



25 July 2017

At: ACC/HO 037/60

Re: Management Discussion and Analysis
for the three-month period and six-month ended 30 June 2017

To: President
The Stock Exchange of Thailand

The Thai economy expanded in the 2nd quarter driven by the export and tourism sectors. However farm income growth is still subdued, as prices for most agricultural products remain low, resulting in a fragile recovery in consumption. This has also been effected by the reduction of spending stimulus measures by the government compared to last year. Furthermore, the early rainy season has adversely affected the sales of cooling items, and the opening of new stores in the vicinity of existing stores in Bangkok at Rama 9 and Srinakarin has also resulted in a cannibalization effect. Consequently, same store sales growth for HomePro did not meet target.

However, in response to the above effects, the Company has organized various activities to stimulate sales. For example, the HomePro Fair was rolled out to the provincial area in the second quarter and was well received. The introduction of new format, 'HomePro S', to expand the customer base by capturing the younger generation. The Company continues to focus on optimizing the profitability of each product segment, such as increasing sales mix of direct sourcing, product assortment planning and the improvement in the quality of goods, as well as improving and controlling the internal operational efficiency of the Company.

During the second quarter, the Company continued to pursue its long-term business plan. Two new HomePro stores were opened: at Tesco Lotus Bangkae and HomePro S at Gateway Ekamai. At the end of the second quarter there were 82 HomePro stores operating. Mega Home was also affected by the weak purchasing power of consumers and the early rainy season. However, the Mega Home business has improved its operational cost management and has benefited from economies of scale. For the HomePro business in Malaysia, one new store has been opened in Melaka with satisfactory results. At the end of the second quarter, the Company operated 82 Homepro stores, 11 Mega Home stores, and 3 HomePro stores in Malaysia. As of now, the overall operational results still can be met as planned.

The financial results of the Company and its subsidiaries for the three-month and six-month ended 30 June 2017 which has been reviewed by auditor as follows:

Table1: Financial Summary for the three-month of year 2016 and 2017

Unit: Million Baht

	Q2'2017	Q2'2016	Increase (Decrease)	% Change
Sales income	14,802.27	14,626.34	175.93	1.20%
Rental and service income	417.12	411.84	5.28	1.28%
Other income	554.09	597.04	(42.95)	(7.19%)
Total revenues	15,773.47	15,635.22	138.25	0.88%
Cost of sales	10,954.58	10,911.09	43.49	0.40%
Gross profit	3,847.69	3,715.25	132.44	3.56%
Selling and administrative expenses	3,313.56	3,344.76	(31.20)	(0.93%)
Profit before finance cost and income tax expenses	1,505.33	1,379.37	125.96	9.13%
Finance cost	124.48	130.06	(5.59)	(4.30%)
Income tax expenses	249.66	258.64	(8.98)	(3.47%)
Profit for the period	1,131.20	990.67	140.53	14.19%

The Company's net profit for the second quarter of year 2017 was Baht 1,131.20 million representing an increase of Baht 140.53 million or up by 14.19% over the same period last year. The main reasons are as follows:

1. Total revenues were Baht 15,773.47 million, an increase of Baht 138.25 million or up by 0.88% as compared with last year, comprising of the following:
 - Sales income was Baht 14,802.27 million, an increase of Baht 175.93 million or up by 1.20%, which was driven sales from new stores of HomePro, Mega Home, and HomePro in Malaysia.
 - Rental and service income amounted to Baht 417.12 million, an increase of Baht 5.28 million or up by 1.28%, which resulted from higher rental income from the additional HomePro's leasable areas of new stores expansion in the second half of previous year.
 - Other income was Baht 554.09 million, a decrease of Baht 42.95 million or down by 7.19% due to the shift of joint marketing activities with suppliers to the second half of this year.

