



10 August 2020

No. ZEN 2563-016
Subject Management Discussion and Analysis for the 2nd quarter of 2020 and 6-month period ended 30 June 2020
To The President
The Stock Exchange of Thailand

We, Zen Corporation Group Public Company Limited (“the Group”), are pleased to provide you our management discussion and analysis for the 2nd quarter of 2020 and 6-month period ended 30 June 2020, as follows:

The Group’s Operation under the Epidemic Situation of Coronavirus 2019

Due to the global epidemic situation of Coronavirus 2019 (‘COVID-19’) and the countermeasures taken by the government such as travel restrictions and the closure of venues considered high-risk areas including department stores, have led to a severe contraction of the Thai economy in the 2nd quarter of 2020 which is expected to be the deepest recession ever recorded. On 8 July 2020, the Bank of Thailand further revised downwards the 2020 GDP forecast in their Monetary Policy Report, saying the economy was likely to contract by 8.1%.

Although Thailand has successfully controlled the spread of COVID-19 so far, leading to a gradual easing of the lockdown in May, economic activities however are still in contraction in every sector. This is especially true for the tourism sector which suffered the greatest hit from border restrictions and faced 100% drop in foreign tourist numbers. Likewise, the export sector has been affected by declining demand from trading-partner countries. In addition, the purchasing power of consumers is thoroughly affected, and this negatively impacts private consumption, along with exacerbated financial vulnerability among households and businesses, which will require assistance and time to recover.

The Group has committed to support and operate in accordance with the measures and orders of government agencies to limit the spread of COVID-19 with careful consideration of the health and safety of our customers and employees. The Group constantly monitors the situation to manage and mitigate risks, assess the impact on the business, and ensure that the operations comply with additional health and safety measures as announced by the government. However, the shutdown of shopping malls which are considered as the main sales channels of the Group effective from March 22, 2020 to May 17, 2020 has severely affected the Group's sales.

From the above situation, The Group placed importance on increasing service through take-home and delivery services to full capacity in order to meet the consumer demand. Meanwhile, during this time with reduced revenue, the Group has taken immediate and significant measures to control costs such as negotiating with landlords to reduce rental in branches that were not be able to provide full services, and implementing a voluntary leave without pay scheme, initially for management but also later opened up to all employees. Maintaining a strong liquidity position has been a priority and through



controlling expenses and other various actions the group has been able to conserve cash to ensure that the Group is in a solid position going forward.

Although the financial impacts from all the cost savings measures could not compensate for the loss of revenue in the entire 2nd quarter of 2020, sales were seen to be increasing back towards normal levels in late June due to the improvement in the domestic COVID-19 outbreak situation. The Group is confident that further improvements in sales revenue will be evident in the 3rd quarter of 2020 and this should result in much improved financial performance in the latter half of the year.

Impact from Changes in Accounting Policy

From 1 January 2020, the Group has adopted Thai Financial Reporting Standard - Financial instruments group and Thai Financial Reporting Standard No.16 - Leases which impacted to the financial statement as follows:

1. Thai Financial Reporting Standard - Financial instruments group

Credit Risk

Allowance for impairment loss for trade receivables are measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the historical credit loss experience, adjusted for factors that are specific to the debtors and assessment of both the current and forecast general economic conditions.

	(in thousand Baht)		
Allowance for impairment losses	31 December 2019	30 June 2020	Change
Consolidated financial statements	1,055	3,756	2,701

2. Thai Financial Reporting Standard No. 16 - Leases (TFRS 16)

- Impact of adoption in TFRS 16 on Consolidated financial statements

Movement of rights assets for the six-month period ended 30 June 2020	(in thousand Baht)
At 1 January 2020	1,089,102
Increase	45,146
Decrease	(15,346)
<i>Deduct Depreciation</i>	(109,544)
At 30 June 2020	1,009,358



Performance

Revenues

Revenues	2 nd Quarter				% Change
	2019		2020		
	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾	
Revenue from Sales of Food & Beverages	739.4	96.6%	314.0	92.8%	-57.5%
Franchise Fee Income	17.3	2.3%	13.6	4.0%	-21.1%
Revenue from Sales and Service	756.7	98.9%	327.6	96.8%	-56.7%
Other Income	8.5	1.1%	10.9	3.2%	28.7%
Total Revenue	765.2	100.0%	338.6	100.0%	-55.8%

