

No. 021/2020

11 November 2020

RE: Management Discussion and Analysis for Q3/2020

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 Q3/2020, ended 30 September 2020, compare with same quarter of the Year 2019 as follows.

Major developments in Q3/2020

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 at the value of 10 Baht per share. V Brilliant Group Holding Co., Ltd. held 99.99% of shares. The subsidiary was registered with the Ministry of Commerce on 20 August 2020. This subsidiary set up for acceptance of Partial Business Transfer of Marriott Executive Apartment Sathorn-Vista from the Company as the approval of the AGM on 10 August 2020

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 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 for the acquisition at the amount of Baht 494.3 Million. the initial accounting for the business combination was still incomplete. The adjustments to the provisional fair values of assets, liabilities acquired in a business combination will be made once the measurement has been done.

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

The revenue from the Thai tourist expected to be return in second half of 2020 after the release of the lock down measure from Covid-19 and the government measure to stimulus the domestic tourism such as TTogether (Rao Tiew Duay Gan) and the government measure supported the set up seminar in the hotel, resulting to the recovery of the tourism in the nearby Bangkok and vicinity such as Kanchanaburi, Petchaburi, Prachuab kirikhun. The hotel business will gradually recover from the local tourism and will be like normal in the middle of 2021. Moreover the arrival of vaccine for Covid-19 will help bring the foreign tourists back more than this year and the revenue from the foreign tourists will recover, in present the Thai Entrepreneurs have a huge adjustment to make to maintain the business.

The 2 hotels of the Company also have an impact as the previous quarter, the revenue slightly reduce from the previous quarter but from the nature of business that have a long stay residents in a long term lease, the effect was less than others in the hotel business. However the revenue in Q3/2020 decrease 60% compare to the same quarter of the previous year and decrease 4% from the previous quarter. Both hotels join the campaign "Rao Tiew Duay Gan" to simulate the sale and also maintained the liquidity and operation while waiting for the business to recover, continuously reduced the unnecessary costs and expenses, also postponed the investment and spent only the necessary and appropriate investment. The Occupancy Rate of 2 Hotels in this quarter still covered the cost, as a result GOP and EBITDA are still be positive.

For hospital business, the revenue of the private hospitals expected to be decrease more than 9% from the Covid -19 situation but might be recover in the quarter 4/2020 continuingly through 2021-2022 from the support of domestic and foreigner patient. The medical tourism expected to have growth in 2021 from the foreign tourists traveling to Thailand after the relief of the Covid-19 situation. In the present, the hospital businesses are highly competitive both in the domestic and global market. The Entrepreneurs should adjust and come up with the situation such as the price controlling, bring technology to help in treatment process, maintain the hospital standard.

In the Company's hospital business, after the reducing of Covid-19 spreading and controllable, the patients started to go back to the hospital from the need of treatment regularly, resulting to the better operating results from the previous quarter. Even the revenue is 12.0 % lower than the same quarter of last year but 28.2% higher than the previous quarter, came from each hospital adapted and apply the new strategy to operate including new product and create networking within the corporate to enhance the revenue and reduce costs, also delayed the big investment due to the revenue contraction from the spreading of Covid-19 to preserve cashflow from operation.

The executives expected that the impact of Covid-19 Pandemic will affect continuously to the operation in property business and healthcare business all through this year to next year, but the recovery of healthcare business will be faster and better than property business which depends on the overall of both domestic and

international tourist business. The Company monitoring this situation closely and adjusting the operating plan of the both business to adapted with the situation effectively.

