

Management Discussion and Analysis

for the operation results of the second quarter of fiscal year 2021 (1 Oct 2020 – 31 Dec 2020)

MC Group Public Company Limited and its subsidiaries (“the Company”) summarized the operating result for the second quarter of fiscal year 2021 (1 Oct 2020 – 31 Dec 2020) as follows:

Overall Economic and Industry Overview

In the final quarter of 2020 (1 Oct – 31 Dec 2020) the Thai economy and the retail industry show gradual recovery, with positive adjustment in October and recovered in November with help from the government stimulus package. However, the economy along with the consumer purchasing power were once again impacted when the second wave of the COVID-19 pandemic emerges in the latter half of December. The return of the pandemic threat affected consumer sentiment directly and consequently the retail industry gradual recovery dwindled. In the fourth quarter consumer confidence index was at 50.1 in December, the lowest level in the past 5 months since August 2020 due to the growing concern of the new COVID-19 outbreak that spread rapidly and widely than the first wave. This resulted in anxiety and concern of the future unemployment and economic recovery.

Overall Performance for 2Q21 and 1H21

Unit: THB million	2Q21 (Oct – Dec 20)	2Q20 (Oct – Dec 19)	Change	1H21 (Jul – Dec 20)	1H20 (Jul – Dec 19)	Change
Sales Revenue	1,134	1,132	0.2%	1,913	1,889	1.2%
Gross Profit	686	656	4.5%	1,158	1,102	5.1%
Gross Profit Margin	60.5%	58.0%	2.5%	60.6%	58.3%	2.2%
SG&A	409	412	-0.8%	750	758	-1.1%
%SG&A	36.1%	36.5%	-0.3%	39.2%	40.1%	-0.9%
Other Revenue	9	10	-12.0%	15	18	-18.3%
EBITDA before one-off item and discontinued operations*	386	281	37.2%	625	412	51.7%
%EBITDA before one-off item and discontinued operations	34%	25%	9%	32%	22%	10%
NPAT before one-off item and discontinued operations*	226	227	-0.3%	335	330	1.5%
% NPAT before one-off item and discontinued operations	20.0%	20.1%	-0.1%	17.5%	17.5%	0.0%
one-off item	-	-	-	-	39	-100%
Discontinued operation*	-	-	-	-	2	-100%
NPAT	226	227	-0.3%	335	291	15.0%
%NPAT	20.0%	20.1%	-0.1%	17.5%	15.4%	2.1%

*discontinued operation was Time Deco Corporation Co., Ltd. which was sold on 2nd September 2019

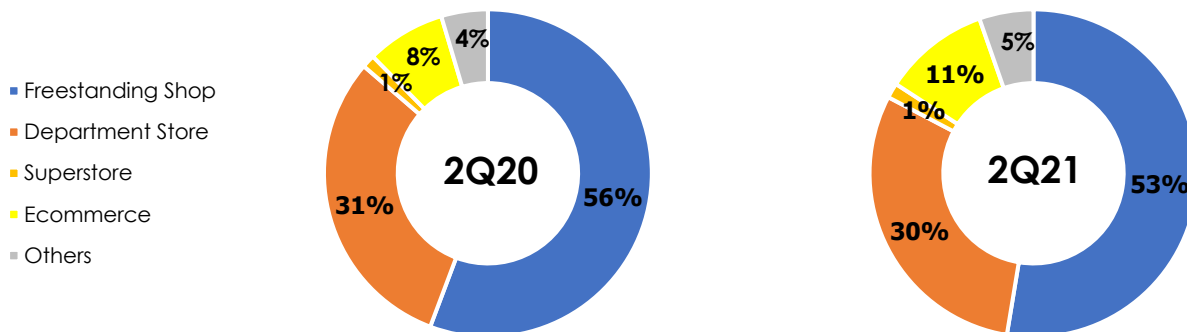
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Revenue

Sales revenue grew in the early months of the quarter but was later interrupted by the second COVID-19 outbreak in the last half of December which is the holiday shopping season where customer spending was usually the highest. Despite the setback sales revenue in the second quarter of fiscal year 2021 grew slightly thanks to the growth of the E-commerce revenue, that grew in line with the company's online channel strategy while offline channel growth was preserved at the same level as that of last year. Sales revenue growth was also supported by promotions and campaigns the was used to stimulated sales. In the second quarter of fiscal year 2021 sales revenue was THB 1,134 million increased THB 2 million or 0.2% YoY.

In 1H2021 the company reported sales revenue of THB 1,913 million an increase of THB 24 million or 1.2% YoY increase which was mainly affected by the second COVID-19 outbreak in the latter half of December.

