

No. BCH.028/2020

24 February 2020

Subject : Management Discussion and Analysis for the year ended 31 December 2019

To : The President
The Stock Exchange of Thailand

Bangkok Chain Hospital Public Company Limited (the "Company") would like to report the operating results for year ended 31 December 2019 which had been audited by the independent auditor. Details are as follows:

1. Main events of the Company
2. Summary of the Company's operating results
3. Analysis of the consolidated financial performance
4. Analysis of the consolidated financial position
5. Analysis of the consolidated cash flow
6. Future operating trends

Main events of the Company

Month	Events
January	Kasemrad Hospital Prachachuen has renovated the pediatric ward with pediatric specialists and nurses available 24 hours a day.
February	Kasemrad Hospital Rattanaibeth has opened a new 7-story building to increase the convenience for patients.
March	The Company had a signing ceremony for the project "SMART MOM" with Phillip Life Insurance Public Company Limited to provide health insurance for mothers and children who came to receive services in affiliated hospitals.
May	Kasemrad Hospital Sriburin renovated the pediatric ward with full support by experienced pediatric specialists and professional nurses on duty 24 hours a day. Bangkok Chain International (Lao) Company Limited entered into a cooperative agreement with Kasikornthai Bank Co., Ltd. for financial support for the construction of Kasemrad International Hospital Vientiane. Kasemrad International Hospital Rattanaibeth renovated the Obstetrics and Gynecology Department by expanding service coverage areas and increasing the number of medical specialists. The service ranges from health examination to comprehensive diagnosis and preventive care. Moreover, the hospital opened the advanced pediatric center that provides child care services from birth to teenage by a specialized medical team.
June	World Medical Hospital collaborated with Bangkok Life Insurance Public Company Limited to mutually expand service coverage for insurance holders by opening the Insurance Relations Center to look after private health insurance patients.

Month	Events
July	<p>The affiliated hospitals in the group have organized a charity run for people with disabilities "Wing hai Tun Ep.2". Net income from the event were donated to the prostheses foundation of H.R.H the Princess Mother, Thai with Disability Foundation, Foundation for Children Disability and Association of Persons with Physical Disability International.</p> <p>The Company was selected as one of the ESG100 securities companies of the year 2019 with outstanding performance in terms of environment, society and governance, based on the assessment by Thai pat Institute.</p>
August	<p>World Medical Hospital received the Outstanding Cooperation Award at the Bangkok Life Assurance SMART Hospital Awards 2019 organized by Bangkok Life Assurance Public Company Limited.</p> <p>Kasemrad International Hospital Rattanaibeth opened a new dental department, providing services with modern equipment with a team of doctors and personnel who are specialized in providing complete services.</p>
September	<p>World Medical Hospital launched the Oasis Wellness Center, a medical center that combines patient care, health promotion and beauty by providing chelation programs for detoxifying blood vessels, weight loss programs, and colon therapy services.</p>
October	<p>The Company was ranked "good" in the report on corporate governance of listed companies for the year 2019 of the Thai Institute of Directors Association.</p>
November	<p>The Company received a credit rating at "A-", with "positive" outlook, which reflects the expectation that The Company will continue to improve its performance and be able to maintain a strong financial position.</p>
December	<p>World Medical Hospital opened the World ART Center to provide diagnostic and fertility treatment to infertile patients. And, the Diabetic Foot Center was fully opened for both outpatients and inpatients, providing comprehensive care and rehabilitation services for patients with diabetes.</p> <p>Kasemrad International Hospital Rattanaibeth opened an Advanced Internal Medicine on the 2nd floor with a team of doctors and personnel who are specialized in providing services.</p>

Summary of the company's operating results

For overall performance of the year 2019, The Company reported total revenue of 8,996.3 million baht (year 2018: 8,182.7 million baht), an increase of 813.6 million baht or 9.9 percent, a gross profit of 2,828.3 million baht (year 2018: 2,679.0 million baht), an increase 149.3 million baht or 5.6 percent. Profit before finance costs, tax expense, depreciation and amortization was 2,377.1 million baht (year 2018: 2,232.5 million baht) or 6.5 percent. For the profit attributable to owners of The Company amounted to 1,134.9 million baht (year 2018: 1,089.5 million baht), an increase of 45.4 million baht or 4.2 percent.