Q3/2020 operating results

<u>Statement of Comprehensive Income</u>	<u>Q3/2020</u>	<u>Q3/2019</u>	<u>Increase (decrease)</u>	<u>Change %</u>	<u>Q2/2020</u>	<u>Change %</u>
<u>Unit: million</u>						
Revenues from hospital operations	573.1	651.2	(78.1)	-12.0	447.1	28.2
Revenues from sales and services	76.0	147.4	(71.4)	-48.4	76.0	-
Costs of hospital operations	503.2	498.4	4.8	1.0	438.7	14.7
Costs of sales and services	67.0	103.6	(36.6)	-35.4	70.9	-5.5
Gross profit	79.0	196.6	(117.6)	-59.8	13.5	485.1
Other income	25.0	7.7	17.3	224.1	13.0	93.3
Gain on disposal of investment in subsidiaries	17.1	240.4	(223.3)	-92.9	-	100.0
Selling and Administrative expenses	217.0	225.0	(8.0)	-3.6	190.0	14.2
Finance costs	34.7	43.4	(8.7)	-20.0	30.2	14.8
Gain (loss) before income tax expense	(130.6)	176.5	(307.1)	-174.0	(193.8)	32.6
Income tax expense	10.8	2.2	8.6	392.2	(10.2)	-205.7
Total comprehensive income (expense) for the period	(141.4)	174.3	(315.7)	-181.2	(183.6)	23.0

In Q3/2020, the Company and the subsidiaries generated revenues totaling 573.1 million Baht and incurred costs totaling 503.2 million Baht from the hospital business, and revenues from sales and services totaling 76.0 Costs of sales and services totaled 67.0 million Baht from the property business. Selling and administrative expenses totaled 217.0 million Baht and financial costs totaled 34.7 million Baht. As a result, the Company's loss for this quarter totaled 141.4 million Baht, indicated that the operating results of this quarter were better than the previous quarter.

The following explains the operating results by business group.

#### Revenues from sales and services

Unit: million	Q3/2020		Q3/2019		Change
	Amount	%	Amount	%	%
Hospital business	573.1	88.3	651.2	81.5	-12.0
Property development and property rental business	76.0	11.7	144.2	18.1	-47.3
Others	-	-	3.2	0.4	-100.0
<b>Total</b>	<b>649.1</b>	<b>100.0</b>	<b>798.6</b>	<b>100.0</b>	<b>-18.7</b>

The Company and the subsidiaries generated revenues from sales and services totaling 649.1 million Baht, decrease of 149.5 million Baht or 18.7 % resulted from the following:

- The hospital business' revenues decreased by 78.1 million Baht, or 12.0% due mainly to:
  - Revenues of existing hospitals; Pitsanuvej Hospital, Princ Hospital Paknampo, Princ Hospital Suvarnabhumi, Pitsanuvej Pichit, and Pitsanuvej Uttaradit Hospital, decreasing totaled 144.8 million Baht from the Covid-19 situation
  - Revenues of the hospitals opened during Q3/2020 and the new hospital opened in 2020; namely Princ Uthai Thani Hospital, Virajsip Hospital and Princ Ubon Ratchathani Hospital, increasing totaled 66.4 million Baht.
- The property development and rental business had a revenue decrease of 68.2 million Baht, or 47.3 %, due mainly to the following:
  - The Marriott Executive Apartment Sathorn Vista – Bangkok Project, had a revenue decrease of 41.7 million Baht because the occupancy rate reduce from 89.3% in Q3/2019 to 33.5% in Q3/2020, Average Daily Rate (ADR) was reduced from 4,030 Baht to 3,123 Baht from the impact of Covid-19 Pandemic.
  - The Somerset Ekamai Bangkok Project had a revenue decrease of 24.5 million Baht because the occupancy rate reduce from 75.0 % in Q3/2019 to 37.2 % in Q3/2020, 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 customer.

Gross profit was lower than Q3/2019 totaled 117.6 million Baht (59.8%) but higher than the previous quarter totaled 65.5 million Baht (485.1%), for the following main reasons:

- Revenue from both businesses extremely decreased from the spreading of Covid-19 with the major impact to the businesses.
- Costs of the hospitals increased from the new opened hospitals which is cost from doctor fee 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.

Selling and administrative expenses were 8.0 million Baht (3.6%) lower than Q3/2019 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 or voluntary leave without pay and also the executives and employees are voluntary reduce the salary to reduce the cost of the Company but the expenses were 27.0 million Baht (14.2%) higher than the previous quarter due to the expenses from the newly open hospital in between quarter.