Revenues	1 st Half				% Change
	2019		2020		
	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾	
Revenue from Sales of Food & Beverages	1,449.5	96.9%	930.1	94.7%	-35.8%
Franchise Fee Income	31.4	2.1%	31.1	3.2%	-0.8%
Revenue from Sales and Service	1,480.9	99.0%	961.2	97.9%	-35.1%
Other Income	14.8	1.0%	21.0	2.1%	42.0%
Total Revenue	1,495.7	100.0%	982.2	100.0%	-34.3%

Remark: ⁽¹⁾ Percentage of Total Revenue

In the 2nd quarter of 2019 and 2020, the Group's total revenue decreased from THB 765.2 Mn to THB 338.6 Mn respectively, a decrease of THB 426.7 Mn or 55.8%. And for the 1st half of 2019 and 2020 the Group's total revenue decreased from THB 1,495.7 Mn to THB 982.2 Mn respectively, a decrease of THB 513.5 Mn or 34.3%. This was due to a decrease in revenue from sales of food and beverages, which was the major contributor to the Group's revenue and was a direct consequence of the outbreak of COVID-19, the nationwide lockdown and the temporary closure of restaurants in shopping centers. During the 2nd quarter of 2019 and 2020 revenue from sales of food and beverages made up 98.9% and 96.8% of total revenue, respectively. And for the 1st half of 2019 and 2020 revenue from sales of food and beverages made up 99.0% and 97.9% of total revenue, respectively.



Revenue from Sales of Food and Beverages

Revenues	2 nd Quarter				% Change
	2019		2020		
	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾	
Revenue from Restaurant Business	665.2	90.0%	214.8	68.4%	-67.7%
Revenue from Sales of Raw Material	49.0	6.6%	17.7	5.6%	-63.9%
Revenue from Food Delivery & Catering	18.3	2.5%	67.8	21.6%	270.5%
Revenue from Retail Merchandise	6.9	0.9%	13.7	4.4%	98.6%
Total Revenue from Sales of Food and Beverages	739.4	100.0%	314.0	100.0%	-57.5%

Revenues	1 st Half				% Change
	2019		2020		
	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾	
Revenue from Restaurant Business	1,316.5	90.8%	734.1	78.9%	-44.2%
Revenue from Sales of Raw Material	93.8	6.5%	55.0	5.9%	-41.4%
Revenue from Food Delivery & Catering	28.8	2.0%	116.9	12.6%	305.9%
Revenue from Retail Merchandise	10.3	0.7%	24.1	2.6%	134.0%
Total Revenue from Sales of Food and Beverages	1,449.5	100.0%	930.1	100.0%	-35.8%

In the 2nd quarter of 2019 and 2020, revenue from sales of food and beverages was THB 739.4 Mn and THB 314.0 Mn respectively, a decrease of THB 425.4 Mn or 57.5%. And for the 1st half of 2019 and 2020, revenue from sales of food and beverages was THB 1,449.5 Mn and THB 930.1 Mn respectively, a decrease of THB 519.4 Mn or 35.8%. This was mainly due to the decreased sales of the restaurant business and raw material to franchisees, while sales of delivery and retail merchandise increased by boosting sales through these channels in response to the changing consumer behavior and later on in response to COVID-19 crisis. Sales of food delivery services, especially in the 2nd quarter of 2020, increased by 270.5% from the same period in 2019, and the percent to revenue from sales of food and beverages increased from 2.5% in the 2nd quarter of 2019 to 21.6% in the same period of 2020. Sales of retail merchandise in the 2nd quarter of 2020 grew 98.6% from the previous year. However, due to the epidemic situation of COVID-19 which negatively affected the economy and consumer confidence, the Group's SSSG for the 2nd quarter of 2020 was -58.3% and the 1st half of 2020 was -41.5%



Item	2 nd Quarter		1 st Half	
	2019	2020	2019	2020
Number of New Equity Branches Opened (Branch)	16	3	23	4
Number of Equity Branches at Period End (Branch)	129	155	129	155
Number of New Franchise Branches Opened (Branch)	4	10	5	24
Number of Franchise Branches at Period End (Branch)	146	193	146	193
Same Store Sales Growth: SSSG (%) ⁽¹⁾	-1.3%	-58.3%	-2.9%	-41.5%

Remark: ⁽¹⁾ Calculated based on total revenue from sales of food and beverages per total operating days of the same branch

In the 2nd quarter of 2019 and 2020, franchise fee income decreased from THB 17.3 Mn to THB 13.6 Mn respectively, a decrease of THB 3.6 Mn or 21.1%. This decrease was mainly due to a decrease in royalty and marketing fee income of franchise branches which had lower revenue from epidemic situation of COVID-19 and temporary restaurant closure. In addition, the group had lowered the royalty fee to help franchisees during the COVID-19 situation. Even though the company had an increase in the initial membership fee income from the increased number of new franchise branches.

