



30 October 2018

At: ACC/HO 032/18

Re: Management Discussion and Analysis
for the three-month period and nine-month ended 30 September 2018

To: President
The Stock Exchange of Thailand

The third quarter is usually the low season for retail businesses, due to the impact of the rainy season, with frequent downpours causing a slowdown in customer traffic. Although the export and tourism sectors expanded, the price of agricultural products remained low, and the level of household debt remains high. Thus, sales in the third quarter did not meet the target.

However, the Company continued to undertake promotional activities to stimulate customer spending. HomePro Fair was held in Muang Thong Thani in July, as well as further HomePro Fair events in growing locations such as Hat Yai. Additionally, a promotional campaign "Celebrate HomePro 22nd anniversary" was held in every HomePro store.

The Company did not open any new store in the third quarter. However, the Company plans to open additional HomePro S stores in the fourth quarter, mainly in Bangkok. Therefore, the numbers of stores by the end of the third quarter for all formats are as follows: (1) HomePro: 82 stores (2) HomePro S: 6 stores (3) Mega Home: 12 stores and (4) HomePro in Malaysia: 6 stores. The Company continues to focus on improving operational efficiency and carrying out plans in line with changing economic trends.

The Company's operating results in the third quarter comprised of total revenue of Baht 16,493.95 million and net profit of Baht 1,365.82, which were higher than the same period of the prior year by 2.09% and 15.45%, respectively. The increase in sales stemmed from sales generated from new stores, while an improvement in the effectiveness of product assortment planning led to the continued expansion of the Company's gross profit margin.

The financial results of the Company and its subsidiaries for the three-month and nine-month period ended 30 September 2018 which has been reviewed by auditor are as follows:

Table 1: Financial Summary for the three-month of year 2018 and 2017

Unit: Million Baht

	Q3'2018	Q3'2017	Increase (Decrease)	% Change
Sales income	15,400.82	15,097.66	303.16	2.01%
Rental and service income	493.36	480.81	12.55	2.61%
Other income	599.77	577.93	21.84	3.78%
Total revenues	16,493.95	16,156.40	337.56	2.09%
Cost of sales	11,157.78	11,132.99	24.79	0.22%
Gross profit	4,243.04	3,964.67	278.37	7.02%
Selling and administrative expenses	3,552.75	3,448.36	104.39	3.03%
Profit before finance cost and income tax expenses	1,783.42	1,575.04	208.38	13.23%
Finance cost	95.39	114.95	(19.56)	(17.01%)
Income tax expenses	322.22	277.09	45.12	16.28%
Profit for the period	1,365.82	1,183.00	182.81	15.45%

The Company's net profit for the third quarter of year 2018 was Baht 1,365.82 million representing an increase of Baht 182.81 million or up by 15.45% over the same period last year. The main reasons are as follows:

- Total revenues were Baht 16,493.95 million, an increase of Baht 337.56 million or up by 2.09%, comprising as the following:
 - Sales income was Baht 15,400.82 million, an increase of Baht 303.16 million or up by 2.01%, which was driven by sales generated from new stores of HomePro, Mega Home, and HomePro in Malaysia which opened since the second half of year 2017 and in the first half of year 2018.
 - Rental and service income amounted to Baht 493.36 million, an increase of Baht 12.55 million or up by 2.61%, which resulted from higher rental income from Market Village.
 - Other income was Baht 599.77 million, an increase of Baht 21.84 million or up by 3.78% due to higher support fee from promotional activities with suppliers.