#### EBITDA:

Unit: million	Q3/2020	Q3/2019	Increase	Q3/2020	Q3/2019	Increase
EBITDA	50.5	339.2	(288.7)	-85.1	(20.7)	344.0
<i>EBITDA -excluded gain on disposal of investment in subsidiaries</i>	33.4	98.8	(65.4)	-66.2	(20.7)	261.4
Finance costs	34.7	43.4	(8.7)	-20.0	30.2	14.8
Depreciation and amortisation	146.4	119.3	27.1	22.7	142.9	2.4
Gain (loss) before income tax	(130.6)	176.5	(307.1)	-174.0	(193.8)	32.6
Income tax expense (income)	10.8	2.2	8.6	392.2	(10.2)	-205.7
Gain (loss) for the period	(141.4)	174.3	(315.7)	-181.2	(183.6)	23.0
<i>Loss for the period -excluded gain on disposal of investment in subsidiaries</i>	(158.5)	(66.1)	(92.4)	-139.8	(183.6)	13.7

This quarter EBITDA total 50.5 million Baht, higher than the previous quarter 71.2 million Baht ( the previous quarter EBITDA -20.7 million Baht) but lower than the same quarter of the previous year, 288.7 million Baht or 85.1%, due to Q3/2019 the Company had one time transaction from gain on disposal of investment in subsidiary (Bangkok Management Company Limited) totaled 240.4 million Baht, if excluded this transaction EBITDA will be 98.8 million Baht for Q3/2019, while this quarter had gain on disposal of investment in subsidiaries (V33 Company Limited and Udon Business District Company Limited) totaled 17.1 million Baht if excluded this transaction EBITDA will be 33.4 million Baht.

Interest expenses reduced 8.7 million Baht, as result of the decreasing from the short-term loan from the financial institution and the reducing of the interest rate of the financial institution.

Depreciation increased by 27.1 million Baht as there were the new hospitals and renovation work at some hospitals had been completed; hence, higher depreciation was booked.

**Loss for the period** The Company and the subsidiaries incurred a loss of 141.4 million Baht, 315.7 million Baht higher than the same quarter of the previous year, resulted from the revenue decreased also the costs decreased in the smaller ratio than the revenue decrease but the depreciation increased. If excluded the one time transaction, this quarter will incur loss 158.5 million Baht which higher than the same quarter of the previous year totaled 92.4 million Baht

#### YTD Q3/2020 operating results

Statement of Comprehensive Income	YTD	YTD	Increase	Change
Unit: million	Q3/2020	Q3/2019	(decrease)	%
Revenues from hospital operations	1,600.3	1,736.9	(136.6)	-7.9
Revenues from sales and services	282.6	443.1	(160.5)	-36.2
Costs of hospital operations	1,449.7	1,387.7	62.0	4.5
Costs of sales and services	222.8	264.5	(41.7)	-15.8
<b>Gross profit</b>	<b>210.3</b>	<b>527.9</b>	<b>(317.6)</b>	<b>-60.2</b>
Other income	51.7	33.2	18.5	55.7
Gain on disposal of investment in subsidiaries	17.1	240.4	(223.3)	-92.9
Selling and Administrative expenses	623.1	676.4	(53.3)	-7.9
Finance costs	97.1	125.0	(27.9)	-22.3
Gain (loss) before income tax expense	(441.2)	0.1	(441.3)	-585426.1
Income tax expense	5.2	6.6	(1.4)	-21.2
<b>Total comprehensive expense for the period</b>	<b>(446.5)</b>	<b>(6.6)</b>	<b>(439.9)</b>	<b>-6692.3</b>
<b>Total comprehensive expense for the period -excluded gain on disposal of investment in subsidiaries</b>	<b>(463.5)</b>	<b>(246.9)</b>	<b>(216.6)</b>	<b>-87.7</b>

From the Covid-19 situation that extremely impact to both of the Company's businesses, operating result for 9-month period as of 30 September 2020, The Company and the subsidiaries generated revenues totaling

