

# Management Discussion and Analysis

## 1. Operation Overview

Thailand's economic growth stood at approximately 4.3% in 2018, mainly due to tourism and export as the driving force. Investors were concerned about tension between the USA and Russia on issues of Syria, trade war between the US and China, including economic sanctions imposed by the US on Iran resulting in rising global oil prices. These factors caused global concern that such negative factors would obstruct and slow down the expansion of the global economy than earlier expected. Even though domestic consumption has risen compared with the previous year, with significant support from spending of high-income consumers, reflected in the total sales volume of durable goods especially passenger cars with rapid growth in the beginning of this year, for consumer spending among low-income groups did not increase as evident from higher unemployment, less overtime work and depressed prices of agricultural goods together with high household debt, resulting in lower household purchasing power. The business sector which relies mainly on domestic consumption are faced with slightly rising growth, but limited to goods which depend on high-income consumers.

In 2018, the Company and its subsidiaries had total sales volume of THB 12,349.63 million, decreasing by THB 97.35 million or 0.78% compared with 2017, net profit of THB 934.02 million, increasing by THB 87.03 million or 10.28% compared with 2017, cost of sales of THB 7,838.88 million, decreasing by THB 24.05 million or 0.31% compared 2017 and expenses in sales and administration of THB 4,527.42 million, decreasing by THB 160.88 million or 3.43% compared with year 2017. The Company had increasing net profit due to the fact that in the previous year, the Company increased marketing expenses in creating brand recognition among new customers which rendered continuous positive impacts this year, resulting in lower marketing expenses, lower cost for arranging marketing activities and lower personnel cost from the decline in the number of personnel and the Company's policy to only recruit additional staff in necessary cases only, which resulted in increasing net profit.

In addition to developing new sales channels with high growth such as electronic commerce, the Company also developed a communication system connecting with online business partner's social media platform. This system can directly and effectively communicate with customers via Application Line on mobile phones of individual customers and connect with the corporate internal system for efficient communications with individuals.

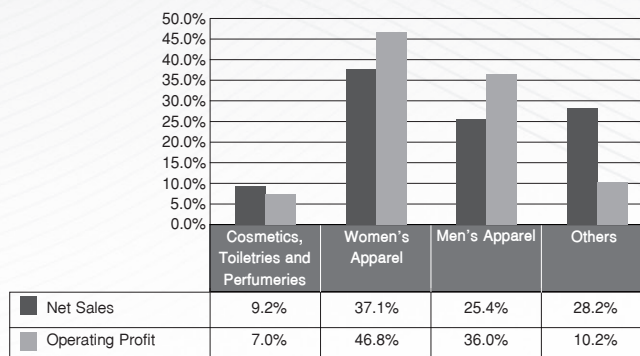
Business transformation of the organization is therefore vital for the Company to accelerate as a strategy, not only for changing business model, focusing on sustainability from understanding and communicating with individual customers, but also on connecting to supply chains to create a business ecosystem with emphasis on customer service processes and creating effective competition with demand forecasting system and network of trade partners system, whether it is in terms of services for inventory management, delivery and call center services, including trading platforms to provide convenience, speed, effectiveness and prompt response to customers and business partners.

In the 2018, the Company invested in a total of 4 subsidiary companies as follows;

