

No. 018/2020

13 August 2020

RE: Management Discussion and Analysis for Q2/2020

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 Q2/2020, ended 30 June 2020, compare with same quarter of the Year 2019 as follows.

**Major developments in Q2/2020**

On June 26, 2020, the Company approved the establishment of a new subsidiary company under the name “Principal Healthcare – Ubon Ratchathani Company Limited” (“PUBN”) in order to support its business expansion and hospital operation in Ubon Ratchathani Province, with a registered capital of Baht 300,000,000, divided into 30,000,000 ordinary shares with a par value of Baht 10 per share. The Company will hold approximately 99.99 per cent of its shares and approved the acquisition and acceptance of the transfer of the entire business (Entire Business Transfer) of Ruamphaetsapphasit Co., Ltd. (“**Ruamphaetsapphasit**”) which is a company operating a private hospital business under the name “Sunpasitinter Hospital” in Ubon Ratchathani Province. In this regard, PUBN will accept the transfer of the entire hospital business of Ruamphaetsapphasit, including its assets, medical equipment, all licenses related to hospital business operation, land and buildings, the inventory, contract parties, as of the date of the business transfer, and all of the employees wishing to work with PUBN. However, transfers of creditors and trade receivables (AP/AR), as well as loan obligations and commitments, will not be accepted. PUBN will pay Ruamphaetsapphasit an aggregate amount not exceeding Baht 500,000,000 using internal cash flow of the Group and Loan from the Financial Institution. It is anticipated that the acquisition of Sunpasitinter’s hospital business will result in expansion of the Group’s hospital business network into other regions in Thailand, particularly the Northeast, which would enhance the growth, capability and competitiveness of the Group as well as increase its future potential profitability.

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

At the End of Q1/2020 to Q2/2020, the spreading of Covid-19 Situation has severely affected in tourism business. The number of foreign travelers and Thai travelers greatly decreased. Almost every hotel experiencing a loss from operation and some hotels might have to close down both temporary and permanently. At present, Covid-19 Situation in Thailand is getting better, the Government easing the restriction and allow to travel across the province. Transportation, airport and tourist attractions are re-open, also the Cabinet approved the measure to stimulus the domestic tourism from July to October 2020. This measure will help the Entrepreneurs in tourism

from the severe impact from the spreading of Covid-19 due to the measure covered every direct and indirect entrepreneurs in tourism business such as Hotel Business, Travel Agency Business, Transportation Business and Local Business i.e. Souvenir Shop or Restaurant and will positively impact to the trend of Thailand Tourism for the rest of this year. The Domestic Tourists will be the main target of tourism this year, expecting the Hi-End tourists will be the first group to recover. However after the Covid-19 Situation, tourism business will face the challenge from the New Business Norms among the change in the surrounding such as to provide the service needs to be aware of the safety of the tourists and employees, the extra service to be more sterile. Therefore the preparation to serve the tourists will be important, other than the plan to manage the place, equipment, personnel and furthermore should be aware of the IT System or software are also important.

The 2 hotels of the Company also receive the effect from the spreading of Covid-19 Virus, 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 Q2/2020 decrease 56% compare to the same quarter of the previous year and decrease 54% from the last quarter. Both hotels maintained the liquidity and operation while waiting for the business to recover by offer the service to the foreign customers who want to live separately from the family or can not return to their country, 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 Q2/2020 is 37.9% which still cover the cost, as a result GOP and EBITDA are still be positive.

In the Company's hospital business, was affected from the first quarter until the second quarter from the decreasing of the number of patients and resulting to the revenue decreasing 26% from the same quarter of the previous year and 27.9 % lower than the previous quarter. Each hospital adapted and apply the new strategy to operate such as PRINC Hospital Suvarnabhumi which open the Drive Thru service to examine the Covid-19 infection, Hot Line health consulting with the specialist doctor about the medication and vaccinate by the professional nurse. Moreover, the hospital valued the cost and expense reduction.

For hospital business, normally the rainy season is a high season, starting from June through the third quarter of each year, due to the sickness that come along with the rainy season make people to visit a hospital but the situation change from the spreading of Covid-19, effected directly to hospital business. Many healthcare businesses temporary closed from the government measure such as dentist clinic, beauty clinic including that other treatment department had to limit the number of patient or the patient postponed the schedule which obviously effected since March 2020, number of domestic patients decreased in many private hospitals. However, things are looking up for the Covid-19 situation, the infection rate and death rate are obviously reduced. The government continuously release the lock down measure and the private hospitals are re-opening the operation again.

The executives expected that the impact of Covid-19 Pandemic will affect continuously to the operation both in property business and healthcare business all through this year, but the recovery of healthcare business will be faster than property business. The Company monitoring this situation closely and evaluate the impact in the operation and plan to manage the situation effectively.

