



30 July 2019

At: ACC/HO 017/19

Re: Management Discussion and Analysis for the Quarter of 2/2019

To: President
The Stock Exchange of Thailand

In the second quarter of 2019, the Thai economy inclined to grow slower than forecasted. It was mainly due to the weakening export sector which attributed to the declining demand worldwide, resulting in the stagnant economic growth in several major trading countries. The tourism sector has been adversely affected by a contraction of Chinese tourists' arrivals while private investment has been expanding at a slower rate. Although private consumption has continued to expand, it has still been affected by high levels of household debt as well as persistent low prices for agricultural products.

The performance of the company in this quarter is still in line with plan, even though some stores in Bangkok are still affected by the construction of mass transit projects. The extended period of hot weather in many areas during April and May, where temperatures were higher than historical norms, caused a hike in sales of cooling items such as air conditioners and fans. The company also undertook various promotional activities, as well as organizing the HomePro Fair in Chiang Mai, Khon Kaen and Songkhla (Hat Yai), generating satisfactory same-store sales in the second quarter of 2019. This resulted in the company having total income and net profit of 17,565.41 million baht and 1,526.63 million respectively, increasing 6.69% and 16.31% from the previous year. The company continues to focus on improving operational efficiency and increasing our ability to expand the gross profit margin through the selection and development of quality products to better meet the needs of customers.

For the subsidiaries, Mega Home business has a rising trend of sales, while the operating performance of the HomePro business in Malaysia is still not in line with the plan, with concerns over consumer confidence. However, the subsidiaries have continuously improved operational efficiency through improvements in gross margin rates, as well as continuing to focus on cost efficiency

For stores expansion in the second quarter, the company opened 1 new store of HomePro at Charansanitwong in May. As of the second quarter of 2019, the Company operated 83 HomePro stores, 8 HomePro S stores, 12 Mega Home stores and 6 HomePro stores in Malaysia.

The financial results of the Company and its subsidiaries for the three-month and six-month periods, ended 30 June 2019 which has been reviewed by auditor are as follows:

Table 1: Financial Summary for the 2nd quarter of the year 2019 and 2018

Unit: Million Baht

	Q2'2019	Q2'2018	Increase (Decrease)	% Change
Sales income	16,426.54	15,444.64	981.90	6.36%
Rental and service income	627.56	551.03	76.53	13.89%
Other income	511.32	469.05	42.27	9.01%
Total revenues	17,565.41	16,464.72	1,100.69	6.69%
Cost of sales	12,085.55	11,421.82	663.72	5.81%
Gross profit	4,340.99	4,022.82	318.17	7.91%
Cost of rental and service	430.07	365.52	64.55	17.66%
Selling and administrative expenses	3,064.84	2,962.50	102.35	3.45%
Profit before finance cost and income tax expenses	1,984.95	1,714.88	270.07	15.75%
Finance cost	107.93	98.21	9.71	9.89%
Income tax expenses	350.40	304.11	46.29	15.22%
Profit for the period	1,526.63	1,312.56	214.07	16.31%

The Company's net profit for the second quarter of year 2019 was Baht 1,526.63 million representing an increase of Baht 214.07 million or up by 16.31% over the same period last year. The main reasons include:

1. Total revenues were Baht 17,565.41 million, an increase of Baht 1,100.69 million or up by 6.69%, comprising of the following:
 - Sales income was Baht 16,426.54 million, an increase of Baht 981.90 million or up by 6.36%, which was driven by same store sales growth of HomePro and Mega Home as well as sales from new stores of HomePro.
 - Rental and service income amounted to Baht 627.56 million, an increase of Baht 76.53 million or up by 13.89%, which resulted from higher rental income from Market Village and leasable areas of HomePro's stores, and income from "Home Service".
 - Other income was Baht 511.32 million, an increase of Baht 42.27 million or up by 9.01% due to growth in income from promotional activities with suppliers and interest received.