2. Gross profit was Baht 3,847.69 million, an increase of Baht 132.44 million or up by 3.56% over the same period last year. In addition, gross profit margin as a percentage of sales has increased from 25.40% in the second quarter of 2016 to 25.99% due to change in product sales mix of both general merchandise and directly sourced private-label goods, product assortment planning and increasing in gross profit margin from Mega Home business which benefited from economies of scale.
3. Selling and administrative expenses (SG&A) amounted to Baht 3,313.56 million, an decrease of Baht 31.20 million or down by 0.93% as compared with last year. The decreases were mainly from utility expense and cost related to sales such as marketing expense. Furthermore, SG&A as a percentage of sales has marginally improved, resulting to the decrease from 22.87% in the second quarter of year 2016 to 22.39% in 2017. This decrease was due to the improvement in cost efficiency.
4. Finance cost was Baht 124.48 million, a decrease of Baht 5.59 million or down by 4.30% as compared to last year, due to the lower cost of debt from refinancing bond issued in the second half of year 2016 and second quarter of year 2017. In addition, the Company has been closely monitoring the financial debt to equity ratio to be in the appropriate level.
5. Corporate income tax was Bath 249.66 million, a decrease of Baht 8.98 million or down by 3.47% as compared with the previous year. This is due to the tax benefit from capital expenditure in year 2016.

Table2: Financial Summary for the six-month of year 2016 and 2017

Unit: Million Baht

	1H'2017	1H'2016	Increase (Decrease)	% Change
Sales income	29,072.96	28,257.86	815.10	2.88%
Rental and service income	898.18	886.47	11.71	1.32%
Other income	1,074.90	1,102.70	(27.80)	(2.52%)
Total revenues	31,046.04	30,247.03	799.01	2.64%
Cost of sales	21,513.87	21,130.08	383.79	1.82%
Gross profit	7,559.09	7,127.78	431.30	6.05%
Selling and administrative expenses	6,621.41	6,526.57	94.84	1.45%
Profit before finance cost and income tax expenses	2,910.76	2,590.38	320.38	12.37%
Finance cost	234.54	248.51	(13.97)	(5.62%)
Income tax expenses	498.80	485.02	13.77	2.84%
Profit for the period	2,177.43	1,856.85	320.58	17.26%

The Company's net profit for the second half of year 2017 was Baht 2,177.43 million representing an increase of Baht 320.58 million or up by 17.26% over the same period last year.

The main reasons are as follows:

- Total revenues were Baht 31,046.04 million, an increase of Baht 799.01 million or up by 2.64% as compared with last year, comprising of the following:
 - Sales income was Baht 29,072.96 million, an increase of Baht 815.10 million or up by 2.88%, which was driven sales from new stores of HomePro, Mega Home, and HomePro in Malaysia.
 - Rental and service income amounted to Baht 898.18 million, an increase of Baht 11.71 million or up by 1.32%, which resulted from higher rental income from the additional HomePro's leasable areas of new stores expansion in the second half of previous year.
 - Other income was Baht 1,074.90 million, a decrease of Baht 27.80 million or down by 2.52% due to the shift of joint marketing activities with suppliers to the second half of this year.
- Gross profit was Baht 7,559.09 million, an increase of Baht 431.30 million or up by 6.05% over the same period last year. In addition, gross profit margin as a percentage of sales has increased from 25.22% in the second quarter of 2016 to 26.00% due to change in product

sales mix of both general merchandise and directly sourced private-label goods, product assortment planning and increasing in gross profit margin from Mega Home business which benefited from economies of scale.

3. Selling and administrative expenses (SG&A) amounted to Baht 6,621.41 million, an increase of Baht 94.84 million or up by 1.45% as compared with last year. The increases were mainly from cost of services to customers and depreciation expense. However, SG&A as a percentage of sales has marginally improved, resulting to the decrease from 23.10% in the first half of year 2016 to 22.78% in 2017. This decrease was due to the improvement in cost efficiency
4. Finance cost was Baht 234.54 million, a decrease of Baht 13.97 million or down by 5.62% as compared to last year, due to the lower cost of debt from refinancing bond issued in the second half of year 2016 and second quarter of year 2017. In addition, the Company has been closely monitoring the financial debt to equity ratio to be in the appropriate level.
5. Corporate income tax was Bath 498.80 million, an increase of Baht 13.77 million or up by 2.84% as compared with the previous year. This is due to the higher earnings before taxes.

Please be informed accordingly.

Sincerely yours,

(Ms. Wannee Juntamongkol))

Senior Vice President – Accounting and Finance