Analysis of the consolidated financial performance

<i>Statement of Comprehensive Income</i>	For the year ended 31 December		Change	
	2019	2018	Amount	Percent
<i>(Unit : Million Baht)</i>				
Total Revenue	8,996.3	8,182.7	813.6	9.9
Revenue from hospital operations	8,880.5	8,073.3	807.2	10.0
Revenue from general patients	5,791.1	5,051.6	739.5	14.6
Revenue from Social Security patients	3,089.4	3,021.7	67.7	2.2
Cost of hospital operations	(6,052.2)	(5,394.3)	(657.9)	12.2
Gross profit	2,828.3	2,679.0	149.3	5.6
<i>Gross profit margin</i>	<i>31.8%</i>	<i>33.2%</i>		
Distribution and Administrative expenses	(1,231.7)	(1,131.9)	(99.8)	8.8
Operating Profit	1,596.6	1,547.1	49.5	3.2
<i>Operating Profit Margin</i>	<i>18.0%</i>	<i>19.2%</i>		
Other income	115.8	109.5	6.3	5.8
Share of profit of investment in associate	2.4	2.5	(0.1)	(6.8)
Profit before tax expense	1,714.8	1,659.1	55.7	3.4
<i>Profit before tax expense margin</i>	<i>19.3%</i>	<i>20.6%</i>		
Finance costs	(130.7)	(125.8)	(4.9)	3.9
Tax expense	(286.0)	(285.0)	(1.0)	0.3
Profit for the year	1,298.0	1,248.2	49.8	4.0
Owners of the Company	1,134.9	1,089.5	45.4	4.2
Non-controlling interests	163.1	158.7	4.4	2.8
<i>Profit attributable to owners of The Company</i>	<i>12.6%</i>	<i>13.3%</i>		
Profit before Finance costs, Tax expense, Depreciation and Amortization	2,377.1	2,232.5	144.6	6.5
<i>Profit before Finance costs , Tax expense, Depreciation and Amortization margin</i>	<i>26.4%</i>	<i>27.3%</i>		

Revenue Structure Breakdown by Type (Unit : Million Baht)	2019		2018		Change	
	Revenue	Proportion	Revenue	Proportion	Amount	Percent
General patients	5,791.1	64.4%	5,051.6	61.7%	739.5	14.6
Social Security patients	3,089.4	34.3%	3,021.7	36.9%	67.7	2.2
Other revenue	115.8	1.3%	109.4	1.3%	6.4	5.9
Total Revenue	8,996.3	100%	8,182.7	100%	813.6	9.9

The company's total revenue for the year ended 31 December 2019 was 8,996.3 million baht, an increase of 813.6 million baht or 9.9 percent from the previous year, with the proportion of general patient revenue accounting for 64.4 percent, 34.3 percent from the Social Security patients, and 1.3 percent from other revenue the details are as follows:

General patients revenue for the year ended 31 December 2019 was 5,791.1 million baht, an increase of 739.5 million baht or 14.6 percent mainly due to the significant revenue growth of Kasemrad Hospital Ramkhamhaeng, the opening of new specialized medical centers, seasonal epidemic, and the higher diagnostic and treatment capability of the existing affiliated hospitals such as the improvement of the Pediatric center, Obstetrics and Gynecology center, Internal Medicine center, and Dental center.

Social Security Patients Revenue for the year ended 31 December 2019 was 3,089.4 million baht, an increase of 67.7 million baht or 2.2 percent from last year which increased at a lower rate compared to last year. The increase in revenue was mainly due to the increase in number of insured persons from 804,150 people to 880,447 people or 9.5 percent. However, the revenue per insurer decreased from 3,847 baht per person to 3,586 baht per person or 6.8 percent decrease due to the effect of payment reduction by the Social Security Office for the payment paid based on high intensity of diseases (Adj $RW \geq 2$) and Qualitative indicators (Complaint and Discharge Type). These were because the global budgets set by the Social Security Office were insufficient to pay for all service fee reimbursed by the hospitals in the scheme. The Company therefore considered recording the revenue in line with the actual receivables.

Other revenue such as rental income and interest income for the year ended 31 December 2019 was 115.8 million baht, an increase of 6.4 million baht or 5.9 percent.