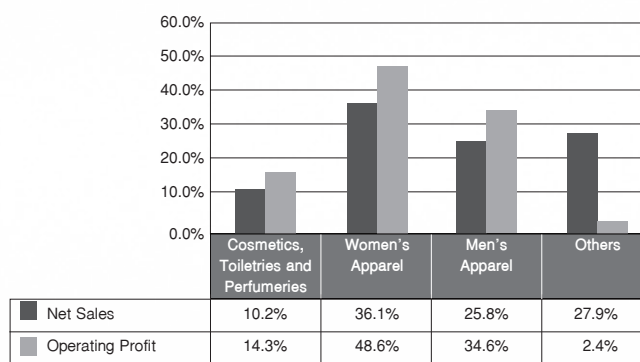
- 1) W B R E CO., LTD.: conducting real estate business in establishing Town House Project at Sriracha, near Sahaphat Group Industrial Estate, to expand new business channel for the Company.
- 2) Amis Du Monde SARL (in France): which had a shop in the Champs Elysees area, the leading shopping center of France, to bring the "BSC" brand into overseas markets as an international brand under BSC International initially operating as apparel brand. The Board of Directors' Meeting No.6/2016 held on 14 October 2016, considered and approved the winding-up of this operation due to continuous losses. The Company held 119,304 shares in Amis Du Monde SARL or 81.92% of registered capital at par value of EURO 10.00 amounting to EURO 1,193,040.00 or THB 48.92 million. The Company set aside an impairment of investment amounting to THB 48.92 million. In 2019, the Company is in the process of terminating operation and liquidation based on procedures under French Law.
- 3) Thai Itokin Co., Ltd.: being a manufacturer and distributor of readymade clothes and an important supply chain of the Company. Thai Itokin Co., Ltd. was licensed for the production and distribution of the brand on behalf of the Company including producing uniform apparel, producing products for domestic distribution and export to overseas markets. In this regard, the Company aimed to ensure that Thai Itokin Co., Ltd. continuously conduct business and achieve good operating result for the Company to obtain benefit in terms of dividend.
- 4) Canchana International Co., Ltd.: formerly, 400 shares or 40% of registered capital was held by the Company, with par value at USD 500 each amounting to USD 200,000.00 or THB 6,474,860.00. The Company additionally purchased shares of Canchana International Co., Ltd. from Saha Pathana Inter Holding PCL on 30 November 2017 amounting to 200 shares or 20% of registered capital at the price of USD 1,020.861 each (based on Book Value on 31 December 2016), amounting to a total of USD 204,172.20 or THB 7,350,710.00. Therefore, the Company's equity in Canchana International Co., Ltd. came to 600 shares or 60.00% of registered capital, rendering Canchana International Co., Ltd. to become subsidiary of the Company. Purposes for share purchase were to increase the Company's equity proportion since it is a supply chain in product distribution of the Company in the Kingdom of Cambodia, and to give the Company management control for the purpose of increasing operating results and receiving higher benefit in the form of dividend.

## 2. Performance and Profitability

Proportion of revenue from sale of goods and operating profit by segment 2018



Proportion of revenue from sale of goods and operating profit by segment 2017



### Revenue from Sales

In 2018, the Company had revenue from sales amounting to THB 12,349.63 million, decreasing by THB 97.35 million or 0.78% compared with revenue from sales amounting to THB 12,446.98 million in 2017.

Revenue of the Company and subsidiaries comprised 3 main categories, namely cosmetics and fragrances, women's apparel and men's apparel. The details of revenue and profit in each category, compared between the years 2018 and 2017 are as follows;

(Unit : Million Baht)

Product Lines	Net Sales		%	Operating Profit		%
	2018	2017		2018	2017	
Cosmetics and Perfumeries	1,142.32	1,273.62	(10.31)	70.62	121.74	(41.99)
Women's Apparel	4,587.85	4,491.63	2.14	469.45	412.95	13.68
Men's Apparel	3,131.27	3,211.01	(2.48)	361.91	293.79	23.19
Others	3,488.20	3,470.71	0.50	101.93	20.56	395.79
<b>Total</b>	<b>12,349.63</b>	<b>12,446.98</b>	<b>(0.78)</b>	<b>1,003.92</b>	<b>849.04</b>	<b>18.24</b>

### Cosmetics and Perfumeries

In 2018, the Company had revenue from cosmetics and fragrances amounting to THB 1,142.32 million, decreasing by THB 131.30 million or 10.31% compared with 2017 and posted profit from the operation in this category in 2018 amounting to THB 70.62 million, down by THB 51.12 million or 41.99% due to;

- 30% decreasing of customers behavior who purchasing products from department store.
- Increasing rapidly of a new entrepreneur who sell the products via online channel from-year-to-year, especially cosmetics line. Due to a small market investment cost.
- Low price high purchase competing campaign from a new entrepreneur.
- Continuing of Internal high brand competition.

