

Management Discussion and Analysis

Fiscal year ended February 29, 2020

AEON Thana Sinsap (Thailand) Public Company Limited (“the Company”) has already submitted the audited financial statements for the year ended February 29, 2020 which were audited by Deloitte Touche Tohmatsu Jaiyos Audit Company Limited. The operating performance is summarized as follows.

Overview

According to the Bank of Thailand and Office of the National Economic and Social Development Board data (NESDB), Thai economy in 2020 expanded by 2.4%, decreased from 4.2% in previous year. This was because the global economic uncertainty caused by the trade war between US and China, the conflicts in the Middle East and the unpredictability of the political situation in Europe. These factors have impacted to Thailand, particularly in the export sector, the tourism sector, slowdown of private consumption and investment as well as the Baht's ongoing appreciation. In 2020, Thailand economic growth will likely slowdown. There are risks from internal and external factors such as severe droughts, a rise in unemployment and household debt as well as the global outbreak of the Coronavirus (COVID-19) since early 2020. However, the Company also complies with the Bank of Thailand to provide the relief measurements to assist our customers by reducing minimum payment for credit card and personal loan as well as providing a grace period for all products. These measures would be effective in the first quarter of 2019.

The growth of credit card business and personal loan business in Thailand was still growing strongly despite the economic slowdown. According to the Bank of Thailand data, at the end of December 2019, the credit card industry reported the total numbers of credit card industry amounted to 23.6 million cards, has grown by 8% more than last year. Credit Card receivable was 457,090 million baht, with the growth of 9% from the same period last year. For personal loan industry, the numbers of account of personal loan under supervision amounted to 16.2 million accounts, 21% more than last year. Personal loan receivable was 579,911 million baht, with the growth of 51% from the same period last year, due to include the car title loan since February 2019 onwards.

The new Thai Financial Reporting Standards (TFRS9) which would be effective on January 1, 2020. This standard establishes the principle in relation to the classification and measurement of financial instruments based on the consideration of the contractual cash flow characteristics and the Company's business model, the calculation of impairment using the expected credit loss method and the concept of hedge accounting. These include stipulations regarding the presentation and disclosure of financial instruments. Thai Financial Reporting Standards which was effective for the Company's financial statements with fiscal years beginning on March 1, 2020.

As of February 29, 2020, the Company's total cards reached 9 million cards, increased by 6% from the end of fiscal year 2018 (including 2.85 million credit cards, increased by 9% from the end of last year and 6.15 million member cards, increased by 4% from the end of last year). The Company has active customers more than 2 million IDs, mainly from Bangkok 31%, and in up-country 69%. Covering networks nationwide, the Company has 105 branches, 413 ATMs, and 6,631 dealer members to provide a quality of financial services to AEON cardholders. In addition, in 2019 The Company opened a new platform branch with our first Flagship Store at Central World Shopping Center. This raised our financial services to a digital platform that has facilitated our customers by performing their own transactions through our virtual teller machine (VTM). For overseas business in Cambodia, Myanmar and Laos, they have active customers more than 348,000 customers, increased by 33% from last year, and representing 13% of active customers of the Company.