And for the 1st half of 2019 and 2020, franchise fee income slightly decreased from THB 31.4 Mn to THB 31.1 Mn respectively, a decrease of THB 0.3 Mn or 0.8%. During the 1st half of 2020, the Group opened total 24 new franchise branches which mostly are Khiang brand.

In the 2nd quarter of 2019 and 2020, the Group's other income increased from THB 8.5 Mn to THB 10.9 Mn respectively, an increase of THB 2.4 Mn or 28.2%. This increase was mainly due to (1) higher rental income and (2) higher amortized of membership fee income.

And for the 1st half of 2019 and 2020, the Group's other income increased from THB 14.8 Mn to THB 21.0 Mn respectively, an increase of THB 6.2 Mn or 42.0%.

Costs of Sales and Service

Item	2 nd Quarter				% Change
	2019		2020		
	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾	
Revenue from Sales of Food & Beverages	739.4	97.7%	314.0	95.8%	-57.5%
Franchise Fee Income	17.3	2.3%	13.6	4.2%	-21.1%
Revenue from Sales and Service	756.7	100.0%	327.6	100.0%	-56.7%
Costs of Sales and Service ⁽²⁾	392.3	51.8%	200.5	61.2%	-48.9%
Gross Profit	364.4	48.2%	127.2	38.8%	-65.1%



Item	1 st Half				% Change
	2019		2020		
	THB Mn	% ⁽¹⁾	THB Mn	% ⁽¹⁾	
Revenue from Sales of Food & Beverages	1,449.5	97.9%	930.1	96.8%	-35.8%
Franchise Fee Income	31.4	2.1%	31.1	3.2%	-0.8%
Revenue from Sales and Service	1,480.9	100.0%	961.2	100.0%	-35.1%
Costs of Sales and Service ⁽²⁾	773.2	52.2%	562.8	58.6%	-27.2%
Gross Profit	707.7	47.8%	398.4	41.4%	-43.7%

Remark: ⁽¹⁾ Percentage of Revenue from main businesses.

⁽²⁾ In 2019 the Group adjusted the accounting classifications of Costs of Sales and Service and Selling Expenses to be more suitable and in line with other companies in the same industry.

In the 2nd quarter of 2019 and 2020, the total costs of sales and services decreased from THB 392.3 Mn to THB 200.5 Mn respectively, a decrease of THB 191.8 Mn or 48.9% which was mainly due to (1) the decrease of cost of food materials from the decrease in revenue from restaurant business (2) a decrease in staff cost (kitchen area) from cost-control measures during the COVID-19 crisis and temporary branch closure and (3) a decrease in rental, service fees and utilities negotiated with shopping malls during March-May 2020.

Although the Group put every effort on controlling of costs of sales and services such as staff and rental during the COVID-19 situation, in the 2nd quarter of 2019 and 2020, the gross profit decreased from THB 364.4 Mn to THB 127.2 Mn respectively, a decrease of THB 237.2 Mn or 65.1% due to 1) a decrease in sales from restaurant businesses (2) an increase in packaging costs from more sales via delivery and (3) increased promotion discounts to stimulate consumption. The gross profit margin decreased from 48.2% in the 2nd quarter of 2019 to 38.8% in the same period of 2020.

And for the 1st half of 2019 and 2020, the total costs of sales and services decreased from THB 773.2 Mn to THB 562.8 Mn respectively, a decrease of THB 210.4 Mn or 27.2%. The gross profit decreased from THB 707.7 Mn in the 2nd quarter of 2019 to THB 398.4 in the same period of 2020, a decrease of THB 309.3 Mn or 43.7%. The gross profit margin decreased from 47.8% in the 2nd quarter of 2019 to 41.4% in the same period of 2020.

