

Management Discussion and Analysis for the 1st Quarter 2017 ended May 31, 2017

AEON Thana Sinsap (Thailand) Public Company Limited (“the Company”) has already submitted the consolidated reviewed the 1st quarter financial statements as of May 31, 2017 which were reviewed by Deloitte Touche Tohmatsu Jaiyos Audit Company Limited. The Company has net profit attributed to owners of the parent of 618 million baht or 2.47 baht per share. The financial performance can be summarized as follows.

Overview

Overall, the Thai economy in the first quarter expanded by 3.3%, higher than 3.0% growth in the previous quarter, according to data from Bank of Thailand and NESDB. This was mainly from acceleration of export sector and tourism sector continued to recover. In addition, the household consumption expanded gradually, in line with the expansion of consumption expenditure on durable goods and greater consumer confidence, as well as improvements in farm income. Meanwhile, private investment continued to decline.

As of May 31, 2017, the Company’s total cards reached 7.87 million cards (including 2.40 million credit cards and 5.47 million member cards), net increasing by 59,000 cards from February 28, 2017. Covering networks nationwide, the Company has 110 branches, 468 ATMs, and over 17,500 member dealers to provide quality financial services to AEON cardholders.

Operating Results

Revenues

In the first quarter of 2017, the total consolidated revenues were 4,389 million baht, the same level as last year. The revenues for the Company only were 4,195 million baht, increasing by 113 million baht or 3% from last year. The revenues growth came from an increase in credit card income and bad debt recovery. As of May 31, 2017, The Company has active billings of 3.42 million accounts per month with active customers of 2.15 million IDs, mainly from Bangkok 31%, and in up-country 69%. Details of each business can be described as follows:

- Credit Card

Credit cards turnover shared 54% of total turnovers. In the first quarter of 2017, revenues from credit card were 1,619 million baht, showing an increase of 38 million baht or 2% from the same period last year, and represented 37% of total revenues. This was due to the fact that the Company has focused on promotional activities were also organized jointly with leading shops and department stores. In May 2017, the Company cooperated with Big C Supercenter Public Company Limited to launch the Big C Platinum payWave Credit

Card and Big C Exclusive Card, which offering privileges under the concept “Daily happiness for shopping at Big C”. The Big C Platinum payWave Credit Card offers special discount of 3% to our cardholders when spending at Big C Supercenter and also enjoy 0% interest rate for 6 months installment payment with AEON Happy Plan when purchasing electrical appliances. The Big C Exclusive Card offers exclusive privileges to cardholders get special interest rate at 0% for 3 months installment payment or 0.59% interest rate for 18 months installment payment with AEON Purpose Loan when purchasing electrical appliances. This new card will expand its credit card share.

- Loans

In the first quarter of 2017, loans shared 39% of total turnovers (shared 21% from personal loan and 18% from purposed loan for mobile phone, IT products, electrical appliances and etc. at department stores and over 17,500 dealers nationwide) with the revenues of 2,273 million baht , the same level as last year and shared 52% of total revenues. This was contributed from loan income from AEON Microfinance (Myanmar) Company Limited, which grew by 68% from last year and AEON Specialized Bank (Cambodia) Plc grew by 28% from last year. In addition, the Company has expanding more service channels providing more convenience to customers and this also saved the Company's operation cost.

- Hire Purchase

In the first quarter of 2017, motorcycle hire purchase in Thailand and electrical appliances, mobile phone and etc. in oversea business, sharing 2% of total turnovers with revenues of 97 million baht, a decrease of 8 million baht or 8% from the same period last year. This was mainly contributed from hire purchase income from AEON Specialized Bank (Cambodia) Plc and AEON Leasing (Lao) Company Limited. However, the company has continued launching promotions with motorcycle manufacturers and suppliers, as well as increased distribution channels for motorcycle sales through our branches.

- Other

In the first quarter of 2017, other incomes were 399 million baht, showing an increase of 17 million baht or 4% from last year and represented 9% of total revenues. This was as a result of an increase in bad debt recovery from 113 million baht to 140 million baht, which grew by 25% from last year. Moreover, the income for the first quarter of 2017 of company's subsidiaries in Thailand, the Company had commission income of 121 million baht, increasing by 2% y-y from AEON Insurance Service (Thailand) Co., Ltd. and collection service income of 32 million baht from ACS Servicing (Thailand) Co., Ltd. accordingly and others.