Summary of Consolidated Financial Results

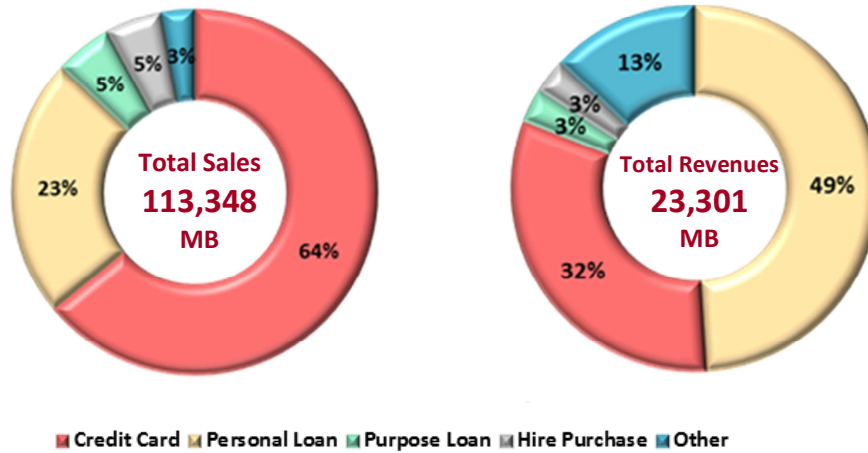
1. Operating Results

Profit and Loss Statement (Consolidated) Unit : Million Baht	3Q/19	4Q/18	4Q/19	%QoQ	%YoY	FY18	FY19	%YoY
Credit card income	1,897	1,844	1,878	-1%	2%	7,490	7,529	1%
Loan income	3,048	2,790	3,077	1%	10%	10,723	12,065	13%
Hire-purchase income	192	130	241	26%	85%	431	754	75%
Other income	841	542	969	15%	79%	1,998	2,953	48%
Total Revenues	5,979	5,306	6,165	3%	16%	20,642	23,301	13%
Operating and administrative expenses and others	2,353	2,318	2,360	0.3%	2%	8,753	9,289	6%
Bad debts and doubtful accounts	1,786	1,418	1,872	5%	32%	5,285	6,646	26%
Finance costs	549	532	560	2%	5%	2,175	2,209	2%
Total Expenses	4,688	4,268	4,793	2%	12%	16,213	18,145	12%
Profit before tax income	1,284	1,040	1,369	7%	32%	4,434	5,144	16%
Income tax expenses	257	202	271	5%	34%	868	1,024	18%
Net profit for the period	991	817	1,056	6%	29%	3,506	3,975	13%
Earning Per Share (Baht per share)	3.96	3.27	4.22	7%	29%	14.03	15.90	13%

Revenues

In the fiscal year ended February 29, 2020, the total consolidated revenues were 23,301 million baht, showing an increase of 2,659 million baht or 13% y-y. For the fourth quarter of 2019, the Company's revenues were 6,165 million baht, showing an increase of 859 million baht or 16% y-y and 3% q-q. The revenue increase was mainly from continued growth in core business revenues that increased by 9% y-y, especially in personal loan and hire purchase products as well as continued growth from bad debt recovery by 32% y-y. The revenue from overseas subsidiaries grew by 63% y-y. In addition, in the fourth quarter of 2019, the Company recorded the other incomes from gain on sales of bad debt at the amount of 329 million baht. Details of each business can be described as follows:

Sales and Revenues Structure for FY2019



- Credit Card

For the fiscal year 2019, credit cards turnover accounted 64% of total turnovers with revenue of 7,529 million baht, showing an increase of 39 million baht or 1% y-y. For the fourth quarter of 2019, credit card revenue was 1,878 million baht, an increase of 34 million baht or 2% y-y. However, the Company continued to collaborate with exiting and new business partners in order to offer more benefits and to expand our customer base. The Company also launched the marketing campaigns throughout the year. For example, AEON Gift 2020 campaign and AEON shop plus 2019 campaign to redeem the premiums and vouchers, AEON Shop Smart campaign and other privileges with leading shopping malls. For subsidiary in overseas, in the fiscal year of 2019, AEON Specialized Bank (Cambodia) Plc had credit card revenue of 74 million baht, grew by 91% y-y.

- Loans

For the fiscal year 2019, loans shared 28% of total turnovers with the revenue of 12,065 million baht, an increase of 1,342 million baht or 13% y-y. For the fourth quarter of 2019, loans revenue was 3,077 million baht, an increase of 287 million baht or 10% y-y and 1% q-q. In 2019, the Company expanded more service channels to facilitate customers and reduce the Company's operation cost through our Digital Your Cash Service. This is a new category of our personal loan service that launched a card less withdrawal. A credit line of a virtual account which customers can cash withdrawal through our AEON Thai Mobile Application and scan QR code at ATMs of AEON and KBank. For the Cardless transactions currently accounted for 17% of total personal loan sales. Moreover, loan income from AEON Microfinance (Myanmar) Company Limited in the fiscal year of 2019 grew by 48% y-y and AEON Specialized Bank (Cambodia) Plc grew by 83% y-y.