Selling Expenses ⁽¹⁾

In the 2nd quarter of 2019 and 2020, selling expenses decreased from THB 214.7 Mn to THB 142.0 Mn respectively, a decrease of THB 72.7 Mn or 33.9%. This decrease was mainly due to (1) a decrease in staff cost (dine-in area) from the cost-controlling measures and the temporary branch closure during the enforced shutdown of shopping malls (2) a decrease in rental, service fees and utilities negotiated with shopping malls and (3) the Group strategy of more efficient marketing by switching towards more cost-effective marketing channels, which decreased from the previous year by THB 4.8 Mn. However, the group had higher marketing support and commission expenses paid to delivery operators (Grab, Lineman, Food Panda and Get) THB 7.7 Mn which were related to the increased delivery sales. As a percent of total revenue, selling expenses increased from 28.1% in the 2nd quarter of 2019 to 41.9% in the same period of 2020.



And for the 1st half of 2019 and 2020, selling expenses decreased from THB 412.9 Mn to THB 357.7 Mn respectively, a decrease of THB 55.2 Mn or 13.4%. As a percent of total revenue, selling expenses increased from 27.6% in the 2nd quarter of 2019 to 36.4% in the same period of 2020.

Remark: ⁽¹⁾ In 2019 the Group adjusted the accounting classifications of Costs of Sales of Food and Beverages and Selling Expenses to be more suitable and in line with other companies in the same industry.

Administrative Expenses

In the 2nd quarter of 2019 and 2020, administration costs decreased from THB 117.9 Mn to THB 91.9 Mn respectively, a decrease of THB 26.0 Mn or 22.0%. This decrease was mainly due to (1) a decrease in staff expenses from the implementing a voluntary leave without pay scheme for management and support staff to reduce expenses during the period that the Group lost revenue from the temporary branches closure (2) a decrease in bank fees and (3) a decrease of various expenses from cost control measure such as work from home policy to savings of utilities expense, traveling expense and overtime expense. However, due to the falling restaurant sales as a result of COVID-19, as a percent of total revenue, administrative expenses increased from 15.4% in the 2nd quarter of 2019 to 27.2% in the same period of 2020.

For the 1st half of 2019 and 2020, administration costs decreased from THB 232.6 Mn to THB 204.0 Mn respectively, a decrease of THB 28.6 Mn or 12.3%. As a percent of total revenue, administrative expenses increased from 15.6% in the 1st half of 2019 to 20.8% in the same period of 2020.

Finance Expenses

In the 2nd quarter of 2019 and 2020, finance expenses increased from THB 0.1 Mn to THB 8.0 Mn respectively, an increase of THB 7.9 Mn. This was due to (1) the company recognized interest expenses on the lease liabilities following the implementation of the Thai Financial Reporting Standard No. 16 "Leases" (TFRS 16) and (2) interest expense from the drawdown of working capital loan to preserve liquidity during the COVID-19 crisis. However, all working capital loan was repaid before the end of June 2020.

For the 1st half of 2019 and 2020, finance expenses increased from THB 3.6 Mn to THB 18.9 Mn respectively, an increase of THB 15.3 Mn or 425.0%.

Tax Expenses

In the 2nd quarter of 2019, the Group's income tax expense was THB 7.0 Mn. Meanwhile, in the 2nd quarter of 2020, income tax expense was THB -23.1 Mn due to the Group's operating loss and utilization of tax shield.

And for the 1st half of 2019 Mn, the Group's income tax expense was THB 8.0 Mn. Meanwhile, in the 1st half of 2020, income tax expense was THB -36.4 Mn

Net Profit and Net Profit Margin

In the 2nd quarter of 2019 and 2020, the net profit decreased from THB 33.2 Mn to net loss THB 81.0 Mn respectively, a decrease of THB 114.2 Mn or -344.0% and the net profit margin decreased from



4.3% to -23.9%. The main reasons were (1) loss of revenue from the restaurant business which affected by the epidemic of COVID-19 (2) impact of adoption Thai Financial Reporting Standard - Financial instruments group and (3) impact of adoption Thai Financial Reporting Standard No. 16 - Leases (TFRS 16)

For the 1st half of 2019 and 2020, the net profit decreased from THB 65.3 Mn to net loss THB 125.2 Mn respectively, a decrease of THB 190.5 Mn or -291.7% and the net profit margin decreased from 4.4% to -12.7%.