# Management Discussion and Analysis

## Women's Apparel

In 2018, the Company and subsidiaries had revenue from women's apparel amounting to THB 4,587.85 million, increasing by THB 96.21 million or 2.14 compared with 2017 and posted profit from operation amounting to THB 469.45 million, increasing THB 56.51 million or 13.68% compared with 2017 mainly due to;

- Women's apparel have growth compared with last year, according to:
  - Product innovation which is aligned with customers needed.
  - New product order platform which is aligned with customers needed.
  - Development of product design and marketing strategy through Big Data.
- Closed shopping boots of ineffective Fashion Product, so decrease investment cost.
- Expand Direct Marketing channels such as Shopping, Web Partners and others.

## Men's Apparel

In 2018, the Company had revenue from men's apparel amounting to THB 3,131.27 million, decreasing by THB 79.75 million or 2.48% compared with 2017 and posted profit from operation amounting to THB 361.91 million, increasing by THB 68.12 million or 23.19% compared with 2017 mainly due to;

- Decreasing of revenue from CLMV products sold in Myanmar due to the currency exchange crisis, resulting in a low demand for fabric purchasing.
- Casual Fashion products are in more demand than Business apparel products.
- Ordering products with higher margin and selling from low-cost promotional activities resulted high profit.

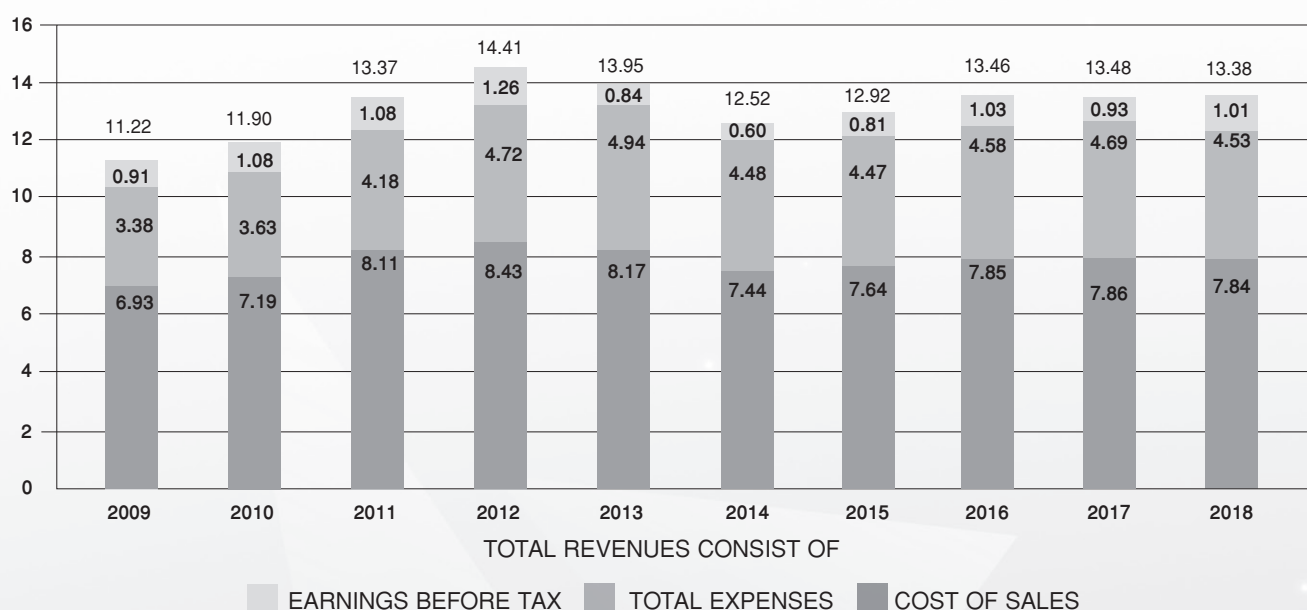
## Others

Main revenues of other categories were children's clothes, active wear, sports clothing, leather goods and household products such as washing liquid and detergent as well as fabric care products. In 2018, the Company had revenue from the products in other categories amounting to THB 3,488.20 million, increasing by THB 17.49 million or 0.50% compared with 2017 and posted profit from operation amounting to THB 101.93 million, increasing by THB 81.37 million or 395.79% compared with 2017 due to;

- Growth in sale of household products sold from last year, due to celebrity marketing campaign and a new innovation of washing products which is aligned with customers' demand.
- Growth in sale of children's wear, resulting in higher sales revenue and rendering a higher margin.
- Increasing of product lines on online sales channels aligned with consumer behavior and preferences.