2. Gross profit was Baht 4,243.04 million, an increase of Baht 278.37 million or up by 7.02% over the same period last year. Moreover, gross profit margin as a percentage of sales has increased from 26.26% in previous year to 27.55% which resulted from changes in product sales mix of both general merchandise and directly sourced private-label goods. Furthermore, there was a continuous improvement in product assortment planning from HomePro.
3. Selling and administrative expenses (SG&A) amounted to Baht 3,552.75 million, an increase of Baht 104.39 million or up by 3.03% as compared with the previous year. The amount increases were mainly driven by rise in personnel expenses, cost of transportation, rental expenses, maintenance expenses, and marketing expenses. In addition, SG&A as a percentage of sales has marginally increased from 22.84% in previous year to 23.07%.
4. Finance cost was Baht 95.39 million, a decrease of Baht 19.56 million or down by 17.01%, resulted from lower cost of debt from refinancing bond issued in the first quarter of year 2018.
5. Income tax expenses were Bath 322.22 million, an increase of Baht 45.12 million or up by 16.28% as compared with the previous year. This was due to higher earnings before tax.

Table 2: Financial Summary for the nine-month of year 2018 and 2017

Unit: Million Baht

	9M'2018	9M'2017	Increase (Decrease)	% Change
Sales income	45,720.21	44,170.62	1,549.60	3.51%
Rental and service income	1,437.25	1,378.99	58.26	4.22%
Other income	1,701.55	1,651.67	49.88	3.02%
Total revenues	48,859.00	47,201.27	1,657.73	3.51%
Cost of sales	33,317.61	32,646.86	670.75	2.05%
Gross profit	12,402.60	11,523.75	878.85	7.63%
Selling and administrative expenses	10,411.53	10,068.61	342.92	3.41%
Profit before finance cost and income tax expenses	5,129.86	4,485.80	644.06	14.36%
Finance cost	291.67	349.48	(57.81)	(16.54%)
Income tax expenses	911.34	775.89	135.45	17.46%
Profit for the period	3,926.85	3,360.43	566.42	16.86%

The Company's net profit for the nine-month of year 2018 was Baht 3,926.85 million representing an increase of Baht 566.42 million or up by 16.86% over the same period last year. The main reasons are as follows:

1. Total revenues were Baht 48,859.00 million, an increase of Baht 1,657.73 million or up by 3.51%, comprising as the following:
 - Sales income was Baht 45,720.21 million, an increase of Baht 1,549.60 million or up by 3.51%, which was driven by same store sales growth of HomePro and HomePro in Malaysia as well as sales generated from new stores of HomePro, Mega Home, and HomePro in Malaysia which opened since the second half of year 2017 and in the first half of year 2018.
 - Rental and service income amounted to Baht 1,437.25 million, an increase of Baht 58.26 million or up by 4.22%, which resulted from higher rental income from Market Village and new leasable areas of HomePro's stores.
 - Other income was Baht 1,701.55 million, an increase of Baht 49.88 million or up by 3.02% due to higher support fee from promotional activities with suppliers and service income under "Home Service" program.

2. Gross profit was Baht 12,402.60 million, an increase of Baht 878.85 million or up by 7.63% over the same period last year. Moreover, gross profit margin as a percentage of sales has increased from 26.09% in previous year to 27.13% which resulted from change in product sales mix of both general merchandise and directly sourced private-label goods. Furthermore, there was a continuous improvement in product assortment planning from HomePro and Mega Home.
3. Selling and administrative expenses (SG&A) amounted to Baht 10,411.53 million, an increase of Baht 342.92 million or up by 3.41% as compared with the previous year. The amount increases were mainly driven by rise in personnel expenses, cost of services to customers, cost of transportation, rental expenses and maintenance expenses. However, SG&A as a percentage of sales has marginally improved, which led to a decrease from 22.79% in previous year to 22.77%.
4. Finance cost was Baht 291.67 million, a decrease of Baht 57.81 million or down by 16.54%, resulted from the lower cost of debt from refinancing bond issued in the first quarter of year 2018.
5. Income tax expenses were Bath 911.34 million, an increase of Baht 135.45 million or up by 17.46% as compared with the previous year. This was due to higher earnings before tax.

Please be informed accordingly.

Sincerely yours,

(Ms.Wanee Juntamongkol)

Senior Vice President – Accounting and Finance