



30 April 2019

At: ACC/HO 012/19

Re: Management Discussion and Analysis for the Quarter of 1/2019

To: President

The Stock Exchange of Thailand

In the first quarter of 2019, the Thai economy expanded at a slower rate than the same period last year. Supporting factors included an increase in private consumption from both the agricultural sector (driven by an increase in rice prices) and the non-agricultural sector, which was partly supported by government measures. Although the number of overseas tourists was stable, there was a decline in the export sector which has been affected by the trade dispute between the US and China, and the global economic slowdown. The economic forecast for 2019 is for the country to continue to grow at a slower rate than prior year; the expansion of consumption is expected to remain fragile as overall purchasing power has not yet recovered, and household debt remains at a high level.

The operating result of the Company in this quarter is still in line with the plan. Sales of 'improved air quality' products were higher than normal, due to the occurrence of high levels of air pollution, especially in Bangkok and the Central and Northern regions. However, sales at some stores in Bangkok continue to be affected by construction work for the mass transit system. In addition, the company has organized various promotional activities, such as the HomePro Expo during 15-24 March 2019, which performed as targeted. This resulted in same store sales in the first quarter of 2019 at a satisfactory level, with the company having total income and net profit in the amount of 16,553.01 million baht and 1,419.84 million baht respectively, increasing 4.10% and 13.73% from the previous year. Furthermore, the company has continued to focus on both operational efficiency improvement - the ability to expand the gross profit margin through the selection and development of quality products to meet the needs of customers - and also on cost efficiencies.

Regarding store expansion in the first quarter, the company did not open any new stores, but HomePro Fashion Island store has been relocated from the shopping center to be a stand-alone store, in order to accommodate the increasing needs of customers. As of the first quarter of 2019, the Company has 82 HomePro stores, 8 HomePro S stores, 12 Mega Home stores and 6 HomePro stores in Malaysia.

With regards to the financial results of the Company and its subsidiaries for the three-month period ended March 31st, 2019 which has been reviewed by auditor, the Company has adopted the IFRS 15 – Revenue from Contracts with Customers, effective January 1<sup>st</sup>, 2019 onwards. This impacts the reporting of financial statements, particularly the reclassification of the revenues, cost of sales, cost of rental and services, and SG&A. However, there is no impact on the net profit as follows:

Table 1: Financial Summary for the three-month period of the year 2019 and 2018

Unit: Million Baht				
	Q1'2019	Q1'2018	Increase (Decrease)	% Change
Sales income	15,399.76	14,874.75	525.01	3.53%
Rental and service income	657.95	599.32	58.62	9.78%
Other income	495.30	426.26	69.04	16.20%
<b>Total revenues</b>	<b>16,553.01</b>	<b>15,900.33</b>	<b>652.68</b>	<b>4.10%</b>
Cost of sales	11,369.67	11,023.00	346.67	3.14%
<b>Gross profit</b>	<b>4,030.10</b>	<b>3,851.75</b>	<b>178.34</b>	<b>4.63%</b>
Cost of rental and service	355.02	333.49	21.54	6.46%
Selling and administrative expenses	2,970.44	2,912.29	58.14	2.00%
<b>Profit before finance cost and income tax expenses</b>	<b>1,857.88</b>	<b>1,631.56</b>	<b>226.33</b>	<b>13.87%</b>
Finance cost	107.83	98.07	9.76	9.96%
Income tax expenses	330.21	285.01	45.20	15.86%
<b>Profit for the period</b>	<b>1,419.84</b>	<b>1,248.47</b>	<b>171.37</b>	<b>13.73%</b>

The Company's net profit for the first quarter of year 2019 was Baht 1,419.84 million representing an increase of Baht 171.37 million or up by 13.73% over the same period last year. The main reasons are as follows:

- Total revenues were Baht 16,553.01 million, an increase of Baht 652.68 million or up by 4.10%, comprising of the following:
  - Sales income was Baht 15,399.76 million, an increase of Baht 525.01 million or up by 3.53%, which was driven by same store sales growth of HomePro and Mega Home as well as sales from new stores of HomePro opened in 2018.
  - Rental and service income amounted to Baht 657.95 million, an increase of Baht 58.62 million or up by 9.78%, which resulted from higher rental income from Market Village and income from "Home Service".

- Other income was Baht 495.30 million, an increase of Baht 69.04 million or up by 16.20% due to growth in income from promotional activities with suppliers, higher interest received, and miscellaneous income.
- 2. Gross profit was Baht 4,030.10 million, an increase of Baht 178.34 million or up by 4.63% over the same period last year. In addition, gross profit margin as a percentage of sales has increased from 25.89% in previous year to 26.17% due to change in product sales mix of general merchandise and the enhancement of directly sourced private-label goods' profit margin, as well as the continuous improvement in product purchase planning of HomePro, Mega Home, and HomePro in Malaysia.
- 3. Cost of rental and service was Baht 355.02 million, an increase of Baht 21.54 million or up by 6.46% due to the higher cost for providing the "Home Service" program.
- 4. Selling and administrative expenses (SG&A) amounted to Baht 2,970.44 million, an increase of Baht 58.14 million or up by 2.00% as compared with the same period of previous year. The amount increased were mainly driven by the rise in personnel expenses, rental cost, maintenance cost, and marketing expense. However, SG&A as a percentage of sales has marginally improved, resulting in the decrease from 19.58% in previous year to 19.29%. This decrease was due to the improvement in cost efficiency.
- 5. Finance cost was Baht 107.83 million, an increase of Baht 9.76 million or up by 9.96%, due to the new bond issued in the second half of year 2018.
- 6. Income tax expenses were Bath 330.21 million, an increase of Baht 45.20 million or up by 15.86% as compared to the previous year. This was due to the higher earnings before tax.

Please be informed accordingly.

Sincerely yours,

(Ms.Wannee Juntamongkol)

Senior Vice President – Accounting and Finance