



26 February 2020

At: ACC/HO 003/63

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

To: President
The Stock Exchange of Thailand

Thailand's economy grew more slowly than expected due to declining global trade volumes and the slower economic growth of major trading partners, which were affected by trade tensions between the US and China. Export growth has been negatively impacted by declining global demand, which has also led to a deceleration of private consumption as a result of lower employment, particularly in export-related manufacturing sectors. Elevated household debt and low agricultural prices continued to have an adverse effect on purchasing power. Tourism has been dampened by the deterioration in Chinese tourist arrivals during the first half of 2019. The overall economic conditions have dampened consumers' spending, despite a spate of government stimulus measures such as the state welfare card and the 'Eat, Shop and Spend' project in the second half of 2019.

The operating results of the Company and its subsidiaries continued to improve, with total revenue and profit at baht 67,423.88 million and baht 6,176.59 million respectively, an increase of 2.08% and 10.05% from the previous year. The significant growth in same store sales growth during the first half of 2019 was accentuated by the hike in sales of 'air purifier' and cooling products, due to high levels of air pollution and the long hot season. However, there was a slowdown in sales during the second half of 2019 as a result of the negative economic factors discussed above. Nonetheless, the overall performance of the subsidiaries has been uplifted by operational efficiency improvements in various areas. In order to meet consumers' expectations, the company continued to embrace the need to enhance operational efficiency in supply chain, operational cost management, product selection and quality control.

During 2019, HomePro opened 2 new HomePro stores at Charansanitwong and Mukdahan, 1 HomePro S store at Samyan Mitrtown, and 2 Mega Home stores at Rayong Ban Chang and Bangna-Trad. As a result, the company now operates a total of 84 HomePro stores, 9 HomePro S stores, 14 Mega Home stores, and 6 HomePro stores in Malaysia.

The company is grateful for the dedication, commitment and responsibility of associates at all levels, as well as the continued great support from all stakeholders. The Company believes that for corporate growth to be sustainable, it must create value for all stakeholders, including customers, employees, partners and shareholders, as well as the community and society in general. In this way sustainable development is achieved at the national level as well.

The financial results of the Company and its subsidiaries for year 2019 which has been audited by auditor are as follows:

Table 1: Financial Summary for the year 2019

	Unit: Million Baht			
	2019	2018	Increase (Decrease)	% Change
Revenue from contracts with customers*	63,046.23	61,951.32	1,094.91	1.77%
Rental income	2,207.08	1,975.06	232.02	11.75%
Other income	2,170.56	2,123.53	47.03	2.21%
Total revenues	67,423.88	66,049.91	1,373.97	2.08%
Cost of sales and service	46,714.95	46,162.14	552.81	1.20%
Gross profit	16,331.28	15,789.18	542.11	3.43%
Cost of rental	584.20	595.18	(10.98)	(1.84%)
Selling and administrative expenses	12,115.69	11,970.40	145.29	1.21%
Profit before finance cost and income tax expenses	8,009.04	7,322.19	686.85	9.38%
Finance cost	405.46	400.05	5.41	1.35%
Income tax expenses	1,426.98	1,309.51	117.47	8.97%
Profit for the period	6,176.59	5,612.62	563.97	10.05%

* Revenue from contracts with customers included product sales and service income (Home Service) following TFRS 15 accounting standard; "Revenue from Contracts with Customers"

The Company's net profit for the year 2019 was Baht 6,176.59 million representing an increase of Baht 563.97 million or up by 10.05% over the same period last year. The main reasons include:

- Total revenues were Baht 67,423.88 million, an increase of Baht 1,373.97 million or up by 2.08%, comprising of the following:
 - Sales income which comprised of sales revenue and service income (Home Service) was Baht 63,046.23 million, an increase of Baht 1,094.91 million or up by 1.77%, which was marginally driven by same store sales growth of HomePro and sales from new stores of HomePro and Mega Home while same store sales of Mega Home was flat, as well as an increase in service income under "Home Service".

- Rental and service income amounted to Baht 2,207.08 million, an increase of Baht 232.02 million or up by 11.75%, which resulted from higher rental income from expansion of Market Village and leasable areas of HomePro's and Mega Home's stores.
 - Other income was Baht 2,170.56 million, an increase of Baht 47.03 million or up by 2.21% due to the increase of income from promotional activities with suppliers, interest received, and miscellaneous income.
2. Gross profit from product sales and service income (Home Service) was Baht 16,331.28 million, an increase of Baht 542.11 million or up by 3.43% over the same period last year. Despite the increasing transportation costs, the gross profit margin as a percentage of sales has increased from 25.49% in the previous year to 25.90% due to change in product sales mix of general merchandise and the enhancement of directly sourced private-label goods, 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 584.20 million, a decrease of Baht 10.98 million or down by 1.84% due to the lower depreciation expense and improvement in cost management of space rental business.
 4. Selling and administrative expenses (SG&A) amounted to Baht 12,115.69 million, an increase of Baht 145.29 million or up by 1.21% as compared with the same period of previous year. The increased factors were mainly expenses associated with personnel expense, rental expense, utility cost, maintenance cost, and expense related to new store. However, SG&A as a percentage of sales has decrease from 19.32% in previous year to 19.22%. This decrease was due to the decrease of depreciation expense and improvement in cost efficiency management.
 5. Finance cost was Baht 405.46 million, an increase of Baht 5.41 million or up by 1.35%, due to the new bond issued in the second half of year 2018.
 6. Income tax expenses were Bath 1,426.98 million, an increase of Baht 117.47 million or up by 8.97% as compared to the previous year. This was due to the higher earnings before tax.

Please be informed accordingly.

Sincerely yours,

(Ms.Wanee Juntamongkol)

Senior Vice President – Accounting and Finance