

Management Discussion and Analysis

Fiscal year ended February 28, 2019

AEON Thana Sinsap (Thailand) Public Company Limited (“the Company”) already submitted the audited financial statements for the year ended February 28, 2019 which were audited by Deloitte Touche Tohmatsu Jaiyos Audit Company Limited. The Company has net profit attributed to owners of the parent of 3,506 million baht, an increase of 540 million baht or 18% compared to fiscal year 2017, and earning per share (EPS) of 14.03 baht per share. The operating performance is summarized as follows;

Overview

According to Bank of Thailand and NESDB, overall Thai economy in 2018 expanded by 4.1%, higher than 4.0% growth in 2017. This was mainly from acceleration of private consumption and investment, as well as improving domestic consumption causes an increase in consumer confidence. Both export and tourism sectors rose faster in the first half of 2018. On the other hand, Thai economy showed signs of a slowdown in the second half of 2018 primarily due to the US-China trade war and global uncertainty contributed negative impact on export growth.

The growth of credit card business in Thailand continue expansion due to overall economic recovery. According to the Bank of Thailand data, at the end of December 2018, the credit card industry reported the total numbers of credit card industry amounted to 22.1 million cards, has grown by 9% more than last year. Credit Card receivable was 418,747 million baht, with the growth of 6% from the same period last year. For personal loan industry, the numbers of account of personal loan under supervision amounted to 13.4 million accounts, 5% more than last year. Personal loan receivable was 383,278 million baht, with the growth of 8% from the same period last year.

In the fiscal year ended February 28, 2019, the Company's total cards reached 8.52 million cards, increasing by 5% from last year, including 2.62 million credit cards increased by 1% y-y and 5.90 million member cards increased 4% y-y. For service channels nationwide, the Company has 104 branches, opened AEON Lounge total 13 locations to facilitate gold card and platinum card members, 440 ATMs, and over 4,800 member dealers to provide quality financial services to AEON cardholders.

Operating Results

● Revenues

In the fiscal year ended February 28, 2019, the Company's consolidated revenues amounted to 20,642 million baht, an increase of 1,979 million baht or 11% from 18,663 million baht in the fiscal year 2017. For the fourth quarter 2018, revenues amounted to 5,307 million baht, increased by 2% q-q and 5% y-y. This was the result of an increase in core business revenues by 11% y-y, and bad debt recovery by 27% y-y. The revenues of subsidiaries in Thailand and overseas shares 6% of total company's revenues and overseas revenue grew by 50% from last year. AEON Cambodia had 2 AEON malls, which became a key factor to support their business and AEON Myanmar opened 2 new branches in Yangon. As a result, overseas businesses have active customers more than 200,000, increased by 52% from last year, and representing 10% of total company customers, which is 2 million active customers per month, mainly from Bangkok 31%, and in up-country 69%. Details of each business can be described as follows:

- Credit Card

Credit card turnover in the fiscal year 2018 improved by 13% from last year and represented 63% of total turnovers. Revenues from credit card were 7,490 million baht, showing an increase of 683 million baht or 10% y-y. This was the result of the Company has cooperated with many high-potential leading business partners to increased member base customers by issuing co-branded card such as AEON Royal Orchid Plus World Mastercard and AEON J-Premier Platinum Credit Card. The Company also launched privileges and campaigns for AEON credit cardholders throughout the year. For example, "AEON Shop Plus" campaign was launched for credit card customers to accumulate sales slips up to required amounts for premium redemption, campaign "AEON Gift 2019", AEON cardholders register via SMS or AEON Thai Mobile Application or website in order to redeem the premiums and vouchers, and also launched promotion for customers who apply AEON card via online channel. In addition, AEON Specialized Bank (Cambodia) Plc expanded credit card revenue of 39 million baht, grew by 89% y-y.