## Other revenues

In 2018, the Company had revenue from other incomes amounting to THB 978.63 million, decreasing by THB 31.98 million or 3.16% compared with 2017 due to the decrease of gain on sale of investment amounting to THB 73.42 million, decrease of gain on sale of assets amounting to THB 48.86 million and the increase from dividend income amounting to THB 58.36 million and increase from other income amounting to THB 31.94 million.



Total Income Apportion (Million Baht)



## Cost of sales of goods

In 2018, the Company and its subsidiaries had cost of sales of THB 7,838.88 million, decreasing by THB 24.05 million compared to 0.31% in 2017, cost to sales ratio in 2018 was 63.47% and compared to 63.17% in 2017, posted an increase by 0.30%, due to the sale and marketing campaign to clear products in stock and reduce inventories.

## Selling and Administration Expenses

In 2018, the Company and its subsidiaries had selling and administration expenses amounting to THB 4,527.42 million, decreasing by THB 160.88 million or 3.43%, accounting for cost to sales ratio of 36.66% in 2018, compared with 37.67% in 2017. Following are additional details:

In 2018, the Company and its subsidiaries had selling expenses in the amount of THB 2,890.38 million, while in 2017 it stood at THB 3,078.12 million, decreasing by THB 187.73 million or 6.10%, due to the fact that in Year 2017, the Company had increased marketing budget for the purpose of promoting brand recognition which resulted in the Company being able to decrease its marketing budget and sale and marketing campaign expenses, including less personnel cost from more effective labor management in 2018.

In 2018, the Company and its subsidiaries had administration expenses in the amount of THB 1,637.04 million, compared to THB 1,610.18 million in 2017, increasing by THB 26.86 million or 1.67%, due to increasing depreciation of decoration assets in shopping booths or new shops and doubtful accounts.

## Income Tax Expenses

In 2018, the Company's corporate income tax amounted to THB 74.85 million, compared to THB 86.49 million in 2017, decreasing by THB 11.64 million, due to the increasing of tax allowances in the amount of THB 38.90 million and defer tax expenses in the amount of THB 27.65 million (Year 2017 : THB 28.58 million, Year 2017 : THB 1.32 million respectively) resulting in the Company having less income tax expenses in 2018 than in 2017.

## Net profit

In 2018, the Company and its subsidiaries had net profit in the amount of THB 934.02 million, increasing by THB 87.03 million or 10.28% compared with 2017, because of the Company's decreased marketing budget, effective labor management and dividend.

## 3. Financial Statements

### Assets

As at 31 December 2018, total assets of the Company and its subsidiaries amounted to THB 23,549.51 million, an increase of THB 269.35 million or 1.16% compared with 31 December 2017. The main changes are as follows;

As at 31 December 2018, current assets stood at THB 7,655.76 million, equivalent to 32.51% of total assets, an increase of THB 752.85 million or 10.91% compared to 2017. The main changes are as follows:

- Decrease of THB 493.27 million in cash and cash equivalents, THB 434.91 million in operating profit and THB 58.36 million in dividend.
- Increase of THB 412.80 million in short-term investments.
- Increase of THB 60.00 million in short-term loan, due to changing of loan investment from long-term loan to short-term loan within affiliated companies.
- Decrease of THB 136.41 million in account receivable due to accelerating for rapid repayment.
- Decrease of THB 69.80 million in inventories due to the Company's focus on efficiently inventory management, product distribution and adjusting purchase order corresponding with customer needs.

Non-current assets were THB 15,893.75 million, equivalent to 67.49% of total assets, a decrease of THB 483.49 million or 2.95% compared with 2017. The main changes are as follows:

- Decrease of THB 404.64 million in long-term investment due to convertible debentures of THB 398.69 million to ordinary shares, and change in long-term investment to available-for-sale investments.
- Increase of THB 60.00 million in short-term loan, due to changing loan investment from long-term loan to short-term loan within affiliated companies.
- Decrease of THB 26.75 million in investment property due to land and property sold.

