



27 February 2018

At: ACC/HO 011/61

Re: Management Discussion and Analysis for the year ended 31 December 2017

To: President  
The Stock Exchange of Thailand

In the first half of 2017 the Thai economy remained sluggish, due to weak purchasing power and the lack of any specific measures from the government. In the second half of 2017, the economy moved in a positive direction driven by industrial expansion, the tourism sector and a recovery in exports due to an improvement in the economies of our trading partners. As a result there has been an increase in the purchasing power of consumers in major cities linked to tourism and the export sector. In contrast, consumer spending in some provinces linked to the agricultural sector continued to decelerate in line with lower farm income due to the low price of agricultural products. However, the government has been trying to stimulate the economy and revive consumer confidence by launching economic stimulus measures such as "Shopping for the Nation", which was held for the third consecutive year from mid-November to early December.

The performance of the Company and its subsidiaries continued to grow, recording total revenue and profit at baht 64,234.49 million and baht 4,886.39 million respectively, increase 5.05% and 18.45% from the previous year, even though in the first half of the year the target was not met due to the slowdown of the economy and the weakness of consumer buying power. However, in the second half of the year, the economy has shown signs of recovery in both the tourism and export sectors. As a result, the performance of stores in major cities and the cities that benefit from the tourism sector has improved over the past period. Moreover, the Company has generated cost efficiencies in terms of staff optimization and administrative expenses, along with the expansion of gross profit margin through the selection and improvement of product quality to better meet the needs of customers.

In 2017, the Company opened 1 HomePro stores at Lotus Bangkae and opened 1 HomePro S store at Gateway Ekamai. Also, 2 HomePro Living stores have been converted to HomePro S at The Paseo Ladkrabang and Terminal Korat. For subsidiaries, the Company opened 1 Mega Home store in Chiang Rai and added 4 more HomePro stores in Malaysia at Melaka, Penang, Ipoh, and Johor Baru. At the end of the year, the Company had 81 HomePro stores, 3 HomePro S stores and 12 Mega

Home stores, as well as 6 HomePro stores in Malaysia. Continuing expansion of new stores in Malaysia is to achieve economy of scale and to reach more customers in different areas.

The Company would like to thank all stakeholders, including shareholders, suppliers, customers and other related parties, who have always trusted and supported the Company. We also thank all the dedicated and hardworking employees for their co-operation in achieving targets for revenue growth, store expansion, driving gross margin and good customer service, as well as having awareness on energy conservation and care for the environment and community. This has led the Company to be trusted and accepted internationally. The Company re-affirms that we will strive to operate our business in the best interest of our stakeholders, in a sustainable manner, with strong corporate governance and social responsibility.

Table1: Financial Summary for the year 2017

Unit: Million Baht

	2017	2016	Increase (Decrease)	% Change
Sales income	59,888.32	56,928.37	2,959.95	5.20%
Rental and service income	1,896.47	1,824.64	71.83	3.94%
Other income	2,449.70	2,391.06	58.63	2.45%
<b>Total revenues</b>	<b>64,234.49</b>	<b>61,144.07</b>	<b>3,090.41</b>	<b>5.05%</b>
Cost of sales	44,049.76	42,404.65	1,645.11	3.88%
<b>Gross profit</b>	<b>15,838.56</b>	<b>14,523.72</b>	<b>1,314.84</b>	<b>9.05%</b>
Selling and administrative expenses	13,750.28	13,140.82	609.47	4.64%
<b>Profit before finance cost and income tax expenses</b>	<b>6,434.44</b>	<b>5,598.60</b>	<b>835.84</b>	<b>14.93%</b>
Finance cost	447.68	503.68	(56.00)	(11.12%)
Income tax expenses	1,100.37	969.72	130.65	13.47%
<b>Profit for the period</b>	<b>4,886.39</b>	<b>4,125.20</b>	<b>761.19</b>	<b>18.45%</b>

The Company's net profit for the year 2017 was Baht 4,886.39 million representing an increase of Baht 761.19 million or up by 18.45% over the same period last year. The main reasons are as follows:

- Total revenues were Baht 64,234.49 million, an increase of Baht 3,090.41 million or up by 5.05%, comprising of the following:
  - Sales income was Baht 59,888.32 million, an increase of Baht 2,959.95 million or up by 5.20%, which was driven by sales from new stores of HomePro, Mega Home, and HomePro in Malaysia.

- Rental and service income amounted to Baht 1,896.47 million, an increase of Baht 71.83 million or up by 3.94%, which resulted from higher rental income from leasable areas of HomePro's stores.
  - Other income was Baht 2,449.70 million, an increase of Baht 58.63 million or up by 2.45% due to higher support fee of promotional activities with suppliers and service income under "Home Service" program.
2. Gross profit was Baht 15,838.56 million, an increase of Baht 1,314.84 million or up by 9.05% over the same period last year. In addition, gross profit margin as a percentage of sales has increased from 25.51% in previous year to 26.45% 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 13,750.28 million, an increase of Baht 609.47 million or up by 4.64% as compared with the previous 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 23.08% in previous year to 22.96%. This decrease was due to the improvement in cost efficiency.
  4. Finance cost was Baht 447.68 million, a decrease of Baht 56.00 million or down by 11.12%, 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. Income tax expenses were Bath 1,100.37 million, an increase of Baht 130.65 million or up by 13.47% as compared with the previous year. This was due to the higher earnings before tax.

Please be informed accordingly.

Sincerely yours,

(Mr.Khunawut Thumpomkul)

Managing Director