

Management Discussion and Analysis for the 2st Quarter 2017 ended August 31, 2017

AEON Thana Sinsap (Thailand) Public Company Limited (“the Company”) has already submitted the consolidated reviewed the 2st quarter financial statements as of August 31, 2017 which were reviewed by Deloitte Touche Tohmatsu Jaiyos Audit Company Limited. The operating performance is summarized as follows.

Overview

According to Bank of Thailand and Office of the National Economic and Social Development Board (NESDB), Thai Economy expanded by 3.7% in the second quarter higher than 3.3% in the previous quarter. This was mainly from the acceleration of exports, goods, and services in line with the pick up of the trading partner economy and the world trade volume. In addition, tourism sector and the agricultural sector expanded continually, as well as improvement in public consumption and private investment. While, public investment declined.

As of August 31, 2017, the Company's total cards reached 7.96 million cards (including 2.45 million credit cards and 5.51 million member cards). Covering networks nationwide, the Company has 107 branches, 471 ATMs, and over 17,500 member dealers to provide quality financial services to AEON cardholders.

Operating Results

Revenues

In the first half of fiscal year 2017, the total consolidated revenues were 8,930 million baht, showing an increase of 150 million baht or 2% y-y. In second quarter, The Company's revenues was 4,541 million baht, increasing by 2% y-y and 3% q-q. This is the result of increase in credit card income and bad debt recovery as well as debt collection service. As of August 31, 2017, Company has active billings of 3.4 million transaction per month and 2.2 million IDs which came from Bangkok 31% and up-country 69%. Details of each business can be described as follows:

- Credit Card

In the first half year of 2017, credit cards turnover accounted 55% of total turnovers with revenue of 3,325 million baht, increasing 2% y-y. In the second quarter, credit card revenue was 1,706 million baht, increasing 2% y-y and 5% q-q. This is the result of company that reviewed credit line limit to inline with their incomes for all customers as well as became a partner with Big C Supercenter Public

Company Limited and launched Big C Platinum Paywave credit card and Big C Exclusive card to expand customers base. In addition, the Company also has new promotions with shopping mall centers such as the Mall Group Company Limited, Central Pattana Public Company Limited, and Robinson Public Company Limited as well as more activities to encourage customer's spending through AEON credit card. The Company launched AEON Shop Plus and offered gifts for credit card purchase that reach specific amount. The Company also focuses to increase more customers by promoting online registration, increase more customer service points to receive applications. Thus, company promotes online register as well as more places to submit the application forms in the shopping stores all over the country.

- Loans

In the first half year of 2017, loans shared 39% of total turnovers (shared 23% from personal loan and 15% from purposed loan for mobile phones, IT products, electrical appliances and etc. at department stores and over 17,500 dealers nationwide) with the revenue of 4,561 million baht, the same level as last year. Second quarter revenue was 2,288 million baht increasing 1% q-q. Loan income from AEON Microfinance (Myanmar) Company Limited, which grew by 64% y-y and AEON Specialized Bank (Cambodia) Plc grew by 26% y-y. In addition, the Company also partners with retail stores to provide more installment loans. The Company provides more channels to facilitate financial services to customers and reduce Company's operation cost.

- Hire Purchase

In the first half of 2017, motorcycle hire purchase in Thailand and electrical appliances, mobile phone and etc. in oversea business, sharing 1% of total turnovers with revenues of 192 million baht, a decrease of 7% y-y. In second quarter, the Company revenue was 95 million baht, decreasing 6% y-y and 2% q-q. This was mainly contributed from hire purchase income from AEON Specialized Bank (Cambodia) Plc that increased 2% q-q and AEON Leasing Service (Lao) Company Limited that increased 106% q-q. This means that oversea business expansion is growing .Thus; the Company has continued launching promotions with motorcycle manufacturers and suppliers, as well as increase distribution channels for motorcycle sales through our branches.

- Others

In the first half of 2017, other incomes were 851 million baht, showing an increase of 12% y-y and represented 10% of total revenues. Most of revenues came from bad debt recovery at 291 million baht or 3% of total revenues that increased 23% from last year. In second quarter, other income revenue was 452 million baht which increased 19% y-y and 13% q-q. This is the result of higher revenue from debt

collection service and bad debt recovery. Moreover, the income for the first half year of 2017 of company's subsidiaries in Thailand, the Company had commission income of 242 million baht, increasing by 2% y-y from AEON Insurance Service (Thailand) Co., Ltd. and collection service income of 114 million baht, increasing 9% y-y from ACS Servicing (Thailand) Co., Ltd. The Company has plans to increase fees base in the future.