- Hire Purchase

For the fiscal year of 2019, motorcycle and used car hire purchase in Thailand and hire purchase of electrical appliances, mobile phone and others in oversea subsidiaries, with the revenues of 754 million baht, increasing by 323 million baht or 75% y-y, resulted of auto loan business expansion and hire purchase sales from overseas business grew by 60% y-y, especially from business in Cambodia grew by 79% y-y. For the fourth quarter of 2019, the Company had hire purchase revenue of 241 million baht, an increase of 111 million baht or 85% y-y and 26% q-q drove by auto loans business expansion. The Company also launched Motorcycle Big Bike Hire Purchase in September 2019, which covers more than 200 dealers nationwide.

- Others

For the fiscal year of 2019, other incomes were 2,953 million baht, showing an increase of 955 million baht or 48% y-y and represented 13% of total revenues. The increase was mainly from the continued growth of bad debt recovery that increased by 36% y-y caused by increased the internal legal staff to expedite the legal process. In 2019, the Company recorded gain on sales of bad debt at the amount of 577 million baht. For the fourth quarter of 2019, other incomes were 969 million baht, increasing by 427 million baht or 79% y-y, due to bad debt recovery increased by 32% y-y and 6% q-q. In addition, the Company has other incomes from bad debt selling in the fourth quarter of 2019 at the amount of 329 million baht. Moreover, the income for the fiscal year of 2019 of Company's subsidiaries in Thailand, the Company had commission income of 531 million baht from AEON Insurance Service (Thailand) Co., Ltd. and collection service income of 268 million baht 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. The Company had total consolidated expenses for the fiscal year of 2019 of 18,145 million baht, an increase of 1,932 million baht or 12% y-y. For the fourth quarter of 2019, the consolidated expenses were 4,793 million baht, an increase of 525 million baht or 12% y-y. Details of expenses are shown as follows:

- Operating and Administrative Expenses

For the fiscal year of 2019, the consolidated operating and administrative expense were 9,289 million baht, increasing by 6% y-y and representing of 40% of total revenues. The increasing of expenses came from marketing expense which increased 10% y-y and administrative expense increased 12% y-y. For the fourth quarter of 2019, the consolidated operating and administrative expenses were 2,360 million baht, increasing by 2% y-y and representing of 38% of total revenues, which was lower than last year at 44%

of total revenues. However, the Company was able to effectively control the operating and administrative expenses. In 2019, the Company has developed AEON Thai Mobile Application to add more functions. The Company also launched the E-statements service and introduced the kiosk concept at some of branches in order to reduce our operation cost.

- Bad debt and Doubtful accounts

The consolidated bad debts and doubtful accounts for the fiscal year of 2019 amounted to 6,646 million baht, increasing by 26% y-y. For the fourth quarter of 2019, the Company recorded bad debts and doubtful accounts of 1,872 million baht, increasing by 32% y-y. The increase of bad debt and doubtful accounts was mainly from continued growth of total portfolio and also negatively impacted from the economic slowdown and increasing of household debt as well as new regulations of debt collection. Meanwhile, the Company has implemented the new collection system under "Pooling Concept" to further improve its debt collection performance.

- Finance Cost

The Company recorded consolidated finance cost for the fiscal year of 2019 amount of 2,209 million baht, increasing by 2% y-y. For the fourth quarter of 2019, the finance cost was 560 million baht, increasing by 5% y-y and accounted for 9% of total revenues. The average funding cost in the fourth quarter of 2019 was at 2.92% decreased from 3.07% last year, due to a reducing trend of market interest rate and the replacement long term loan with lower rate.

