

No. ACC/HO 002/23

Topic: Management Discussion and Analysis ending 31 December 2022

To: President

The Stock Exchange of Thailand

During 2022, the impact of the coronavirus (COVID-19) outbreak has declined thanks to a more comprehensive and effective vaccine distribution. COVID-19 restriction measures have been eased by the government, and the Thai economy has begun to show signs of ongoing expansion supported by the recovery of tourism and the consumption sector. These have benefited from several positive factors such as the re-opening of the country for foreign tourist arrivals and the rolling out of stimulus packages by the government to boost domestic spending; these packages include the 'Shopping and Payback (Shop Dee Mee Kuen)' program, 'We Travel Together' campaign, and the 'Half-Half Co-Payment' scheme.

However, there were also headwinds caused by the rising cost of consumer goods and energy prices due to the ongoing conflict between Russia and Ukraine, which caused a shortage of natural resources. As a result, the business sector inevitably had to bear higher product and service costs. Additionally, the pressure of rising inflation rates also affected the purchasing power of consumers and increased the risk of a global recession, as the FED hiked interest rates to cool an overheated economy. Similarly, the Bank of Thailand has gradually raised its policy interest rate, increasing the financial costs for business sectors.

Nevertheless, the government stimulus packages were able to partially alleviate the impact of inflation. In addition, the Company foresees further business growth opportunities arising from the recovery of the Thai economy by elevating products and services' offering level that meet customers' expectations, by accelerating the expansion of store numbers for top line and profitability enhancement, and by concise business and strategic planning to manage any pressures and risks that may occur.

In the fourth quarter

The overall situation of the tourism sector in Thailand has continued to recover, thanks to the increasing number of foreign tourists traveling to Thailand following the easing of COVID-19 preventive measures, as well as the positive impact from entering the high season. This was reflected in better growth in various business sectors, including retail business. The Company's sale growth increased satisfactorily, particularly in tourist areas such as the southern region, which showed significant growth compared to the same period last year. In addition, the Company organized several promotional activities in the fourth quarter such as: the HomePro Expo at Impact Muang Thong Thani, during 16-25 December 2022; the HomePro Living Expo at the Queen Sirikit National Convention Center, during 13-23 October 2022; the HomePro Super Expo, during 2-6 December 2022, at all HomePro stores nationwide and through online channels, including Double Day activities; and other promotional events both at HomePro stores and through the online platform.

Nevertheless, the gross profit weakened compared to the same period last year due to the increase in discounts of aforementioned promotional activities. Additionally, higher selling and administrative expenses (SG&A) resulted from rising energy costs such as electricity and fuel costs, including pre-operating expenses for new 3 stores expansion during the fourth quarter.

Improve the efficiency of revenue generation

In order to facilitate the acquisition of new target customers, the Company has identified business opportunities arising from the continuous growth of online marketplaces and has consequently expanded its distribution channels to various external platforms such as Shopee and Lazada. This is in addition to offering products and services on existing proprietary channels such as the Company Website, HomePro Application, Home Service Application, and Homecard Application. Furthermore, during 2022 the Company took a 30% equity stake in Onestockhome Co., Ltd., which is an online platform for the sale of building materials. The objective is to increase product distribution and revenue generating opportunities for the Mega Home business.

Development of products and services supporting behavioral changes

The Company places great importance on an in-depth understanding of customer behavioral changes in order to offer products and services that cover all lifestyles and better align with evolving customer needs. For example, the company has developed new product categories such as pet-related products, reflecting the increasing popularity of pet adoption. Furthermore, the Company has developed a new product category for solar panels, which save both energy and cost, in collaboration with suppliers of relevant products and services. This development focuses on the sustainability of both the environment and society, and responds to greater

interest and awareness of this issue among our customers. Overall, the Company has focused on the use of customer analytics, using both internal and external data, to further develop the design of products and services across all usage purposes, both for existing customers, and to serve new target markets such as Generation Y and Business-to-Business (B2B).

Development of internal system efficiency

The Company has merged the Mega Home business and HomePro business to operate under the single entity of 'Home Product Center Public Company Limited'; formerly the two companies had completely separate management. The objective is to increase management efficiency in areas such as inventory management, cost control and human resource management, as well as to facilitate customers in terms of enabling cross purchasing of products and service from both HomePro and Mega Home stores, thereby providing more product variety and faster service, and hence increasing business opportunities.

In terms of supply chain management, the Company has noted the supply chain disruption experienced during the outbreak of coronavirus (COVID-19). Consequently, the Company has improved its procurement processes to prevent future product shortages. This includes lengthening the lead time for planning advance orders to reserve manufacturing capacity and increasing the number of orders once purchased, along with developing a more effective demand forecasting system.

Furthermore, the Company also has placed importance on the consideration of the environmental impact of its various operational processes, with the objective of zero Green House Gases (GHGs) emission from business activities by 2050 (Net Zero 2050). The areas for development and improvement include zero waste management, responsible plastic consumption, as well as greater use of renewable energy by installing solar rooftops to save energy and reduce utility costs. As of 31st December 2022, the Company had installed solar rooftops at 65 stores.

Store expansion in 2022

The Company has accelerated both HomePro and Mega Home store expansion in response to the positive outlook for business growth following the recovery in the Thai economy. The Company opened 2 new HomePro stores: at Future Park Rangsit to replace the former Rangsit store and at Ladkrabang to replace the former HomePro S in The Paseo Ladkrabang; both of these are relocations to open in nearby areas with larger floor spaces to better facilitate customers. On the other hand, the Company closed 1 HomePro store at The Mall Bangkae, owing to the expiry of its leasing term, and plan to open a new store nearby. Furthermore,

the Company opened 4 Mega Home stores at Pattaya, Chachoengsao, Surat Thani, and Khon Kaen. At the end of 2022, there were 87 HomePro stores, 5 HomePro S stores, 18 Mega Home stores, 7 HomePro Malaysia stores, and HomePro Vietnam, which primarily distributes products via an e-marketplace.

