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SIAM WELLNESS GROUP PUBLIC COMPANY LIMITED

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Subject: Management Discussion and Analysis of Siam Wellness Group Public Company Limited for the second quarter and 6 months period ended 30 June 2019 and to explain the causes of performance that is changed more than 20% from the same period last year

To: President

The Stock Exchange of Thailand

SIAM WELLNESS GROUP PUBLIC COMPANY LIMITED (“The Company”) would like to give details of the Management Discussion and Analysis of the financial statements of the Company and subsidiaries for the second quarter (“2Q19”) and 6 months period (“1H19”) ended 30 June 2019 and to explicate the causes of performance that has changed more than 20% from the same period last year. The Company and subsidiaries had the total revenue of 342.74 million baht, an increase of 71.50 million baht from the same period last year (or an increase of 26.36%). The net profit is 47.35 million baht, a decrease of 1.03 million baht from the same period last year (or a decrease of 2.14%). Net profit is accounted as 14.03% of sales and services' revenue. This is the result of the sales growth in SSG and Expansion. The number of branches have gradually increase from 45 branches in 2Q18 (41 branches domestically and 4 branch overseas) to 60 branches in 2Q19 (53 branches domestically and 7 branches overseas).

Revenue

The Company and subsidiaries had total revenue in the 2Q19 of 342.74 million baht, an increase of 71.50 million baht from same period last year (or an increase of 26.36%). The big proportion of revenue comes from the spa business, which accounted to 91% of the total revenue (including Revenue from Chaba Elegance Co.,Ltd “CHABA”, the operator of manicure, pedicure and eyelashes services which accounted approximately 5%). The 14 new branches composed of 9 Let's Relax, 5 New Projects (4 Stretch me by Let's

Relax and 1 Face Care by Let's Relax) and 3 Overseas branches under Franchise (2 in China and 1 in Cambodia). An increase of 26.36% in Revenue is as detailed:

- SSG Revenue Growth 6.5%
- Expansion Revenue Growth 16%
- New Project Revenue Growth 1.7%
- Revenue from Overseas Upfront Franchise fee decrease 1.7% (Previously in 2Q18, the upfront franchise fee was fully recognized as Revenue, however in 2Q19, the change in TFRS15 results in the upfront franchise fee shall be recorded periodically as per franchise terms). Cumulative effect is recognized as an adjustment to the retained earnings as at 1 January 2019 and the comparative information was not restated.
- Hotel & Restaurant Revenue drops 1% as a result from the conversion of D-bistro to Let's Relax and the effect from PM2.5 which results in declining in tourists to Chiang Mai
- CHABA Revenue Growth 5.5%
- Other Revenue drops 1%

Moreover, there were temporary closure (1 month) of Let's Relax Pattaya North for renovation and Let's Relax Krabi Holiday Inn has ended the Spa Management Contract.

Cost of Sales and Services

In the 2Q19, the Company and subsidiaries had the cost of sales and services of 239.69 million baht, accounting for to 71.03% of sales and services' revenue. This is an increase of 62.95 million baht from the same quarter of the previous year (or an increase of 38.33%). The increase is caused by the expansion of the 14 new domestic spa branches during 2018-19 as well as additional cost of sales and services of the existing branches as detailed:

- Additional Cost of Staff both therapists (varied with Sales) and Full-time frontline staff. Salary adjustment occurs every second quarter each year.
- Add-on Bonus paid for Full-time frontline staff (Actual Amount Paid exceed budgeted bonus) in Quarter 2 (One-time expense)
- Provision for Long-term Employment benefit for Full-time frontline staff (one-time expense). The Labor Protection Act (No. 7) stipulates additional legal severance pay rates for employees who have worked for an uninterrupted period of 20 years or more, with such employees entitled to receive not less than 400 days' compensation at the latest wage rate (previously 300 days)

- Additional Rental and service fees for new branches opening in 2018-19 and adjustment of rental and service fees for existing branches
- Additional Depreciation for new branches opening in 2018-19

Gross Profit

In the 2Q19, the Company and subsidiaries had the gross profit of 97.76 million baht, accounted to 28.97% of the revenue from sales and services. This is an increase of 8.76 million baht from the same period last year (or an increase of 9.84%). The Gross Profit Margin has dropped from 33.64% to 28.97% as detailed:

- Additional Costs of newly opened branches. Normally, it takes average 3-6 months for the newly opened branch to reach positive EBITDA. For new projects such as Stretch me, it takes time to create brand awareness and get brand recognition
- The temporary closure of Let's Relax Pattaya North result in no revenue, yet the Company still bears the cost e.g. Rental and Service Fee, Staff Cost, Depreciation
- The end of the Spa Operating in Hotel Contract of Let's Relax Krabi Holiday Inn result in some write-off
- One-time expense as specified earlier

Selling and Administrative Expenses

In the 2Q19, the Company and subsidiaries had the selling and administrative expenses of 45.53 million baht, accounted to 13.49% of the revenue from sales and services. This is an increase of 8.84 million baht from the same period last year (or an increase of 24.09%). Details as followed:

- Additional Cost of Labor from the salary adjustment of Back Office Staff (every Quarter 2 each year)
- Add-on Bonus paid for Back Office Staff (Actual Amount Paid exceed budgeted bonus) in Quarter 2 (One-time expense)
- Provision for Long-term Employment benefit for Back Office Staff (one-time expense) as a result of The Labor Protection Act (No. 7)

In comparison, the Company still manage its Selling and Administrative Expenses quite well.

Net Profit

In the 2Q19, the Company and subsidiaries had the net profit of 47.35 million baht or accounted 14.03% of the revenue from sales and services. The net profit of the Company and subsidiaries decreased 1.03 million baht (or a decrease of 2.14%) compared to the same period last year.

However, if adjust the effect of the Franchise Upfront Fee, the temporary closure of Let's Relax Pattaya North, the end of spa management in hotel contract of Let's Krabi Holiday Inn and other one-time expenses as specified above, the Net Profit should increase approximately 11 million Baht (or an increase of 20%) compared to the same period last year.

Please be informed accordingly,

Yours sincerely,

(Mr.Wiboon Utsahajit / Mr.Prasert Jiravanstit)

Siam Wellness Group Public Company Limited