**UPDATED GENERAL REPORT 2 ,January 2019**

**Corporate and Social Responsibility**

The Dagon Group’s principal has long been established as leading conglomerate in: Real Estate, Construction & Engineering, Hospitality Management, Retail & Distribution, Food, Agriculture & Plantation, Petroleum & Power and Timber Based Products in Myanmar.

The Dagon group is firmly grounded and we are highly encouraged by the continuous positive progress with returning growth cementing the strong supplier relationships required to constantly bring in new and exclusive products and to market them collaboratively.

The Dagon Group will sustain its market position through ongoing investment in all segments of the conglomerate and by nurturing branded supplier relationships in our retail and distribution sector with new and exclusive supplier accounts. Further, we will develop and exploit those accounts more to ensure our overall product range to remain uniquely appealing and our department centers to remain unique highly differentiated destinations.

Our core business strength is industrial construction and commercial real estate. In our distribution & retail departments, we seek to present third party brands beside our own brands as complementary given us additionality in ranging and price architecture. We aim to build very strong market positions and we maintain and defend them by constantly adding to our brand roster and endeavoring to be the partner of choice as many brands as possible with as much exclusive product as possible.

The board considers that continuing supply from third party brands in our retail and distribution arm, is essential to the business of the group.

Any new business which we invest in, will have relevance to our core strength and all businesses in the Group needs to be capable of enhanced profitability in the medium term.

Our ultimate objective is to deliver long term sustainability earnings growth to enhance total shareholder returns through share price performance and dividends, whilst retaining our financial capability to invest in the growth and the sustainability of our projects.

In working towards our objectives, we aim to act always in a responsible and ethical manner with all our stakeholders including suppliers, employees and customers.

Financial Key Performance Indicators

|  |  |  |  |
| --- | --- | --- | --- |
| *Group Results* | 2018  In Thousand MMK | 2017  In Thousand MMK | %  change |
| Sales | 38,760,634 | 28,736,737 | *34.88%* |
| COGS | 29,719,079 | 22,089,552 | *34.54%* |
| GP% | *23.33%* | *23.13%* | *0.98%* |
| OPEX | 7,033,471 | 5,636,671 | *24.78%* |
| Other Income | 175,313 | 392,236 | *-55.30%* |
| Other Expenses | 91,036 | 103,251 | *-11.83%* |
| Corporate Taxes | 6,819 | 206,812 | *-96.70%* |
| Net Income | 2,548,234 | 1,297,398 | *96.41%* |
| net cash ( and cash equivalents) at end of period | 1,525,949 | 469,518 | *225.00%* |

**Assessment of Principal Risks and Uncertainties**

The Directors confirm that they have carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency and liquidity. The principal risk areas remain the same as reported in previous years and are described below along with explanations of they are being managed and mitigated:

**I. Key Suppliers**

The Retail and distribution are heavily dependent on the products and the bands themselves being desirable to the customer if the revenue streams are to grow. Therefore, the Group needs all of its third party and own brands, including licensed brands to maintain their design and marketing prominence to sustain that desirability. The Group is also subject to the distribution policies within the construction sector within Myanmar.

**Mitigating Activities Key Suppliers**

By focusing on developing a Construction Supply Chain Risk Management (CSCRM) framework that can be adapted by developing countries to help construction projects make better use of materials procurement in their organizations, and to improve construction project management by effectively controlling the project to avoid project cost overruns. This model framework includes the plan, resources, process and control model part. The development of close relationships with various stakeholders of the project for better use of the Risk Management Model. Without a proper CSCRM framework, a construction companies in Myanmar can encounter a cost overrun of about three times the estimated total cost. However, the use of the proposed CSCRM framework can minimize the cost overrun by amounts of two times the total project cost. Such a model is effective in managing the supply chain of construction projects in Myanmar, with effective mitigation of cost overrun risks and maximization of competitive advantages of the Group.

**II. Intellectual Property**

The Group’s trademarks and other intellectual property rights are critical in maintaining the value of the Group’s own brands. Ensuring that the Group’s businesses can use these brands exclusively is critical in providing a point of differentiation to our customers.

**Mitigating Activities Intellectual Property**

The Group works with third party organizations to ensure that the Group’s intellectual property is registered in all relevant territories. The group also has a well-established Profit Protection team which actively works to prevent counterfeit product being passed off as legitimate.

**III. Warehouse Operations**

Stock is held in the Group’s warehouse. Having the stock in one location with increased automation in the picking process has brought significant benefits in terms of capacity, product availability, quicker deliveries and reduced transport costs. However there is an increased risk to store replenishment and multichannel fulfilment from both equipment and system failure, together with the inherent risk of having all the stock into one location.

**Mitigating Activities Warehouse Operations**

The Group has worked with its insurers on a conceptual business continuity plan which came into effect when the warehouse became operational.

**Assessment of the Group’s Prospects**

The Board regularly reviews the current financial position and performance and assesses the future prospects of the Group. As part of this assessment, the Board reviews the Group’s Income and expenditure projections, cash flows and other key financial ratios along with the potential impact of, and challenges presented by, the principal risks outlined previously.

**Viability Reporting**

In accordance with the requirements of the Myanmar Corporate Governance Code, the Board has assessed that the viability of the Group for a period of three years to 31 March 2021.

A period of three years has been selected as the Board considered this to be an appropriate period to assess performance and the potential impact of key risks in a fast pace commercial environment. The three-year period also strikes a balance between the time horizons across the different aspects of the Group, such as short term detailed financial budgets and forecasts, medium term financing considerations and commercial space planning.

For the purposes of Viability Reporting, the board has focused on the operational risks included in the supply chain mentioned in the above. The board has evaluated the impact of these risks actually occurring based on severe but plausible scenarios. The evaluation included performing sensitivity analysis by flexing the main assumptions in the scenarios.

**Viability Statement**

Based on the results of the analysis, the Board has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities as they fall over the three-year period of the assessment.

**Going Concern**

After completing the assessment outlined in the Viability Reporting, the directors have a reasonable expectation that the Company, and the Group as a whole, has adequate resources to continue in operational existence for the foreseeable future.

For this reason, the financial statements have been prepared on a going concern basis.