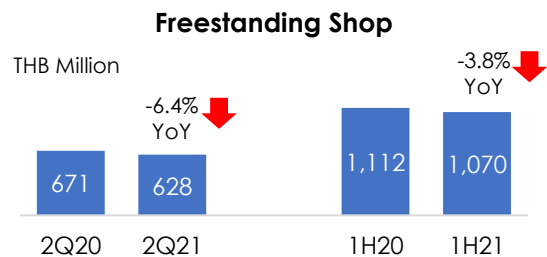
Revenue break down by channel



In the second quarter of fiscal year 2021 revenue breakdown by channels consisted of revenue from free-standing shop 53%, Department stores 30%, E-commerce 11%, Superstores 1%, and other channels 5%.

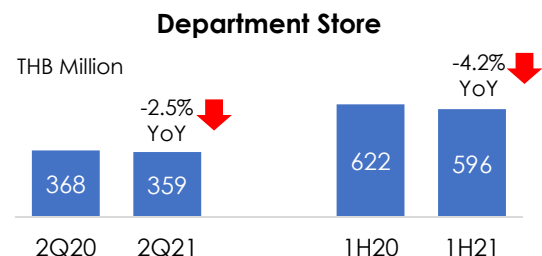
● Freestanding Shop

Sales revenue from freestanding shops in 2Q21 was THB 628 million decreased THB 43 million or a decrease of 6.4% YoY. Revenue from free-standing shops in 1H2021 was THB 1,070 million decreased THB 42 million or a decrease of 3.8% YoY.



■ Department Store

Sales revenue from Department Stores in 2Q21 was THB 359 million decreased THB 9 million or a decrease of 2.5% YoY. Revenue from Department Stores in 1H2021 was THB 596 million decreased THB 26 million or a decrease of 4.2% YoY.



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■ E-commerce

Sales revenue from E-commerce in 2Q21 was THB 125 million increased THB 31 million or an increase of 33.6% YoY.

Revenue from Department Stores in 1H2021 was THB 224 million increased THB 65 million or an increase of 40.9% YoY.



■ Superstore

Sales revenue from Superstores in 2Q21 was THB 18 million increased THB 3 million or an increase of 14.2% YoY.

Revenue from Department Stores in 1H2021 was THB 30 million decreased THB 0.3 million or a decrease of 1.0% YoY.



As of 31 Dec 2020, the Company had a total of 650 point of sales as follows

By Distribution Channel	Apparel and Lifestyle Products under “MC Group”	
	Number of POS	Increase (+) / Decrease (-) from end FY2020
Free-standing Shop	339	5
Modern Trade	295	-10
Mobile Unit	6	0
Total POS (domestic)	640	-5
International Markets	10	-2
Total	650*	-7

*the second wave of the COVID-19 outbreak in Thailand affected a total of 30 POS, which were closed in the area affected by COVID-19 starting from 20 Dec 2020. Currently all affected POS are open for business

Gross Profit

The company reported THB 686 million gross profit in 2Q21 an increase of THB 29 million or a 4.5% YoY gain, with gross profit margins of 60.5% compared to 58.0% in the same period of the prior year, as a result of increased revenue from online channels that increased from last year which in turn drive down overall costs.

For 1H2021 the company's gross profit was THB 1,158 million increased THB 57 million or 5.1% YoY, with gross profit margin of 60.6% up from 58.3% from the same period of last year.

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Selling, General and Administrative Expenses (SG&A)

SG&A expenses in 2Q21 was THB 409 million decreased THB 3 million or 0.8% YoY as a result from cost reduction and cost containment, once combine with the growing revenue SG&A to sales was 36.1% compared to 36.5% in the same period of prior year.

For 1H2021, SG&A was THB 750 million down THB 8 million or 1.1% YoY due to the ability to continually manage and contain costs. Hence, SG&A to sales declined from 40.1% of the previous year to 39.2% in 1H2021.

Earnings before interest, Taxes, Depreciation and Amortization (EBITDA)

EBITDA before one-off item and discontinued operation in 2Q21 was THB 386 million increased THB 105 million or 37% YoY. EBITDA margin in 2Q21 increased to 34% of total revenue compared to that of 25% in the previous year, as a result of the TFRS16 accounting standard.

EBITDA before one-off item and discontinued operation for 1H21 was THB 625 million increased THB 213 million or 52%. EBITDA margin for 1H2021 was 32% compared to that of 22% in the previous year.