1,600.3 million Baht and incurred costs totaling 1,449.7 million Baht from the hospital business, revenues from sales and services from property business totaling 282.6 million Baht, Costs of sales and services from property business totaling 222.8 million, Selling and administrative expenses totaling 623.1 million Baht and finance costs totaling 97.1 million Baht, resulted to the loss for the period totaling 446.5 million Baht, clarifying as follow:

Revenues of the Company and the subsidiaries decreased by 297.1 million Baht, due mainly to:

- The property development and rental business had a revenue decrease of 160.5 million Baht, resulted from the impact of Covid-19.
- The hospital business had a revenue decrease of 136.6 million Baht from
  - Revenues of existing hospitals – Pitsanuvej Hospital, Princ Hospital Paknampo, Princ Hospital Suvarnabhumi and Pitsanuvej Pichit, decreasing totaled 322.0 million Baht.
  - Revenues of the new opening hospital; namely Sirivej Lamphun Hospital, Princ Uthai Thani Hospital Virajsip Hospital, Pitsanuvej Uttaradit Hospital and Princ Ubon Ratchathani Hospital, increasing totaled 185.4 million Baht.

Costs of the Company and the subsidiaries increased 20.4 million Baht from

- Hospital business costs increased 62.0 million Baht from the existing hospitals and the newly open hospital.
- Property development and rental business costs decreased 41.7 million Baht from the 3 properties

Selling and administrative expenses decreased 53.3 million Baht from the Company awareness of the current situation. The Company continuously reduce the unnecessary expenses to match with the decrease of revenue.

For 9-month period as of 30 September 2020 after deduct the finance costs and income tax expense, the Company had loss for the period 446.5 million Baht, higher 439.9 million Baht from the 9-month of year 2019 which had loss 6.6 million Baht, but if excluded the one time transaction loss will incur higher 216.6 million Baht from the impact of Covid-19 situation.

#### Financial Position

Statement of Financial Position	30 September	31 December	Increase	Change
Unit: million	2020	2019	(Decrease)	%
Total assets	15,083.0	14,620.0	463.0	3.2
Total liabilities	5,734.9	4,908.8	826.1	16.8
Equity attributable to owners of the parent	8,384.6	8,809.7	(425.1)	-4.8
Debt to Equity Ratio (times)	0.68	0.56		

As of September 30, 2020, the Company and the subsidiaries has assets totaling 15,083.0 million Baht, increasing from total assets as at December 31, 2019 by 463.0 million Baht, resulting from:

- Property, plant and equipment increased by 860.9 million Baht due to the acquisition of Virajsilp hospital and Princ Ubon Ratchathani Hospital totaled 762.0 million Baht and renovation of the existing hospitals.
- Right-of-use assets increased by 408.0 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.
- Goodwill increase by 166.8 million Baht from the Entire Business Transfer (EBT) 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 110.6 million Baht. While there are some parts that the company sold for use in investing in new projects.
- Investment Property decrease by 425.8 million Baht from sale shares and vacant land of the subsidiaries.

Liabilities of the Company and the subsidiaries as of September 30, 2020 totaling 5,734.9 million Baht, increasing from total liabilities as at December 31, 2019 by 826.1 million Baht, for the following reasons:

- Long-term borrowings from financial institutions increased by 863.5 million Baht, resulting from investments in the new hospitals and in renovation of the existing hospitals.
- Hospital acquisition payables of Princ Ubon Ratchathani Hospital increased by 291.5 million Baht (shown in Trade and other payables and Hospital acquisition payables)
- Current portion of promissory notes from a related party decreased by 418.9 million Baht from the selling of assets to related party and pay long-term promissory notes.

Shareholders' equity decreased by 425.1 million Baht from losses incurred during the period.

The debt-to-equity (D/E) ratio stood at 0.68, up from 0.56 on December 31, 2019, resulting from long-term borrowings from financial institution. While the shareholders' equity decreased due to the operation during the period.

For your kind acknowledgement.

Yours respectfully

Signature 

(Miss Preeyaporn Aphiwathwittaya)

Division Director, Accounting Services