Expenses

The Company's expenses mainly consist of operating and administrative expenses, bad debt and doubtful accounts and finance cost. In the first quarter of 2017, the Company had total consolidated expenses of 3,634 million baht, a decrease of 40 million baht or 1% from last year. Mainly came from a decrease in bad debt and doubtful accounts, as well as the finance cost continued to decline. Details of expenses are shown as follows:

- Operating and Administrative Expenses

In the first quarter of 2017, the operating and administrative expenses were 1,956 million baht, an increase of 76 million baht or 4% from last year. This was as a result of an increase in marketing expenses, increase in personal expense caused by increasing employment of the Company's subsidiaries, increases in rental cost of the Company's subsidiaries, as well as a business expansion of the oversea subsidiaries to increase customer base. In terms of proportion to total revenues, operating and administrative expenses represented 45% of total revenues. Considering the Company's separate financial statement, the operating and administrative expenses as a percentage of revenues represented 43% in the first quarter of 2017.

- Bad debt and Doubtful accounts

In the first quarter of 2017, the Company posted bad debt and doubtful accounts of 1,152 million baht, a decrease of 88 million baht, or 7% from the same period last year and decreased 4% from the previous quarter . Mainly came from efficiency improvement in collection and credit judgment.

- Finance Cost

In the first quarter of 2017, the Company had finance cost of 523 million baht, a decrease of 29 million baht or 5% from the same period last year. Key factors were well-managed funding cost and lower interest rate. However, finance cost in the first quarter of 2017 accounted for 12% of total revenues, slightly decreased from 13% in the previous year. This was because the Company's policy is to manage liquidity risk and interest rates fluctuation risk by mainly locking in long-term borrowing, represented 69% of total borrowing and weight average funding cost at 3.67% in the first quarter of 2017, decreased from 3.85% in the first quarter of 2016.

Net Profit

In the first quarter of 2017, the Company had consolidated operating income of 754 million baht, an increase of 96 million baht or 15% from last year and reported net profit attributed to owners of the parent of 618 million baht, an increase of 102 million baht or 20% from last year, and earning per share was 2.47 baht per share. Excluding the gains on sale of written-off accounts receivable, the net profit grew 26% from the fourth quarter last year. An increase in net profit mainly due to a decline in bad debt and doubtful accounts and finance cost.

Financial Status

Total Assets

As of May 31, 2017, consolidated total assets were 71,746 million baht, a decrease of 892 million baht or 1% from 72,638 million baht as of February 28, 2017. The main assets were attributed to the portfolio of net account receivables which shared 89% of total assets.

- Accounts Receivable

The Company had gross accounts receivable of 65,844 million baht (both current assets and non-current assets) as of May 31, 2017, the same level as of February 28, 2017. This can be categorized by business type as follows: credit card receivable 28,699 million baht, loans receivable 35,632 million baht, hire purchase receivable 1,383 million baht and other receivable 130 million baht.

- Allowance for doubtful accounts

As of May 31, 2017, the Company provided allowance for doubtful accounts of 2,226 million baht or 3.38% of total accounts receivable, comparing to that of 2,259 million baht or 3.42% of total accounts receivable at the end of previous fiscal year. The percentage account receivable 3 months overdue or non-performing loan ratio was 2.49%, decreased from 2.71% in the fiscal year 2016. The Company was able to control accounts receivable overdue more than 3 months better than last year. The coverage ratio of allowance for doubtful accounts to accounts receivable overdue more than 3 months (NPLs) was 136% in the first quarter of 2017, increased from 126% at the end of fiscal year 2016, reflecting the adequacy of the Company's provision for doubtful accounts.

Liabilities

The consolidated liabilities of the Company as of May 31, 2017 totaled 57,383 million baht, a decrease of 1,482 million baht, or 3% from 58,865 at the end of fiscal year 2016. There were both short-term and long-term borrowings totally 53,806 million baht. The portion of long-term borrowings was 37,179 million baht or represented 69% of total borrowings.

To manage risk that might occur from the fluctuation in currency and interest rate of long-term a debenture in foreign currencies, the Company has entered into cross currency interest rate swap contracts to hedge its debt.

Shareholders' Equity

As of May 31, 2017, total shareholders' equity amounted to 14,363 million baht, increasing by 590 million baht, or 4% over the end of fiscal year 2016. Consequently, Book value as of May 31, 2017 was 57.5 baht per share, increasing from that of 55.1 baht per share as of February 28, 2017.

Debt to Equity ratio as of May 31, 2017 decreased to 4 times. Return on Equity and Return on Asset equaled to 17.6% and 3.4%, respectively.