- Loans

In the fiscal year ended February 28, 2019, loans shared 30% of total turnovers (shared 22% from personal loan and 8% from purposed loan for mobile phone, IT products, electrical appliances and etc. at over department stores and more than 4,800 dealers nationwide). Revenues from loans were 10,723 million baht, showing an increase of 1,150 million baht or 12% y-y. This is because the Company integrated credit limit of purpose loan and personal loan to AEON Happy Pay program and launched an instant card service for AEON Member Card at AEON branches nationwide. In the fourth quarter of 2018, The Company also launched a new service called "Cardless Withdrawal" under AEON Yourcash function as an alternative to provide convenience and flexibility for AEON customers. AEON customers can withdraw cash via the AEON Thai Mobile Application by scan a QR code to withdraw cash through AEON ATM and KBank ATM nationwide. For overseas

businesses, loan income from AEON Microfinance (Myanmar) Company Limited grew by 73% y-y and AEON Specialized Bank (Cambodia) Plc grew by 57% y-y.

- Hire Purchase

In the fiscal year ended February 28, 2019, the Company provides hire purchase business for motorcycle and second hand car in Thailand and provides hire purchase for electrical appliances, mobile phone etc in overseas. Revenues from hire purchase were 431 million baht, an increase of 61 million baht or 17% from total hire purchase revenues last year, drove by auto loan business. In addition, the Company had hire purchase income from AEON Specialized Bank (Cambodia) Plc at the amount of 263 million baht that increased 25% y-y and AEON Leasing Service (Lao) Company Limited at the amount of 102 million baht that increased 35% y-y.

- Others

In the fiscal year ended February 28, 2019, the Company had other revenues of 1,998 million baht, an increase of 84 million baht or 4% y-y, and sharing 10% of total revenue. The increase was mainly from the continued growth of bad debt recovery that increased 27% y-y. In 2017, the Company had gain on sale of written off receivables in Q4/2017 of 179 million baht but no gain on sale of bad debt in 2018.

For performances of company's subsidiaries in Thailand, the Company had commission income of 513 million baht, increasing by 4% from AEON Insurance Service (Thailand) Co., Ltd. and collection service income of 266 million baht, increasing by 14% from last year from ACS Servicing (Thailand) Co., Ltd.

● Expenses

The Company's expenses mainly consist of operating and administrative expenses, bad debt and doubtful accounts, and finance cost. In the fiscal year ended February 28, 2019, the Company had total consolidated expenses of 16,213 million baht, increased by 1,263 million baht or 8% y-y. Details of total expenses can be described as follows:

- Operating and Administrative Expenses

In fiscal year ended February 28, 2019, the Company's operating and administrative expenses were 8,754 million baht, increased 587 million baht or 7% y-y. This was a result of an increase in marketing expense by 9%, personal expense by 13% caused by increasing in provision for employees' retirement benefits according to New Labor Act and recorded loss on impairment of assets in the fourth quarter of 2018. In terms of proportion to total revenues, operating and administrative expenses represented 42% of total revenues. Considering the Company's financial statement, the operating and administrative expenses as a percentage of revenues represented 40%.

- Bad debt and doubtful accounts

In the fiscal year ended February 28, 2019, the bad debt and doubtful accounts in the consolidated financial statement of the Company was 5,285 million baht, increased by 13% y-y. The increase of bad debt and doubtful accounts was mainly from the expansion of our loan portfolio and increased in writing off the bad debt. Moreover, the Company has developed a new collection to improve debt collection efficiently.

- Finance Cost

In the fiscal year ended February 28, 2019, the Company's finance cost recorded at 2,175 million baht, which is the same level as last year and accounted for 11% of total revenues. The ability to maintain low financial cost due to the replacement long term loan with lower rate as well as the Company's policy to manage liquidity risk and interest rates fluctuation risk by mainly locking in long-term borrowing, which is 75% of total borrowings. The weight average funding cost in the fourth quarter of 2018 was at 3.07% same as previous quarter 3.06% but reduced from 3.37% in the last year.