Net Profit

For the fiscal year of 2019, consolidated total operating income was reported at 5,144 million baht, showing an increase of 710 million baht or 16% y-y. The Company recorded net profit attributed to owners of the parent of 3,975 million baht, showing an increase of 469 million baht or 13% y-y, and earning per share was 15.90 baht. For the fourth quarter of 2019, the Company had consolidated operating income of 1,369 million baht, an increase of 329 million baht or 32% y-y and 7% q-q. The Company reported net profit attributed to owners of the parent of 1,056 million baht, an increase of 239 million baht or 29% y-y, 6% q-q and earning per share was 4.22 baht. Key drivers were mainly from an increase in total sales, core business revenues and bad debt selling. The bad debt recovery and total portfolio continued to grow, together with a strong growth of both domestic and overseas subsidiaries. In addition, the Company efficiently managed the selling, general and administrative expense and funding cost.

2. Financial Status

Statement of Financial Position	February 28, 2019	February 29, 2020	Change
Unit : Million Baht			%YoY
Accounts Receivable	82,512	90,232	9%
Total Assets	87,121	95,396	9%
Total Borrowing	63,741	69,437	9%
Total Liabilities	68,733	74,271	8%
Total Equites	18,388	21,125	15%
ROE	20.8%	20.5%	-1%
ROA	4.2%	4.4%	5%
D/E Ratio	3.8	3.6	-5%

Total Assets

As of February 29, 2020, consolidated total assets were 95,396 million baht, an increase of 8,275 million baht or 9% from 87,121 million baht as of February 28, 2019. The main assets were attributed to the portfolio of net accounts receivable which shared 90% of total assets.

- Accounts Receivable

As of February 29, 2020, the Company has gross accounts receivable of 90,232 million baht, increasing 9% from as of February 28, 2019. This can be categorized by business type as follows: credit card receivable of 36,892 million baht, increasing by 1% y-y; loans receivable of 47,988 million baht, increasing by 10% y-y; hire purchase receivable of 5,186 million baht, increasing by 145% y-y which largely came from the expansion of auto loan portfolio, and others receivable of 165 million baht.

- Allowance for doubtful accounts

As of February 29, 2020, the Company provided allowance for doubtful accounts of 3,962 million baht or 4.39% of total accounts receivable, comparing to that of 2,880 million baht or 3.49% 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 3.67%, increased from 2.77% at the end of last year. The coverage ratio of allowance for doubtful accounts to accounts receivable overdue more than 3 months (NPLs) was 119% at February 29, 2020.

Liabilities

The consolidated liabilities of the Company as of February 29, 2020, totaled 74,271 million baht, an increase of 5,538 million baht or 8% from 68,733 million baht at the end of fiscal year 2018. This was a result of both short-term and long-term borrowings increased by 9% from the end of last year to 69,437 million baht. The portion of long-term borrowings was 43,509 million baht or represented 63% of total borrowings, decreasing from 75% of fiscal year 2018.

To manage risk that might occur from the fluctuation in currency and interest rate of long-term a debenture in foreign currencies, the Company has entered into cross currency interest rate swap contracts to hedge its debt. However, the Company has unused unsecured revolving credit facilities as of February 29, 2020 totaling 3,000 million baht and unused uncommitted facilities with foreign banks totaling 9.9 billion baht, which is enough to drive the Company's operation. The Company also has the debentures totaling 4,600 million baht that will mature in 2020, which the Company can issue the replacement debentures or use a working capital to repay those debentures.

Shareholders' Equity

As of February 29, 2020, total shareholders' equity amounted to 21,125 million baht, an increase of 2,737 million baht or 15% over the end of fiscal year 2018. Consequently, book value as of February 29, 2020 was 82.9 baht per share, increased from 72.2 baht per share as of February 28, 2019.

Debt to Equity ratio as of February 29, 2020 at 3.6 times decreased from 3.8 times at the end of 2018. Return on Equity (ROE) and Return on Asset (ROA) for the fiscal year 2019 were 20.5% and 4.4%, respectively.

In addition, the Board of Directors' meeting has approved the final dividend payment for the fiscal year ended February 29, 2020, at the rate of 2.55 baht per share, which will be paid after being approved from AGM on June 24, 2020. The Company already paid the interim dividend of 2.45 baht per share on November 4, 2019. The total dividend for FY2019 will be 5.00 baht per share or 31.4% payout ratio. The Company has set the record date on May 14, 2020 to determine the shareholders entitled to receive dividends (XD will be posted on May 13, 2020).