Operating expenses (Unit : Million Baht)	For the year ended 31		Change	
	December		Amount	Percent
	2019	2018		
Personnel expenses	1,851.8	1,657.4	194.4	11.7
Doctor fee	1,765.5	1,547.4	218.1	14.1
Medical and supply costs	1,179.0	1,088.6	90.4	8.3
Depreciation and amortisation	664.7	576.0	88.7	15.4
Referring cost	397.1	377.2	19.9	5.3
Utility expenses	204.9	191.2	13.7	7.2
Promotion expenses	200.3	152.3	48.0	31.5
Repairs and maintenance	134.3	124.5	9.8	7.9
Rental expenses	84.1	79.5	4.6	5.8
Cleaning service expenses	58.0	50.4	7.6	15.0
Bad and doubtful debts expenses	35.6	65.1	(29.5)	(45.3)
Security guard expense	31.4	29.7	1.7	5.7
Property tax	10.5	18.3	(7.8)	(42.6)
Others	666.7	568.6	98.1	17.3
Total	7,283.9	6,526.2	757.7	11.6

Operating expenses for the year ended 31 December 2019 was 7,283.9 million baht, an increase of 757.7 million baht or 11.6 percent from the previous year, the details are as follows:

- Personnel expenses in 2019 was 1,851.8 million baht, an increase of 194.4 million baht or 11.7 percent from the previous year. In 2Q2019, The Company recorded the employee benefit obligations under the new Labor Protection Act in the amount of 17.9 million baht.
- Doctor fees in 2019 was 1,765.4 million baht, an increase of 218.0 million baht or 14.1 percent from the previous year. The increases were partly due to the opening of Kasemrad Hospital Ramkhamhaeng, and the increased number of medical personnel at the specialized medical centers in the affiliated hospitals.
- Depreciation and amortization in 2019 was 664.7 million baht, an increase of 88.7 million baht or 15.4 percent from the previous year. The increases were due to the opening of Kasemrad Hospital Ramkhamhaeng and the increased number of specialized medical centers in the affiliated.
- Promotion expenses in 2019 was 200.3 million baht, an increase of 48.0 million baht or 31.5 percent increase from the previous year due to the marketing expenses used to support the hospitals' customer base expansion.

As the result, the Company's gross profit margin decreased from 33.2 percent to 31.8 percent, the operating profit margin decreased from 19.2 percent to 18.0 percent, Profit before finance costs and tax expense margin decreased from 20.6 percent to 19.3 percent, Profit before interest, taxes, depreciation and amortization margin decreased from 27.3 percent to 26.4 percent, and profit margin attributable to shareholders of The Company decreased from 13.3 percent to 12.6 percent respectively.

Analysis of the consolidated financial position

Statement of Financial Position (Unit : Million Baht)	As of 31 December		Change	
	2019	2018	Amount	Percent
Total assets	14,115.6	12,627.5	1,488.1	11.8
Current assets	2,966.9	2,548.7	418.2	16.4
Non-current assets	11,148.7	10,078.8	1,069.9	10.6
Total liabilities	7,137.3	6,229.7	907.6	14.6
Current liabilities	2,185.8	1,740.4	445.4	25.6
Non-current liabilities	4,951.5	4,489.3	462.2	10.3
Equity	6,978.3	6,397.8	580.5	9.1
Equity attributable to the Company	6,248.0	5,701.4	546.6	9.6
Non-controlling interests	730.3	696.4	33.9	4.9

As of 31 December 2019, The Company had total assets of 14,115.6 million baht, an increase of 1,488.1 million baht or 11.8 percent increased from 2018, mainly due to an increase in trade accounts receivable in the amount of 305.9 million baht as the result of patient base expansion for private insurance patients and corporate contracts patients. Additionally, the increase in land, equipment and buildings amounted to 1,088.7 million baht were also the contribution to the total asset, most of which were assets under construction in Kasemrad International Hospital Aranyaprathet, Kasemrad International Hospital Vientiane, and Kasemrad Hospital Prachinburi.

The Company had total liabilities of 7,137.3 million baht, an increase of 907.6 million baht or 14.6 percent increase, from 2018, mainly due to the issuance of debentures in the amount of 1,200.0 million baht for use in a new hospital expansion and working capital used within the business.

The Company had total shareholders' equity of 6,978.3 million baht, an increase of 580.5 million baht or 9.1 percent due to the increase in net profit of the Company.