### Q2/2020 operating results

Statement of Comprehensive Income	Q2/2020	Q2/2019	Increase (decrease)	Change %
Unit: million				
Revenues from hospital operations	447.1	537.3	(90.2)	-16.8
Revenues from sales and services	76.0	141.9	(65.9)	-46.4
Costs of hospital operations	438.7	467.2	(28.5)	-6.1
Costs of sales and services	70.9	58.7	12.2	20.8
<b>Gross profit</b>	<b>13.5</b>	<b>153.4</b>	<b>(139.9)</b>	<b>-91.2</b>
Other income	13.0	15.0	(2.0)	-13.3
Selling and Administrative expenses	190.0	242.0	(52.0)	-21.5
Finance costs	30.2	43.5	(13.3)	-30.6
<b>Loss before income tax expense</b>	<b>(193.8)</b>	<b>(117.1)</b>	<b>(76.7)</b>	<b>-65.5</b>
Income tax expense	10.2	5.1	5.1	100.0
<b>Total comprehensive expense for the period</b>	<b>(183.6)</b>	<b>(111.9)</b>	<b>(71.7)</b>	<b>-64.1</b>

In Q2/2020, the Company and the subsidiaries generated revenues totaling 447.1 million Baht from the hospital business and incurred costs totaling 438.7 million Baht from the hospital business, and revenues from sales and services totaling 76.0 Costs of sales and services totaled 70.9 million Baht. Selling and administrative expenses totaled 190.0 million Baht and financial costs totaled 30.2 million Baht. As a result, the Company's loss for this quarter totaled 183.6 million Baht.

The following explains the operating results by business group.

#### Revenues from sales and services

Unit: million	Q2/2020		Q2/2019		Change
	Amount	%	Amount	%	
Hospital business	447.1	85.5	537.3	79.1	-16.8
Property development and property rental business	76.0	14.5	137.5	20.2	-44.7
Others	-	-	4.4	0.7	-100.0
<b>Total</b>	<b>523.1</b>	<b>100.0</b>	<b>679.2</b>	<b>100.0</b>	<b>-23.0</b>

The Company and the subsidiaries generated revenues from sales and the rendering of services totaling 523.1 million Baht, decrease of 156.1 million Baht or 23.0 % resulted from the following:

- The hospital business' revenues decreased by 90.2 million Baht, or 16.8% due mainly to:
  - Revenues of existing hospitals – Pitsanuvej Hospital, Princ Hospital Paknampo, Princ Hospital Suvarnabhumi, Pitsanuvej Pichit Hospital, Sirivej Lamphun Hospital and Pitsanuvej Uttaradit Hospital – decreasing totaled 139.5 million Baht from the Covid-19 situation.
  - Revenues of the hospitals opened during Q2/2020 and the new hospital; namely Princ Uthai Thani Hospital and Virajsilp Hospital, increasing totaled 49.3 million Baht.
- The property development and rental business had a revenue decrease of 61.5 million Baht, or 44.7 %, due mainly to the following:
  - The Marriott Executive Apartment Sathorn Vista – Bangkok Project, had a revenue decrease of 35.5 million Baht because the occupancy rate reduce from 80.4% in Q2/2019 to 36.5% in Q2/2020, Average Daily Revenue (ADR) was reduced from 4,009 Baht to 3,128 Baht from the impact of Covid-19 Pandemic.
  - The Somerset Ekamai Bangkok Project had a revenue decrease of 21.9 million Baht because the occupancy rate reduce from 77.1 % in Q2/2019 to 39.3 % in Q2/2020, 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.
  - Bangkok Business Center, Office Building for Rent had a revenue decrease of 2.4 million Baht from the discount given to the leases in April and May to redeem from the impact of Covid-19.

Gross profit was 139.9 million Baht (91.2%) lower than Q2/2019, 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.

Selling and administrative expenses were 52.0 million Baht (21.5%) lower than Q2/2019 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

#### EBITDA:

Unit: million	Q2/2020	Q2/2019	Increase (decrease)	Change %
EBITDA	(20.7)	48.2	(68.9)	-142.9
Finance costs	30.2	43.5	(13.3)	-30.6
Depreciation and amortisation	142.9	121.8	21.1	17.3
Loss before income tax	(193.8)	(117.1)	(76.7)	-65.5
Income tax expense	10.2	5.1	5.1	100.0
Loss for the period	(183.6)	(111.9)	(71.7)	-64.1

From the impact of Covid-19, the revenue of each business extremely decreased, in this quarter EBITDA total -20.7 million Baht, lower than the same quarter of the previous year, 68.9 million Baht or 142.9%

Interest expenses reduced 13.3 million Baht, as result of the decrease from the short-term loan from related business and the reducing of the interest rate of the financial institution.

Depreciation increased by 21.2 million Baht as there were the new hospitals and innovation 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 183.6 million Baht, 71.7 million Baht higher resulted from the revenue decreased but the depreciation increased.