Net Profit

In 2Q21 the company reported THB 226 million net profit, decreased THB 0.6 million or 0.3% YoY. Net profit margin was 20.0% a decrease from 20.1% in the previous year, as a result of the second Covid-19 outbreak that affected sales in the latter half of December which was usually the holiday spending season. However, due to the ability to keep cost low and the continuous cost containment program the company are able to keep profit and profit margin at the same level of last year.

In the 1H2021 profit was THB 335 million. Compared to the 1H2020 net profit, before one-off item and discontinued operations in the same period last year profit increased THB 5 million or increased 1.5% YoY. Compare to the 1H2020 net profit, profit increased THB 44 million or increased 15% due to the increased revenue and the ability to keep cost low.

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Financial Position Analysis

Statement of Financial Position

(THB million)	31 December 2020	30 June 2020	% change
Cash and short-term investments	1,845	1,481	25%
Account receivables	411	266	55%
Inventory	1,408	1,408	0%
Other assets	1,176	-	
Total Assets	838	929	117%
Account payables	5,678	4,084	39%
Interest-bearing liabilities	327	120	172%
Other liabilities	0.00	-	
Total Liabilities	1,164	-	
Equity attributable to the firm	416	371	12%
Non-controlling interest	1,908	492	288%
Shareholders' Equity	3,758	3,581	5%
Cash and short-term investments	12	11	12%
Account receivables	3,770	3,592	5%

Assets

The Company reported THB 5,678 million total asset on 30 December 2020 increased 39% an increase of THB 1,594 million from THB 4,084 million on 30 June 2020 due to:

- 1) THB 1,176 million Right-of-use assets increased as a result of the adoption of the Thai Financial Reporting Standard 16 leases.
- 2) Cash and short-term investments increased THB 364 million, from THB 1,481 million on 30 June 2020 to THB 1,845 million on 31 December 2020.

Liabilities

On 31 December 2020, total liabilities were THB 1,908 million compared to THB 492 million on 30 June 2020, an increase of THB 1,416 million which was contributed mainly from THB 1,164 million lease liabilities resulted from the adoption of the Thai Financial Reporting Standard 16 Lease.

Shareholders' Equity

As of 31 December 2020, the Company reported THB 3,770 million of shareholders' equity, an increase of THB 178 million from the THB 3,592 million on 30 June 2020.

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Liquidity

On 31 December 2020, the Company's cash, cash equivalent and short-term investment amounted to THB 1,845 million increased THB 364 million from 30 June 2020 due to:

- Net Cash flow from operation of THB 517 million, which was mainly contributed by profit before income tax expense of THB 411 million, the decrease of account receivable of THB 73 million and the THB 5 million reduction in inventory.
- Net Cash flow from investment activities of THB 3 million mainly due to THB 12 million purchase of property, plant and equipment and THB 10 million cash received from short term loan.
- Net Cash out flow from financing activities was THB 255 million due to THB 82 million payment of lease liabilities and dividend payment of THB 158 million.
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Key Financial Ratios

Financial Ratios		For period ended	
		31 December 2020	30 June 2020
<u>Liquidity Ratios</u>			
Current Ratio	times	3.8	7.7
Average Days Receivable	days	51	34
Average Days in Inventory	days	419	408
Average Days Payable	days	94	41
Cash cycle	days	376	401
<u>Efficiency Ratios</u>			
Return on Assets (Annualized)	%	8.8	9.7
Return on Equity (Annualized)	%	12.0	11.2
<u>Leverage Ratios</u>			
Debt to Equity Ratio	times	0.51	0.14

Thai Financial Reporting Standard No. 16 Leases (TFRS 16)

In the fiscal year 2021 Company has applied the Thai Financial Reporting Standard No. 16 Leases (TFRS 16), using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under TAS 17. The new financial reporting standard affected the former lease contracts, which was recorded as operating lease, an off-balance sheet financing according to TAS 17; and therefore, impacted asset and liabilities as mentioned in earlier sections.

Former operating lease

- Recognizes right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with TFRS 16.

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- Recognizes depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss and other comprehensive income.
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Short term lease and low value lease contracts

The Company has adopted to recognize a lease expense on a straight-line basis as permitted by TFRS 16. This expense is presented within “administrative expenses” in the statement of profit or loss and other comprehensive income. The Group has used the following practical expedients when applying adjustments to leases previously classified as operating leases applying TAS 17.

- The Group has elected not to recognize right-of-use assets and lease liabilities to leases for which the lease term end within 12 months of the date of initial application.
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

Former financial lease

For leases that were classified as finance leases, the carrying amount of the leased assets and obligations is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Company has elected to apply the low-value lease recognition exemption.

Respectfully yours



Virach Seripanu

Director