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Topic: Management Discussion and Analysis for the Quarter of 3/2021

To: President

The Stock Exchange of Thailand

In the third quarter Thailand still faced significant impact from the Coronavirus (COVID-19) pandemic, which became more severe in July and August. The situation gradually eased from early September due to the efforts of all sections of society in compliance with the pandemic control measures imposed by the Centre for Covid-19 Situation Administration (CCSA), causing the number of COVID-19 infections to gradually lessen during September. At the end of the third quarter, the proportion of the people vaccinated with the first dose / both doses of the vaccine were 46% and 28% respectively, based on total population. The government has set its major goal to have 70% of the total population fully inoculated by the end of the year; it is also the Thai people's responsibility to cooperate in order to lessen the effects the pandemic.

The control measures against the Coronavirus (COVID-19) affected the economy across a wide range of activities. The CCSA has classified control areas based on the risk level, with 29 dark-red zoned provinces where special measures are strictly enforced, while lower risk provinces are denoted by other colors. A curfew was implemented from July 12, with additional lockdown measures as follows:

- Curfew measures: People are not allowed to leave the residence between 21.00PM-04.00AM, with violation an offense according to the Emergency Act.
- Lock down measures: Shopping Centers can open only for supermarkets, drug stores, building material and other essential items. Dine-in is forbidden, with only delivery service allowed.
- Other measures: All state agencies and private sector businesses were advised to work from home to reduce the risk of infection

As a result of the above measures, spending has declined and the employment rate of the private sector has contracted, reducing purchasing power.

The Company has strictly implemented the above measures by temporarily closing some stores as follows:

- Homepro: temporary closure of 29 stores effective from 20 July -31 August
- Mega Homepro: temporary closure of 4 stores effective from 20 July -31 August
- Homepro Malaysia: temporary closure of 7 stores effective from May -22 August under the Malaysian control measures.

Impact of temporary closure

The lockdown measures during this period have resulted in the total sales decreasing by around 18%-25% during the temporary store closure period in July and August. In terms of the rental business, the Company has offered tenants a discount or waived the rental fee to alleviate their burden during the store closures. Nevertheless, the Company has still retained the same number of permanent staffs in stores for customer service. As customers were unable to make purchase in person at the physical stores as usual, thereby the sales via online channel, has increased by 120% in the third quarter of 2021 comparing to the same period last year and contributing around 9.4% of the sales mix in the third quarter. As a consequence, this has partially offset the loss of the sales due to the store closures.

Public utilities expenses were reduced in line with trading activities at the stores that were temporary closed. However, overall SG&A expenses still increased as there were other expenses related to COVID-19 prevention, such as building costs for the field hospital, expenses related to COVID-19 testing and medical care. There were also further expenses relating to improvement of the Company systems, such as data privacy and information security systems to comply with the Personal Data Protection Act.

In the third quarter, the Company's total revenue and net profit was 13,776.84 million baht, and 870.41 million baht, a decrease of 12.57% and 37.85% from the previous year.

Company's Management

Distribution Channel Management

The Company has continued developing Omni Channel strategies to improve the efficiency of goods and services distribution such as Click and Collect, Same Day Delivery and a social media platform "Shop4You", which is a personal assistant service that enables customers to shop for products and services without having to visit physical stores. The Company is well prepared to handle the changes resulting from the COVID-19 situation. The Company took the opportunity of "Work From Home" behavior to initiate additional new products to serve additional consumers' demand during their stay at home, and to expand the customer base; these include an acknowledgment of goods and services through company platforms such as Home Pro Application and Home Service Application, as well as Website services.

Supply chain Management

Stability of the Supply Chain System is one of the Company's strategic plans and a core component of retail business. The Company is well aware of the scarcity of public medical care facilities during the severe COVID- 19 pandemic, and consequently the field hospital was built at Wangnoi Distribution Center with the collaboration of Rachathani Hospital, along with the adoption of a bubble and seal approach. As a result, the Company's distribution channel was able to continue to operate, as well as supporting the nearby community.

Workforce Management

Due to the COVID-19 pandemic, the Company fully adopted 'Work From Home' measures to reduce the risk of infections in the office and supporting units. The Company also encouraged vaccination and established the HR Clinic for internal communication to provide an aid to infected associates and their families, enabling them to receive treatment as soon as possible. Medical boxes were allocated to infected associates in the green level to take care of themselves at their home isolation. As a result, work plans were able to continue without disruption.

To build up customer confidence while they're shopping at the stores, the Company has pushed vaccination as much and as fast as possible. In the third quarter, more than 90% of the associates has been vaccinated. For our Home Services team, every week 100% of technician staff are tested for coronavirus with the Antigen Test Kit (ATK), to maintain confidence amongst customers.

Closed stores Management

The Company has implemented the Order Fulfillment system to communicate with the warehouse in each store. The system connects the delivery with the customer order. This not only reduces cost but also increases the speed of delivery (Same Day/ Next Day). Moreover, the Company provides the Shop4You platform to facilitate a complete loop of services, from an order to delivery. Associates can also prepare goods at store for customers to pick up under a service called "Click and Collect". The Company, therefore, can utilize the store area and human resources more effectively.