● Net Profit

In the fiscal year ended February 28, 2019, consolidated operating income was reported at 4,434 million baht, showing an increase of 720 million baht or 19% y-y. The Company's recorded a high net profit of 3,506 million baht, an increase of 540 million baht or 18% from the previous fiscal year, and earning per share was 14.03 baht per share. The increase was mainly from an increase in core business revenues, a growth of income from bad debt recovery and accounts receivable as well as a strong growth from both domestic and overseas businesses. In addition, in FY2018, the Company recorded the share of profit from investment in ACS Trading Vietnam Co., Ltd. of 5.6 million baht, increased more than 5 times from last year. Net profit in the fourth quarter of 2018 was 817 million baht, a decrease of 111 million baht or 12% from last year. Therefore, if excluding the expenses of provision for employee' retirement benefits, loss on impairment of assets in the fourth quarter of 2018 and gain on sale of written off account receivables last year, our net profit in the fourth quarter of 2018 increased 3% q-q and 23% y-y.

Financial Status

● Total Assets

As of February 28, 2019, consolidated total assets were 87,122 million baht, increasing by 6,350 million baht or 8% from 80,771 million baht as of February 28, 2018. Mainly, the assets were attributed to the portfolio of net accounts receivable, which was 95% of total assets.

- Accounts Receivable

For the year ended February 28, 2019, The Company had consolidated accounts receivable of 82,512 million baht, increasing by 9% y-y from 75,824 million baht in fiscal year 2017. This can be categorized by business

type as follows: credit card receivable 36,623 million baht, increasing by 6% y-y which is the same level of credit card industry, loans receivable 43,590 million baht increasing by 10% y-y, the loan growth is higher than industry of 8%, and hire purchase receivable 2,118 million baht increasing by 67% y-y drove by auto loan business was launched last year, and other receivables 180 million baht increasing by 5% y-y.

As of February 28, 2019, the Company provided allowance for doubtful accounts of 2,880 million baht or 3.49% of total accounts receivable, increased from 3.19% at the end of previous fiscal year but decreased from 3.54% at the end of previous quarter. The percentage account receivable 3 months overdue or non-performing loan ratio (NPL) was 2.76% at February 28, 2018, increased from 2.35% at the end of previous year but decreased from 2.80% at the end of previous quarter. The Company has set aside higher allowance for doubtful accounts and the coverage ratio of allowance for doubtful accounts to accounts receivable overdue more than 3 months (NPLs) was 126% at February 28, 2019.

- **Total Liabilities**

As of February 28, 2019, total liabilities amounted to 68,733 million baht, an increase of 3,783 million baht or 6% from 64,950 million baht as of February 28, 2018. There were both short-term and long-term borrowings totally 63,658 million baht. The portion of long-term borrowings was 47,505 million baht or represented 75% of total borrowings.

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

- **Shareholders' Equity**

As of February 28, 2019, shareholders' equity was 18,388 million baht, an increase of 2,566 million baht or 16% from 15,822 million baht as of February 28, 2018. Consequently, Book value as of February 28, 2019 was 72.2 baht per share, increasing from that of 62.9 baht per share at the end of last fiscal year.

Debt to Equity ratio as of February 28, 2019, decreased to 3.8 times from 4.1 times last fiscal year. Return on Equity and Return on Asset are 20.8% and 4.2%, respectively.

In addition, the Board of Directors' meeting has approved the final dividend payment for the fiscal year ended February 28, 2019, at the rate of 2.35 baht per share, which will be paid after being approved from AGM on June 21, 2019. The Company already paid the interim dividend of 2.35 baht per share on November 1, 2018.

The total dividend for FY2018 will be 4.70 baht per share or 33.5% payout ratio. The company has set the record date on May 14, 2019 to determine the shareholders entitled to receive dividends (XD will be posted on May 13, 2019).