2. Gross profit was Baht 4,340.99 million, an increase of Baht 318.17 million or up by 7.91% over the same period last year. Despite the higher cost of transportation due to increasing fuel prices, gross profit margin as a percentage of sales has increased from 26.05% in previous year to 26.43% 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 efficiency improvement in product purchase planning of HomePro, Mega Home, and HomePro in Malaysia.
3. Cost of rental and service was Baht 430.07 million, an increase of Baht 64.55 million or up by 17.66% due to the higher cost for providing the "Home Service" program.
4. Selling and administrative expenses (SG&A) amounted to Baht 3,064.84 million, an increase of Baht 102.35 million or up by 3.45% 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 19.18% in the previous year to 18.66%. This decrease was due to the improvement in cost efficiency management.
5. Finance cost was Baht 107.93 million, an increase of Baht 9.71 million or up by 9.89%, due to the new bond issued in the second half of year 2018.
6. Income tax expenses were Bath 350.40 million, an increase of Baht 46.29 million or up by 15.22% as compared to the previous year. This was due to the higher earnings before tax.

Table 2: Financial Summary for the 1st half of the year 2019 and 2018

Unit: Million Baht

	H1'2019	H1'2018	Increase (Decrease)	% Change
Sales income	31,826.30	30,319.39	1,506.91	4.97%
Rental and service income	1,285.50	1,150.35	135.15	11.75%
Other income	1,006.62	895.31	111.31	12.43%
Total revenues	34,118.42	32,365.05	1,753.37	5.42%
Cost of sales	23,455.22	22,444.82	1,010.40	4.50%
Gross profit	8,371.08	7,874.57	496.51	6.31%
Cost of rental and service	785.09	699.00	86.09	12.32%
Selling and administrative expenses	6,035.28	5,874.79	160.49	2.73%
Profit before finance cost and income tax expenses	3,842.84	3,346.44	496.40	14.83%
Finance cost	215.76	196.29	19.47	9.92%
Income tax expenses	680.61	589.12	91.49	15.53%
Profit for the period	2,946.47	2,561.03	385.43	15.05%

The Company's net profit for the first half of year 2019 was Baht 2,946.47 million representing an increase of Baht 385.43 million or up by 15.05% over the same period last year. The main reasons are as follows:

- Total revenues were Baht 34,118.42 million, an increase of Baht 1,753.37 million or up by 5.42%, comprising of the following:
 - Sales income was Baht 31,826.30 million, an increase of Baht 1,506.91 million or up by 4.97%, which was driven by same store sales growth of HomePro and Mega Home as well as sales from new stores of HomePro.
 - Rental and service income amounted to Baht 1,285.50 million, an increase of Baht 135.15 million or up by 11.75%, which resulted from higher rental income from Market Village and leasable areas of HomePro's stores.
 - Other income was Baht 1,006.62 million, an increase of Baht 111.31 million or up by 12.43% due to the increase of income from in-store promotional activity, interest received, and miscellaneous income.
- Gross profit was Baht 8,371.08 million, an increase of Baht 496.51 million or up by 6.31% over the same period last year. Despite the higher cost of transportation due to increasing fuel prices, gross profit margin as a percentage of sales has increased from 25.97% in previous

year to 26.30% 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 efficiency improvement in product purchase planning of HomePro, Mega Home, and HomePro in Malaysia.

3. Cost of rental and service was Baht 785.09 million, an increase of Baht 86.09 million or up by 12.32% due to the higher cost for providing the "Home Service" program.
4. Selling and administrative expenses (SG&A) amounted to Baht 6,035.28 million, an increase of Baht 160.49 million or up by 2.73% as compared with the previous year. The amount increases 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 19.38% in the previous year to 18.96%. This decrease was due to the improvement in cost efficiency management.
5. Finance cost was Baht 215.76 million, an increase of Baht 19.47 million or up by 9.92%, due to the new bond issued in the second half of year 2018.
6. Income tax expenses were Bath 680.61 million, an increase of Baht 91.49 million or up by 15.53% as compared with the previous year. This was due to higher earnings before tax.

Please be informed accordingly.

Sincerely yours,

(Ms.Wanee Juntamongkol)

Senior Vice President – Accounting and Finance