At the end of the third quarter of year 2021, the Company has 86 HomePro stores, 8 HomePro S stores, 14 Mega Home stores and 7 HomePro stores in Malaysia. Furthermore, TRIS Rating has maintained the Company's credit rating at AA- which is "Stable" outlook.

The financial results of the Company and its subsidiaries for the three-month and nine-month periods ended as of 30 September 2021, which has been reviewed by auditor are as follows:

Table 1: Financial Summary for the 3rd Quarter of the year 2021 and 2020

Unit: Million Baht

	Q3'2021	% Change	Q2'2020	% Change	Increase (Decrease)	% Change
Revenue from contracts with customers	13,170.18	100.00%	15,064.31	100.00%	(1,894.13)	(12.57%)
Rental income	217.05	1.65%	487.21	3.23%	(270.16)	(55.45%)
Other income	389.61	2.96%	466.15	3.09%	(76.54)	(16.42%)
Total revenues	13,776.84	104.61%	16,017.66	106.33%	(2,240.83)	(13.99%)
Cost of sales and service	9,851.65	74.80%	11,179.17	74.21%	(1,327.53)	(11.87%)
Gross profit	3,318.53	25.20%	3,885.13	25.79%	(566.61)	(14.58%)
Cost of rental	144.26	1.10%	135.80	0.90%	8.46	6.23%
Selling and administrative expenses	2,591.98	19.68%	2,892.87	19.20%	(300.89)	(10.40%)
Profit before finance cost and income tax expenses	1,188.95	9.03%	1,809.82	12.01%	(620.87)	(34.31%)
Finance Income	1.17	0.01%	1.82	0.01%	(0.65)	(35.84%)
Finance cost	107.65	0.82%	110.01	0.73%	(2.36)	(2.15%)
Income tax expenses	212.05	1.61%	301.11	2.00%	(89.06)	(29.58%)
Profit for the period	870.41	6.61%	1,400.52	9.30%	(530.10)	(37.85%)

The Company's net profit for the third quarter of year 2021 was Baht 870.41 million representing a decrease of Baht 530.10 million or down by 37.85% over the same period last year. The main reasons include:

- Total revenues were Baht 13,776.84 million, a decrease of Baht 2,240.83 million or down by 13.99%, comprising of the following:
 - Revenue from contracts with customers which comprised of product sales revenue and service income (Home Service) was Baht 13,170.18 million, representing a decrease of Baht 1,894.13 million or down by 12.57% as overall domestic sales was affected by the temporary stores closure by the order of the Center for COVID-19 Situation Administration (CCSA) and lower consumer purchasing power along with declining of economic situation, albeit in September 2021, the government has relaxed the lockdown measure but the consumer purchasing power has not fully recovered yet as compared to the same period last year. Similarly, for international's stores sales, it was also affected by the COVID-19 measures with lockdown order.

- Rental and service income amounted to Baht 217.05 million, a decrease of Baht 270.16 million or down by 55.45% as the Company still lower or suspend the rent for tenants that are still affected by the COVID-19 pandemic. In addition, due to the government's order that only certain type of business in the shopping center were allowed to operate, in which the number of business category was able to open is less than last year during closing period. Therefore, the revenue generated from the shopping center has declined. Moreover, there was no rental income from Homepro expo due to the cancellation of HomePro Expo event in comparison with the third quarter last year where the HomePro Expo event was organized.
 - Other income was Baht 389.61 million, a decrease of Baht 76.54 million or down by 16.42% in relation to the lower-level of promotional activities with vendors.
2. Gross profit from product sales and service income (Home Service) was Baht 3,318.53 million, a decrease of Baht 566.61 million or down by 14.58% as compared with the same period last year. The gross profit margin as a percentage of sales has decreased from 25.79% in the same period last year to 25.20% as a result of an increased in the sales mix proportion of products that generate lower margin than average in comparison with last year particularly home appliances. In addition, the sales mix of products that generate higher margin than average has declined such as soft line products. Moreover, the Company has delayed the new orders from suppliers during temporary store closures which results in lower volume rebate.
 3. Cost of rental and related services was Baht 144.26 million, an increase of Baht 8.46 million or up by 6.23% due to additional cost related to the increased in rental area of Rangsit Klong 4 branch that the Company has opened in the fourth quarter of 2020.
 4. Selling and administrative expenses (SG&A) amounted to Baht 2,591.98 million, a decrease of Baht 300.89 million or down by 10.40% due to the lower of expenses that has resulted from the temporary stores closure both domestically and internationally such as salary and welfare along with rental and expenses related to the building and utilities. Nevertheless, the overall SG&A as a percentage of sales was increased from 19.20% in the previous year to 19.68%.
 5. Finance Income was Baht 1.17 million, net decrease of Baht 0.65 million or down by 35.84%, due to lower interest income.
 6. Finance cost was Baht 107.65 million, net decrease of Baht 2.36 million or down by 2.15%, due to the issuance of corporate bond with a lower interest rate for a bond refinancing in the fourth quarter of 2020 and first quarter of 2021.