Expenses

The Company's expenses mainly consist of operating and administrative expenses, bad debt and doubtful accounts and finance cost. In the first half of 2017, the Company had total consolidated expenses of 7,329 million baht, a decrease of 75 million baht or 1% y-y. For the second quarter, the consolidated expenses were 3,695 million baht, decreasing by 35 million baht or 1% y-y. This 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

For the first half 2017, the consolidated operating and administrative expense were 4,002 million baht, increasing by 6% y-y and represented 45% of total revenues. For the second quarter of 2017, the consolidated operating and administrative expenses were 2,042 million baht, increasing by 8% y-y, 4% q-q and represent 45% of total revenues. The expenses increase came from advertising expenses due to the continuation of Big C campaign to increase new target group of customers, higher personal expense for support sales growth as well as oversea business expansion.

- Bad debt and Doubtful accounts

The consolidated bad debts and doubtful accounts, in the first half 2017, amounted to 2,286 million baht, decreasing by 10% y-y. For the second quarter of 2017, the Company recorded bad debts and doubtful accounts of 1,135 million baht, decreasing by 13% y-y and 1% q-q which mainly came from continued improvement in asset quality since 2015 and efficiency improvement in collection and credit judgment.

- Finance Cost

In the first half 2017, The Company recorded finance cost of 1,041 million baht, decreasing by 4% y-y. For the second quarter, the finance cost was 518 million baht, decreasing by 3% y-y and 1% q-q.

However, finance cost in the second quarter accounted for 11% of total revenues decreased from 12% in Q2/2016. The average funding cost decreased from 3.71% in Q2/2016 to 3.44% in Q2/2017.

Net Profit

For the first half of 2017, consolidated operating income was reported at 1,599 million baht increasing 16% y-y. However, net profit from the Company was 1,289 million baht increasing 18% y-y or 5.15 baht per share. For the second quarter of 2017, the Company had consolidated operating income of 845 million baht and reported net profit attributed to owners of the parent of 671 million baht, increased by 99 million baht or 17% y-y and 9% q-q, and earning per share was 2.68 baht. The net profit increase because of decline in bad debt and doubtful account as well as lower finance cost.

Financial Status

Total Assets

As of August 31, 2017, consolidated total assets were 76,442 million baht, an increase of 3,804 million baht or 5% from 72,638 million baht as of February 28, 2017. The main assets were attributed to the portfolio of net account receivables which shared 90% of total assets.

- Accounts Receivable

The Company has gross accounts receivable of 70,745 million baht (both current assets and non-current assets) as of August 31, 2017, increasing 7% from as of February 28, 2017. This can be categorized by business type as follows: credit card receivable 31,738 million baht, increasing 11% y-y; loans receivable 37,556 million baht, increasing 5% y-y; hire purchase receivable 1,324 million baht and other receivable 127 million baht.

- Allowance for doubtful accounts

As of August 31, 2017, the Company provided allowance for doubtful accounts of 2,319 million baht or 3.28% 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 month's overdue or non-performing loan ratio was 2.52%, 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 130% in the second quarter of 2017, increased from 126% at the end of fiscal year 2016.

Liabilities

The consolidated liabilities of the Company as of August 31, 2017 totaling 61,884 million baht, an increase of 3,019 million baht, or 5% from 58,865 million baht at the end of fiscal year 2016. This is a result of both short-term and long-term borrowings totally 57,587 million baht, increasing 3% from the end of fiscal year 2016. The portion of long-term borrowings was 37,539 million baht or represented 65% of total borrowings, decreasing from 71% of fiscal year 2016; the higher short term borrowing are financed to support turnovers growth.

Shareholders' Equity

As of August 31, 2017, total shareholders' equity amounted to 14,559 million baht, increasing by 786 million baht, or 6% over the end of fiscal year 2016. Consequently, book value as of August 31, 2017 was 58.2 baht per share, increasing from 55.1 baht per share as of February 28, 2017.

Debt to Equity ratio as of August 31, 2017 remained constant at 4.3 times. Return on Equity and Return on Asset for six month period are 18.2% and 3.5%, respectively.

The Company also announces to pay interim dividend of six month performance at the amount 1.60 baht per share or 31% payout ratio. The shareholder register book for the right to receive dividends shall be recorded on October 20, 2017 and dividend will be paid on 6 November 2017.