### Liabilities

As of 31st December, 2018, the Company and its subsidiaries had total liabilities of Baht 3,304.28 million, a decrease of THB 65.24 million or 1.94% compared to 2017, of which most were non current liabilities. The main changes are as follows:

Current liabilities amounted to Baht 1,980.54 million, equivalent to 59.94% of total liabilities, a decrease of THB 33.33 million compared to 31st December 2017 due to decrease of income tax payable in the amount of THB 44.75 million, decrease of trade accounts payable in the amount of THB 37.96 million.

# Management Discussion and Analysis

Non-current liabilities were THB 1,323.74 million, equivalent to 40.06% of total liabilities, a decrease of THB 31.90 million or 2.35% compared to 31st December 2017, mainly from decrease of deferred tax liabilities totaling THB 41.98 million.

## Shareholder's Equity

As of 31st December 2018, the Company and its subsidiaries had shareholders' equity of THB 20,245.23 million, an increase of THB 334.59 million or 1.68% compared to 2017, net profit in the amount of THB 934.02 million, cash reservable in the amount of THB 79.84 million, decreasing of other elements of shareholders' equity from change of fair value of available-for-sale investments in the amount of THB 314.71 million, dividend payment in amount of THB 319.70 million and increase of equity in subsidiaries in the amount of THB 4.56 million.

## 4. Asset Quality and Asset Management Capabilities

The Company considered quality receivables by conducting analysis of individual debtors before granting the credit term. The Company regularly tracked and collected outstanding debts and set allowance for doubtful accounts for long outstanding receivables. In 2018, the Company had allowance for doubtful accounts equivalent to 0.78% of trade accounts receivable (compared with 1.08% in 2017).

Policies for granting credit for trade accounts receivable as follows;

1. Ability to make payment for products
2. Attentiveness of managers
3. Potential for growth
4. Good, transparent and verifiable accounting system
5. Good management systems for inventory and distribution
6. Good internal control system, including effective entry-exit security control for employees and goods
7. Possess stable, substantial and sufficient collateral

Most of the assets of the Company and its subsidiaries comprise land, buildings and equipment collectively acquired throughout the past 53 years, with a net value of THB 2,848.80 million as of 31st December 2018.

Assets in terms of investment property held by the Company and its subsidiaries generated revenue from rental and sales in the amount of THB 1,005.02 million, as of 31st December 2018.

For investment, as of 31st December 2018, the Company had unrealized gains from fair value adjustment of securities totaling THB 6,861.14 million, shown in shareholders' equity and earning return on investment as a dividend at an annual rate of 10.60% in 2018 (previously 9.70% in 2017). The Company's investment management was delegated to appointed persons placed in the joint-venture companies or in companies engaged in related business with the invested business as the center to look after the investment, monitoring and reviewing financial statements and relevant information of the invested company, reporting any unusual event or crisis at the invested company back to the Company promptly in order to find solutions or seek remediation.

## 5. Liquidity and Capital Adequacy

Year	Current Ratio	Liquidities Ratio	Cash Flow from Operating Activities (Million)
2018	3.87	0.35	705.01
2017	3.43	0.08	156.00
2016	3.58	0.53	1,063.55

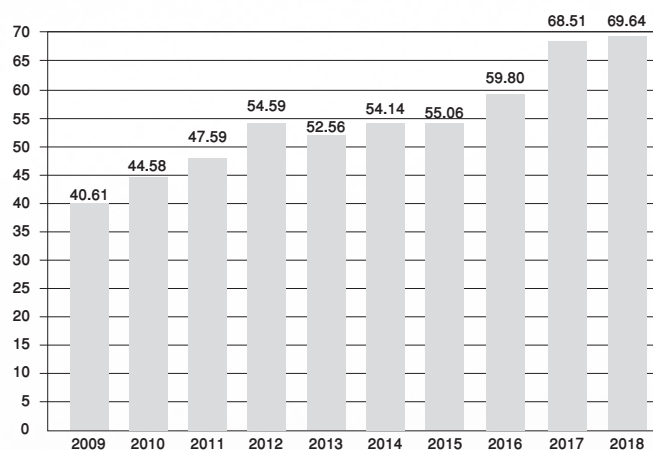
From the cash flow ratio, the Company and its subsidiaries had superior liquidity with more current assets than non-current assets. In 2018, liquidity ratio was 3.87 times, compared to 3.43 times in 2017, increasing by 0.44 times. In 2018, liquidity ratio of cash flow was 0.35 times, increasing by 0.27 times from 0.08 times in 2017. Cash flow from operation in year 2018 increased THB 549.01 million compared with year 2017 due to receiving cash from repayment from business debtors with higher amount than year 2017 by THB 495.49 million

The Company had 2 sources of funds, namely (1) funds from operating activities and (2) funds from investment activities in types of investment property and common stocks. In this regard, the Company's revenue generated from rental, sales of investment property and dividend received from common stocks at high rate. The Company managed business's liquidity well and used funds from business for expensing in business without seeking outside funds including enable to pay regular dividend to shareholders.