7. Income tax expenses were Baht 212.05 million, a decrease of Baht 89.06 million or up by 29.58% as compared to the previous year. This was due to the lower earnings before tax.

Table 2: Financial Summary for the nine-month period of the year 2021 and 2020

Unit: Million Baht

	9M'2021	% Change	9M'2020	% Change	Increase (Decrease)	% Change
Revenue from contracts with customers	44,376.89	100.00%	43,434.06	100.00%	942.83	2.17%
Rental income	844.03	1.90%	1,081.93	2.49%	(237.91)	(21.99%)
Other income	1,342.78	3.03%	1,208.45	2.78%	134.33	11.12%
Total revenues	46,563.69	104.93%	45,724.44	105.27%	839.25	1.84%
Cost of sales and service	33,119.52	74.63%	32,522.13	74.88%	597.38	1.84%
Gross profit	11,257.37	25.37%	10,911.93	25.12%	345.45	3.17%
Cost of rental	463.24	1.04%	405.09	0.93%	58.15	14.35%
Selling and administrative expenses	8,151.38	18.37%	8,061.81	18.56%	89.58	1.11%
Profit before finance cost and income tax expenses	4,829.56	10.88%	4,735.41	10.90%	94.15	1.99%
Finance Income	5.79	0.01%	15.65	0.04%	(9.86)	(62.99%)
Finance cost	316.24	0.71%	351.07	0.81%	(34.83)	(9.92%)
Income tax expenses	853.64	1.92%	790.27	1.82%	63.37	8.02%
Profit for the period	3,665.47	8.26%	3,609.72	8.31%	55.76	1.54%

The Company's net profit for the nine-month period of year 2021 was Baht 3,665.47 million representing an increase of Baht 55.76 million or up by 1.54% over the same period last year. The main reasons include:

- Total revenues were Baht 46,563.69 million, an increase of Baht 839.25 million or up by 1.84% , comprising of the following:
 - Revenue from contracts with customers which comprised of product sales revenue and service income (Home Service) was Baht 44,376.89 million, representing an increase of Baht 942.83 million or up by 2.17% despite there were temporary closed stores in the third quarter of 2021. This is due to the increase in efficiency of Omni Channel and the promotional activities both offline and online, such as HomePro Super Expo and partially was due to the diversity of products that serves the customer behavior who spend more time at home such as working at home behavior.

- Rental and service income amounted to Baht 844.03 million, a decrease of Baht 237.91 million or down by 21.99% as the Company still lower or suspend the rent for tenants that are still affected by the COVID-19 pandemic. In addition, due to the government's order that only certain type of business in the shopping center were allowed to operate, in which the number of business category was able to open is less than last year during closing period. Therefore, the revenue generated from the shopping center has declined. Moreover, there was no rental income from Homepro expo due to the cancellation of HomePro Expo event in comparison with the third quarter last year where the HomePro Expo event was organized.
 - Other income was Baht 1,342.78 million, an increase of Baht 134.33 million or up by 11.12% in relation to the higher-level of promotional activities with vendors.
2. Gross profit from product sales and service income (Home Service) was Baht 11,257.37 million, an increase of Baht 345.45 million or up by 3.17%. The gross profit margin as a percentage of sales has also marginally increased from 25.12% in the same period last year to 25.37% due to improvement of procurement planning efficiency, cost control, and the increased the sales mix proportion of product that have higher margin than average such as working from home and cleaning products despite the gross margin in the third quarter was declined.
 3. Cost of rental and service was Baht 463.24 million, an increase of Baht 58.15 million or up by 14.35% as due to additional cost related to the increased in rental area of Rangsit Klong 4 branch re that the Company has opened in the fourth quarter of 2020.
 4. Selling and administrative expenses (SG&A) amounted to Baht 8,151.38 million, an increase of Baht 89.58 million or up by 1.11% as compared with the same period last year but the overall SG&A as a percentage of sales has reduced from 18.56% in the previous year to 18.37% as a result of marginally higher expense amount such as salary and welfare along with utility cost and the expense related to supporting associates during the pandemic such as the expense related to building the field hospital and COVID-19 related testing cost etc.
 5. Finance Income was Baht 5.79 million, net decrease of Baht 9.86 million or down by 62.99% , due to lower interest income.
 6. Finance cost was Baht 316.24 million, net decrease of Baht 34.83 million or down by 9.92% due to the issuance of corporate bond with a lower interest rate for a bond refinancing in the fourth quarter of 2020 and first quarter of 2021.
 7. Income tax expenses were Baht 853.64 million, an increase of Baht 63.37 million or up by 8.02% as compared to the previous year. This was due to the higher earnings before tax.

Please be informed accordingly.

Sincerely yours,

(Ms.Wanee Juntamongkol)

Executive Vice President – Accounting and Finance