



30 October 2017

At: ACC/HO 057/60

Re: Management Discussion and Analysis
for the three-month and nine-month periods ended 30 September 2017

To: President
The Stock Exchange of Thailand

Homepro's overall sales performance for the third quarter has improved from the previous quarter, especially in greater Bangkok and the big cities. This is in line with the improvement in the Thai economy, which has been mainly driven by improvements in tourism and industries related to the export sector. In contrast, provinces that rely on agriculture have not yet seen a clear pick-up, despite higher agricultural production, as farm income has remained subdued due to falls in market prices. Nevertheless, overall domestic demand grew at a moderate pace, and durable goods consumption has slowly picked up.

The performance of the Company this quarter is still in line with plan, especially the Homepro business, which continues to increase its efficiency and improve merchandise management. This includes the conversion of two stores of HomePro Living to stores of HomePro S: at The Paseo Ladkrabang, and at the Korat store in the Terminal 21 shopping center in Nakorn Ratchasima province. These HomePro S's remodeled stores are designed to meet the demand from customers in three main areas: the "Small concept" - a cozy compact style, located in shopping centers; the "Select concept" - to serve all customer needs for repairs, improvements and replacements; and the "Service concept" - home service by a professional Homepro team.

The store expansion plan continued during the third quarter. A store of Mega Home was opened in Chiang Rai to serve customers in the North, and 2 new stores of Homepro were opened in Malaysia, at Ipoh and Penang, which will benefit from greater economies of scale. As a result, at the end of third quarter, the Company had 84 Homepro stores and 12 Mega Home stores operating in Thailand, in addition to 5 stores of HomePro in Malaysia. At present overall results are still meeting expectations.

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

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

Unit: Million Baht

	Q3'2017	Q3'2016	Increase (Decrease)	% Change
Sales income	15,097.66	13,816.28	1,281.38	9.27%
Rental and service income	480.81	454.17	26.64	5.86%
Other income	577.93	538.08	39.85	7.41%
Total revenues	16,156.40	14,808.53	1,347.87	9.10%
Cost of sales	11,132.99	10,307.09	825.90	8.01%
Gross profit	3,964.67	3,509.18	455.49	12.98%
Selling and administrative expenses	3,448.36	3,168.64	279.72	8.83%
Profit before finance cost and income tax expenses	1,575.04	1,332.79	242.25	18.18%
Finance cost	114.95	131.70	(16.75)	(12.72%)
Income tax expenses	277.09	252.68	24.42	9.66%
Profit for the period	1,183.00	948.42	234.58	24.73%

The Company's net profit for the third quarter of year 2017 was Baht 1,183.00 million representing an increase of Baht 234.58 million or up by 24.73% over the same period last year. The main reasons are as follows:

- Total revenues were Baht 16,156.40 million, an increase of Baht 1,347.87 million or up by 9.10% as compared with last year, comprising of the following:
 - Sales income was Baht 15,097.66 million, an increase of Baht 1,281.38 million or up by 9.27%, which was driven by same store sales growth of Homepro business and sales from new stores of HomePro, Mega Home, and HomePro in Malaysia.
 - Rental and service income amounted to Baht 480.81 million, an increase of Baht 26.64 million or up by 5.86%, which resulted from higher rental income from leasable areas of new HomePro's stores opened in 2016.
 - Other income was Baht 577.93 million, an increase of Baht 39.85 million or up by 7.41% due to higher support fee of promotional activities and service income under "Home Service" program.

2. Gross profit was Baht 3,964.67 million, an increase of Baht 455.49 million or up by 12.98% over the same period last year. In addition, gross profit margin as a percentage of sales has increased from 25.40% in the third quarter of 2016 to 26.26% 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 and HomePro in Malaysia which benefited from greater economies of scale.
3. Selling and administrative expenses (SG&A) amounted to Baht 3,448.36 million, an increase of Baht 279.72 million or up by 8.83% as compared with last year. The amount increases were mainly driven by the rise in personnel expenses, cost of services to customers, depreciation expense, and marketing expense. However, SG&A as a percentage of sales has marginally improved, resulting to the decrease from 22.93% in the third quarter of year 2016 to 22.84%. This decrease was due to the improvement in cost efficiency.
4. Finance cost was Baht 114.95 million, a decrease of Baht 16.75 million or down by 12.72% 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 277.09 million, an increase of Baht 24.42 million or up by 9.66% as compared with the previous year. This was due to the higher earnings before tax.

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

Unit: Million Baht

	9M'2017	9M'2016	Increase (Decrease)	% Change
Sales income	44,170.62	42,074.14	2,096.48	4.98%
Rental and service income	1,378.99	1,340.64	38.35	2.86%
Other income	1,651.67	1,640.78	10.89	0.66%
Total revenues	47,201.27	45,055.56	2,145.72	4.76%
Cost of sales	32,646.86	31,437.17	1,209.69	3.85%
Gross profit	11,523.75	10,636.96	886.79	8.34%
Selling and administrative expenses	10,068.61	9,695.21	373.40	3.85%
Profit before finance cost and income tax expenses	4,485.80	3,923.18	562.62	14.34%
Finance cost	349.48	380.21	(30.72)	(8.08%)
Income tax expenses	775.89	737.70	38.19	5.18%
Profit for the period	3,360.43	2,805.27	555.16	19.79%

The Company's net profit for the nine-month period of year 2017 was Baht 3,360.43 million representing an increase of Baht 555.16 million or up by 19.79% over the same period last year. The main reasons are as follows:

- Total revenues were Baht 47,201.27 million, an increase of Baht 2,145.72 million or up by 4.76% as compared with last year, comprising of the following:
 - Sales income was Baht 44,170.62 million, an increase of Baht 2,096.48 million or up by 4.98%, which was driven by sales from new stores of HomePro, Mega Home, and HomePro in Malaysia.
 - Rental and service income amounted to Baht 1,378.99 million, an increase of Baht 38.35 million or up by 2.86%, which resulted from higher rental income from leasable areas of new HomePro's stores opened in 2016.
 - Other income was Baht 1,651.67 million, an increase of Baht 10.89 million or slightly up by 0.66% due to higher service income under "Home Service" program. The marginal increase was due to the shift of marketing activities to the fourth quarter of 2017.
- Gross profit was Baht 11,523.75 million, an increase of Baht 886.79 million or up by 8.34% over the same period last year. In addition, gross profit margin as a percentage of sales has increased from 25.28% in the nine-month period of 2016 to 26.09% 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 and HomePro in Malaysia which benefited from greater economies of scale.

3. Selling and administrative expenses (SG&A) amounted to Baht 10,068.61 million, an increase of Baht 373.40 million or up by 3.85% as compared with last year. The amount increases were mainly driven by the rise in personnel expenses, cost of services to customers, depreciation expense, and marketing expense. However, SG&A as a percentage of sales has marginally improved, resulting to the decrease from 23.04% in the nine-month period of year 2016 to 22.79%. This decrease was due to the improvement in cost efficiency.
4. Finance cost was Baht 349.48 million, a decrease of Baht 30.72 million or down by 8.08% 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 775.89 million, an increase of Baht 38.19 million or up by 5.18% as compared with the previous year. This was due to the higher earnings before taxes.

Please be informed accordingly.

Sincerely yours,

(Ms. Wannee Juntamongkol)

Senior Vice President – Accounting and Finance