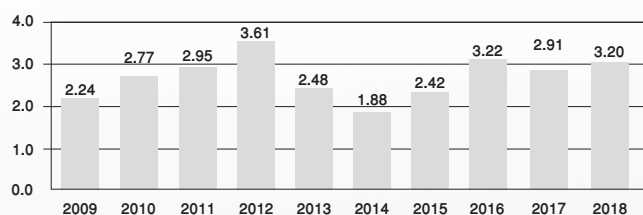
## 6. Profitability

Year	Profit/ Net Income (%)	Profit from Operating (%)	Profit/ Shareholders' Equity (%)	Profit/Share (%)	Market Price/ Earnings (times)
2018	6.99	8.17	4.64	3.20	12.97
2017	6.29	7.50	4.54	2.91	13.49
2016	6.98	8.17	5.61	3.22	11.34

In 2018, the Company's profitability decreased from the previous year with operating margin of 8.17% increase of 0.67% compared with 2017. Profit per share was THB 3.20, an increase of 0.29% from 2017 as a result from the fact that, in the previous year, the Company had increased marketing expenses in creating recognition of new customers which rendered positive impacts continuing into 2018, resulting in lower marketing expenses. Personnel expenses also decreased resulting from more effective utilization of existing personnel and limiting additional recruitment to only if necessary.



Book Value per Share(Baht)



Earnings per Share(Baht)

## 7. Cash Cycle

Year	Average selling period	Average collection period (day)	Average repayment period (day)	Cash Flow Life-Cycle
2018	155.77	54.43	59.36	150.84
2017	162.90	49.74	60.44	152.20
2016	172.14	45.08	57.71	159.51

In 2018, the Company had operating cash cycle of 150.84 days, down by 1 day from 2017 due to;

1. The average selling period decreased by 7 days, from 162.90 days in 2017 to 155.77 days in 2018, due to the Company's ability to decrease inventory by THB 69.80 million or 2.04 compared to 2017.
2. The average collection period increased by 5 days, from 49.74 days in 2017 to 54.43 days in 2018.
3. The average repayment period decreased by 1 day, from 60.44 days in 2017 to 56.36 days in 2018 due to the base figure used for calculating billing date of the Company's credit repayment always complied with the agreement with creditors regardless of economic condition, resulting in relative consistency in the repayment period as part of protecting stakeholders in accordance with Company policy.

## **8. Obligations which may have material impact on Company's financial position/performance**

Obligations with unrelated parties/businesses are represented in Notes to Financial Statements (No 33 Page 182 of The Annual Report).

The Company had commitments as a guarantor for 12 joint-venture companies in the amount of THB 333.08 million under joint-venture agreement as per proportion of shares.

## **9. Factors affecting future performance**

Following are factors which may affect the Company's future performance:

1. Increasing Competition with applied technology

Based on current competition, it is not only competition on difference of goods and services, but also creating difference and understanding in creating customer experience which impact on brand value and communication power via internet, whether using online social media or other websites. In this regard, the Company accelerated development of automatic communication systems to the mobile phone of customers along with targeted goods and services for particular groups, individual. Furthermore, the Company also improved a business model which emphasized only selling goods, creating platforms to service new customers, connecting off-line retail sales in shops to be on-line in other platforms such as Facebook of each brand, e-commerce websites or even online business partners (Lazada, Shopee and TV Shopping)

2. Competition of External Market

At present, there are many small business operators entering into online channels with low cost in communicating with customers for accessing products, direct sales to customers and also price competition which suit the new-generation behavior for satisfaction received and satisfaction within their online social group without real loyalty to any brand. Furthermore, there are famous imported brands at affordable prices, as well as products that have modern designs and acceptable quality.