ Hospital Sisaket where land was purchased and under the building construction, which was expected opening in the second quarter of 2021 amounting to 356.5 million Baht.
- Right-of-use assets increased by 425.3 million Baht resulting from the adoption of TFRS 16 (leases standard) as of 1 January 2020, the Company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases under the principles of TAS 17 Leases and for leases previously classified as finance leases the Group recognized the carrying amount of the lease asset and lease liability.

- Intangible assets increased by 192.9 million Baht from the acquisition of Virajsilp Hospital, which caused to the trademark and customers relationship totaling 124.8 million Baht.
- Goodwill increased by 166.8 million Baht from the acquisition of Virajsilp Hospital
- Short-term Investment decreased 525.8 million Baht, from the adoption of the financial reporting standards relate to financial instruments (TAS 32 and TFRS 9) by the adjustments to financial assets measured at fair value through profit or loss and Short-term fixed deposits totally 35.4 million Baht. While there are some parts that the company sold for use in investing in new projects and investing in new hospitals.
- Investment properties decreased by 421.3 million Baht from the disposal of the subsidiaries and vacant land of the group's subsidiaries for resale to Miss Satita Viddayakorn.

Liabilities of the Company and the subsidiaries as at 31 December 2020 totaled 6,090.2 million Baht, increasing from total liabilities as at 31 December 2019 by 1,181.4 million Baht, for the following reason:

- Long-term borrowing from the financial institutions, increased by 1,139.1 million Baht, resulting from investment in new hospitals and renovating the existing hospitals.
- Hospital acquisition payables of Princ Hospital Ubonratchathani, an increase of 294.1 million Baht.
- Current portion of promissory notes from a related party decreased by 418.4 million Baht from the selling of assets to related party and pay long-term promissory notes.

Shareholders' equity decreased by 512.6 million Baht from the losses incurred by the Company during the year.

The debt-to-equity (D/E) ratio stood at 0.73, rise from 0.56 on 31 December 2019, resulting from the long-term borrowing from the financial institutions, while the shareholders' equity decreased from the operating results during the year.

For your kind acknowledgement.

Yours respectfully

Signature 

(Miss Preeyaporn Aphiwathwittaya)

Division Director, Accounting Services