Financial Position Analysis

Assets

As of 31 December 2019, and 30 June 2020, the Group had total assets of THB 2,044.1 Mn and THB 2,790.0 Mn respectively, an increase of THB 745.9 Mn or 36.5%. The assets increased mainly from (1) an increase in assets, usage rights (2019: leasehold rights) by THB 969.3 Mn (2) a decrease in cash and cash equivalents by THB 132.6 Mn as a result of the payment for goods during the epidemic of COVID-19 situation and (3) a decrease in trade and other current receivables related to franchise branch construction work THB 40.1 Mn.

Liabilities

As of 31 December 2019, and 30 June 2020, the Group had total liabilities of THB 610.0 Mn and THB 1,511.4 Mn respectively, an increase of THB 901.3 Mn or 147.7%. The main factor in the increase was liabilities under leases (2019: liabilities under finance leases).

Shareholder Equity

As of 31 December 2019, and 30 June 2020, the Group had shareholders' equity of THB 1,434.1 Mn and THB 1,278.7 Mn respectively, a decrease of THB 155.4 Mn or 10.8%. This decrease in shareholders' equity was mainly derived from (1) Net loss during the period THB -125.2 Mn and (2) impact from changes in accounting policies (TFRS16) to retained earnings THB -30.6 Mn.

Cash Flow Analysis

Type of Cash Flow	For the 6-month period ending 30 June	
	2019	2020
	THB Mn	THB Mn
Net Cash from (used in) Operating Activities	137.4	(1.3)
Net Cash from (used in) Investing Activities	(96.9)	(29.2)
Net Cash from (used in) Financing Activities	215.9	(102.0)
Increase (Decrease) in Net Cash and Cash Equivalents	256.3	(132.6)

Overall, the company had a decrease in net cash and cash equivalents during the six months ending 30 June 2020 of THB -132.6 Mn.



Net Cash from Operating Activities

The cash flow from operating activities was THB -1.3 Mn in the 1st half of 2020, a decrease of THB -138.7 Mn compared to the same period in 2019. The main reason for the lower cash flow was the decrease in net profit which decreased THB -190.5 Mn year-on-year. Other notable cash flow changes were (1) Depreciation and Amortisation which increased by THB 92.1 Mn (although this was mostly a result of new TFRS accounting standard), (2) Financial Cost which increased by THB 15.3 Mn (3) Trade and other Current Payables which decreased by THB -81.4 Mn (4) Trade and other Current Receivables which increased by THB 57.3 Mn (5) Accrued Expenses which decreased by THB -47.1 Mn and (6) Deferred Incomes which decreased by THB -19.6 Mn.

Net Cash from Investments

The cash flows from investments decreased from THB -96.9 Mn in the 1st half of 2019 to THB -29.2 Mn in the same period of 2020, a decrease of THB -67.7 Mn. This was mainly due to decreased purchase of fixed assets in 2020 compared to 2019 by the amount of THB 48.1 Mn and increased disposal of assets in 2020 compared to 2019 by the amount of THB 22.9 Mn which was mainly due to (1) a decrease in new branches and (2) more branch closure

Net Cash from Financing Activities

The cash flows from financing activities decreased from THB +215.9 Mn in the 1st half of 2019 to THB -102.0 Mn in the same period of 2020, a decrease of THB -317.9 Mn. In 2019, the Group recorded the net cash inflow from the IPO of THB 952.1 Mn which was partially offset by (1) net repayment of short-term borrowings from financial institutions of THB 630.0 Mn and (2) dividend payment to shareholders THB 101.3 Mn whereas, in the 1st half of 2020, the Group recorded the repayment of liabilities under lease agreement of THB 79.7 Mn and interest paid of THB 22.3 Mn.

Liquidity and Capital Structure

As of 30 June 2020, the Group had a current ratio of 0.70, decreased from 1.24 at end of 2019. This was mainly due to (1) an increase in liabilities under lease agreements and (2) a decrease in cash and cash equivalents.

The debt-to-equity ratio increased to 1.18 at 30 June 2020 compared to 0.43 at the end of 2019. This increase was mainly due to (1) an increase in liabilities under lease agreements and (2) a decrease in shareholders' equity resulted from the negative net profit and changes in accounting policies.

Please be informed accordingly,

Yours sincerely,

(Mrs. Yupaphan Ekasittikul)
Chief Financial Officer