Lastly, the Company would like to express its sincere gratitude for the dedication, determination and responsibility of associates at all levels, as well as for the continuous support of all stakeholders. The Company firmly believes that business growth in parallel with mutual value creation for all stakeholders (which includes customers, associates, vendors, shareholders, as well as the wider community and society) will be the key to drive the Company towards sustainability, as well as contributing to sustainable national economic development.

The financial results of the Company and its subsidiaries for year 2022, which have been audited by an auditor, are as follows:

Table 1: Financial Summary for the year 2022

	Unit: Million Baht					
	2022	%	2021	%	Increase (Decrease)	% Change
Revenue from contracts with customers	65,090.88	100.00%	60,567.91	100.00%	4,522.97	7.47%
Rental income	1,720.58	2.64%	1,223.16	2.02%	497.43	40.67%
Other income	2,577.96	3.96%	2,134.72	3.52%	443.24	20.76%
Total revenues	69,389.43	106.60%	63,925.79	105.54%	5,463.64	8.55%
Cost of sales and service	48,077.70	73.86%	44,925.37	74.17%	3,152.32	7.02%
Gross profit	17,013.19	26.14%	15,642.54	25.83%	1,370.65	8.76%
Cost of rental	704.95	1.08%	608.80	1.01%	96.15	15.79%
Selling and administrative expenses	12,519.17	19.23%	11,348.87	18.74%	1,170.30	10.31%
Profit before finance cost and income tax expenses	8,087.61	12.43%	7,042.74	11.63%	1,044.87	14.84%
Share of profit/loss from investment in associates	(1.95)	0.00%	0.00	0.00%	(1.95)	N/A
Finance Income	16.95	0.03%	7.36	0.01%	9.60	130.42%
Finance cost	444.58	0.68%	415.61	0.69%	28.97	6.97%
Profit before income tax expenses	7,658.04	11.77%	6,634.49	10.95%	1,023.55	15.43%
Income tax expenses	1,440.95	2.21%	1,193.97	1.97%	246.98	20.69%
Profit for the period	6,217.09	9.55%	5,440.52	8.98%	776.57	14.27%

The Company's net profit for the year of 2022 was Baht 6,217.09 million, representing an increase of Baht 776.57 million or up 14.27% as compared to the previous year. The main reasons include:

1. Total revenues were Baht 69,389.43 million, an increase of Baht 5,463.64 million or up 8.55%, comprising of the following:
 - 1.1. Revenue from contracts with customers which comprised of product sales revenue and service income of Home Service was Baht 65,090.88 million, representing an increase of Baht 4,522.97 million or up 7.47% year-over-year. The increase in revenue was contributed by the resumption of normal operation of all stores compared to the previous year that some stores have been closed due to the

lockdown regulation from the government in the third quarter of 2021. In addition, the recovery of domestic consumption and tourism is a plus, particularly in the southern part. Besides, the Company drove its sales by organizing more activities; the HomePro Super Expo at all HomePro stores nationwide and online channel, HomePro expo and HomePro Electric Expo at Impact Muang Thong Thani, HomePro Living Expo at Queen Sirikit National Convention Center, including Double Day activities for online channel in order to provide more convenience for customers to purchase products and services.

- 1.2. Rental and service income amounted to Baht 1,720.58 million, an increase of Baht 497.43 million or up 40.67% from previous year thanks to more rental income from leasable space of HomePro stores and Market Village shopping mall particularly in tourism areas, compared to the same period last year that the Company has lowered or waived rental fees for tenants to mitigate impact from COVID-19 outbreak. Moreover, there was rental income realization of rental space in new store of HomePro at Bangna Km.1, which has been operated since the fourth quarter of 2021.
- 1.3. Other income was Baht 2,577.96 million, an increase of Baht 443.24 million or up 20.76%, as a result of the increase in promotional activities with vendors at stores and through online channels.
2. Gross profit from product sales and service income of Home Service was Baht 17,013.19 million, an increase of Baht 1,370.65 million or up 8.76% as compared with the prior year. The percentage of gross profit increased from 25.83% to 26.14%, which was attributed to the better of product mix toward high-margin products and increasing service income despite higher logistic cost for distribution to stores resulting from oil price inflation.
3. Cost of rental and related services was Baht 704.95 million, an increase of Baht 96.15 million or up 15.79%, due to higher utilities cost from resumption to normal operation compared to temporary closure during the third quarter of 2021.
4. Selling and administrative expenses (SG&A) amounted to Baht 12,519.17 million, an increase of Baht 1,170.30 million or up 10.31% year-over-year. The increase in SG&A as a percentage of sales from 18.74% to 19.23% was attributable to the increase of expenses related to new stores opening of HomePro and Mega Home, utilities expense that was charged at higher fuel tariff adjustment rate, property tax back to normal rate, as well as more marketing and promotional activities.
5. Finance income was Baht 16.95 million, an increase of Baht 9.60 million or up 130.42%, due to higher interest income.
6. Finance cost was Baht 444.58 million, an increase of Baht 28.97 million or up 6.97% due to the issuance of corporate bonds with higher interest rates during 2022 for debt refinancing.

7. Income tax expenses were Baht 1,440.95 million, an increase of Baht 246.98 million or up 20.69% when compared with the prior year. This was due to higher earnings before tax.

Please be informed accordingly.

Sincerely yours,

(Ms.Wanee Juntamongkol)

Executive Vice President – Accounting and Finance