Financial Ratio	For the year ended 31 December	
	2019	2018
Current Ratio (times)	1.4	1.5
Average Collection Period (days)	68.4	58.0
Average Payables Period (days)	30.0	32.5
Debt to Equity (times)	1.1	1.1
Return on Assets (%)	12.8	13.1
Return on Equity (%)	19.0	20.0

Analysis of the consolidated cash flow statement

Cash flow Statement (Unit : Million Baht)	For the year ended 31 December	
	2019	2018
Cash flow from operating activities	1,902.4	1,617.9
Cash flow from (used in) investing activities	(1,729.2)	241.2
Cash flow from (used in) financing activities	(26.5)	(1,698.9)
Net increase in cash and cash equivalents	146.7	160.2
Cash and cash equivalents at 1 January	645.7	485.5
Cash and cash equivalents at 31 December	792.4	645.7

For the year ended 31 December 2019, The Company had cash and cash equivalents of 792.4 million baht due to the following activities:

The Company had cash flow of 1,902.4 million baht from operating activities, mainly due to the profit generated in 2019 in the amount of 1,298.0 million baht and a decrease in trade accounts receivable by 341.5 million baht. The cash flow used in investing activities was 1,729.2 million baht, mainly from the cost of construction of Kasemrad International Hospital Aranyaprathet, Kasemrad International Hospital Vientiane, and Kasemrad Hospital Prachinburi as well as the purchase of medical equipment for specialized medical centers. The Company had cash flow of 26.5 million baht used in financing activities, mainly due to the issuance of debentures in the amount of 1,200.0 million baht, paying dividends to the shareholders of The Company 548.7 million baht, and repayment for long-term loans of 644.5 million baht.

Future operating trends

The Company remains committed to maintaining its leadership in the healthcare industry by focusing on the development of quality, efficiency, and responding to the needs of patients in the social security program, upper middle class patients, upper class patients, and foreign patients. In addition, The Company is still proceeding with the business expansion plan to increase the service area and create a referral network to various regions. The Company aims to grow in revenue at the growth rate of 10 - 15 percent per year with proper profitability ratio. The factors that could affect the operation in 2020 are as follows:

- **Increase in the number of insured persons under the Social Security Scheme**

The Company targets the number of insured persons to grow at the average rate of 5 percent per year, which is a rather more conservative growth rate compared to the 5-year average that has grown over 6 percent per year.

- **Adjustment of medical fees by the Social Security Office**

The Social Security Office has adjusted the budget regarding medical fees, which will be effective from 1 January 2020, the details are as follows:

1. Basic Capitation (Fixed payment) has been increased from 1,500 baht per person per year to 1,640 baht per person per year.
2. Risk Adjusted Capitation (26 chronic diseases) has been increased from 447 baht per person per year to 453 baht per person per year.
3. High Cost Care (AdjRW \geq 2) has been increased from 640 baht per person per year to 746 baht per person per year.

In summary, the medical budget increase will help reduce the budget risk especially for the High Cost Care (AdjRW \geq 2). Moreover, The Company expects to receive an improved payment term from Social Security Office.

- **Opening of Kasemrad Hospital International Aranyaprathet**

Change of population structure, increase in the number of emerging diseases, and stepping into an aging society causing hospital operators to invest in expanding branches and networks to cover higher demand for services. The Company aims to open a new hospital in the second quarter of 2020 under the name "Kasemrad International Hospital Aranyaprathet" in which the number of registered beds in the first phase is 51 beds (out of a total of 90 beds). The main target patients are general patients both Thai and Cambodian who are affordable and in need for the medical services.

- **Opening of a specialized medical center**

The Company foresees that the offering of the well-equipped specialized medical centers are the main factors of attraction for both Thai and foreign patients to the hospitals. The Company is currently planning to expand investment in a holistic cancer center to thoroughly serve patients in the group and patients referred from the alliance hospitals.

- **Continuous growth of Kasemrad Hospital Ramkhamhaeng**

In October 2018, The Company opened Kasemrad Hospital Ramkhamhaeng as a replacement of Karunvej Hospital Sukhaphibal 3. In 2019, the hospital generated significant revenue growth from general patients, both Thai and foreigners, and social security patients. The number of insured persons who registered with the hospital increased by 30.6 percent. The strong growth of Kasemrad Hospital Ramkhamhaeng is expected to continue and will help improve the group's profitability accordingly.

Please be informed accordingly

Your sincerely,

(Prof.Dr.Chalerm Harnphanich)

Chief Executive Officer