### YTD Q2/2020 operating results

Statement of Comprehensive Income	YTD	YTD	Increase	Change
Unit: million	Q2/2020	Q2/2019	(decrease)	%
Revenues from hospital operations	1,027.2	1,085.7	(58.5)	-5.4
Revenues from sales and services	206.5	295.7	(89.2)	-30.2
Costs of hospital operations	946.5	889.2	57.3	6.4
Costs of sales and services	155.9	160.9	(5.0)	-3.1
<b>Gross profit</b>	<b>131.3</b>	<b>331.2</b>	<b>(199.9)</b>	<b>-60.4</b>
Other income	26.6	25.5	1.1	4.3
Selling and Administrative expenses	406.1	451.4	(45.3)	-10.0
Finance costs	62.4	81.7	(19.3)	-23.6
<b>Loss before income tax expense</b>	<b>(310.6)</b>	<b>(176.4)</b>	<b>(134.2)</b>	<b>-76.1</b>
Income tax expense	5.6	(4.4)	10.0	227.3
<b>Total comprehensive expense for the period</b>	<b>(305.0)</b>	<b>(180.8)</b>	<b>(124.2)</b>	<b>-68.7</b>

Operating result for 6-month period as of 30 June 2020, The Company and the subsidiaries generated revenues from sales and services totaling 1,233.7 million Baht, Costs of sales and services totaling 1,102.4 million, Selling and administrative expenses totaling 406.1 million Baht and finance costs totaling 62.4 million Baht, resulted to the loss for the period totaling 305.0 million Baht, clarifying as follow:

**Revenues from sales and services:** revenues decreased by 147.7 million Baht, due mainly to:

- The property development and rental business had a revenue decrease of 89.2 million Baht, resulted from the impact of Covid-19.
- The hospital business had a revenue decrease of 58.5 million Baht from
  - Revenues of existing hospitals – Pitsanuvej Hospital, Princ Hospital Paknampo, Princ Hospital Suvarnabhumi and Pitsanuvej Pichit Hospital, decreasing totaled 180.4 million Baht.
  - Revenues of the new opening hospital; namely Sirivej Lamphun Hospital, Princ Uthai Thani Hospital, Virajsilp Hospital and Pitsanuvej Uttaradit Hospital, increasing totaled 121.8 million Baht.

Costs of sales and services increased 52.3 million Baht from direct costs which are cost from doctor fee and medical staff in the newly opening hospital and the renovation hospitals which are not relevant to the direct revenue.

Selling and administrative expenses decreased 45.3 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 6-month period as of 30 June 2020 after less the finance costs and income tax expense, the Company had loss for the period 305.0 million Baht, higher loss 124.2 million Baht or 68.7% from the 6-month of year 2019 which had loss 180.8 million Baht.

### Financial Position

Statement of Financial Position	30 June	31 December	Increase	Change
Unit: million	2020	2019	(Decrease)	%
Total assets	15,174.5	14,620.0	554.5	3.8
Total liabilities	5,725.0	4,908.8	816.2	16.6
Equity attributable to owners of the parent	8,521.8	8,809.7	(287.9)	-3.3
Debt to Equity Ratio (times)	0.67	0.56		

As at June 30, 2020, the Company and the subsidiaries has assets totaling 15,174.5 million Baht, increasing from total assets as at December 31, 2019 by 554.5 million Baht, resulting from:

- Other non-current assets and goodwill increase by 636.2 million Baht from advance payment to director amount 300.0 million Baht to establish Principal Healthcare-Ubon Ratchathani Co., Ltd. which the transaction is completed on 3 July 2020 and from the Entire Business Transfer (EBT) of “Virajsilp Hospital in the amount of 131.5 million Baht and from a preliminary goodwill of 166.8 million Baht in the Consolidate Financial Statement, the initial accounting for the business combination was still incomplete. The adjustments to the provisional fair values of assets, liabilities and the recognition of intangible assets acquired in a business combination will be made once the measurement has been done.
- Right-of-use assets increased by 417.4 million Baht resulting from the adoption of TFRS 16 (leases standard) as of 1 January 2020, the Company recognised 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 recognised the carrying amount of the lease asset and lease liability.

- Property, plant and equipment increased by 155.4 million Baht due to the acquisition of Virajsilp hospital and renovation of the existing ones.
- 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 179.5 million Baht. While there are some parts that the company sold for use in investing in new projects.

Liabilities of the Company and the subsidiaries as at June 30, 2020 totaling 5,725.0 million Baht, increasing from total liabilities as at December 31, 2019 by 816.2 million Baht, for the following reasons:

- Long-term borrowings from financial institutions increased by 826.3 million Baht, resulting from investments in the new hospitals and in renovation of the existing hospitals.
- Lease liabilities rose by 18.2 million Baht, resulting from the adoption of TFRS 16 (leases standard) and investments in additional medical supplies and equipment.


Shareholders' equity decreased by 287.9 million Baht from losses incurred by the Company during the period.

The debt-to-equity (D/E) ratio stood at 0.67, 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.

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For your kind acknowledgement.

Yours respectfully.

Signature  \_\_\_\_\_

(Miss Preeyaporn Aphiwathwithaya)

Division Director, Accounting Services