



## S.Khonkaen Foods PCL. and its subsidiaries ("Company")

### Management Discussion and Analysis

For the three-month ended 30 June 2021

#### Business Overview

*In Q2/2021, the Company's total sales amounted to THB 692 million, increased by 0.2% YOY.*

The Company has revenue from sales in the second quarter amounted to THB 692 million, representing an **increased by 0.2 percent** as compared to the same quarter of previous year (an increased by 5.6 percent from Q1/2021), primarily due to launch of new products, such as, crispy flossy pork with sticky rice, and Vietnamese sausage 'Yor Big Bite.'

The Company has revenue from sales for the first six months amounted to THB 1,347 million, representing a decreased by 4.4 percent as compared to the same period of previous year, due to the impact of the coronavirus disease 2019 ("Covid-19") pandemic in Thailand on the overall trading via Modern Trade channels, as the Company's major customers, including consumers' declining purchasing power. Sales in processed seafood sector, which accounted for 36 percent of total revenue from sales, showed a growth rate with an **increased by 1.9 percent** as compared to that of the same period of previous year, whereas sales in processed food from pork, which accounted for 52 percent of total revenue from sales, showed a growth rate with a **decreased by 7.2 percent** as compared to that of the same period of previous year.

*The profit attributable to the Company in the first half of 2021 amounted to THB 84 million, representing an increase by 29.7% YOY.*

The Company has gross profit in the second quarter amounted to THB 184 million, representing 26.5 percent of revenue from sales. The **gross profit margin increased by 0.1 percent** as compared to the same quarter of previous year, due to the declining costs of raw materials (pork) by 3 percent.

The Company has gross profit for the first six months amounted to THB 349 million, representing 25.9 percent of revenue from sales. The gross profit margin decreased by 0.8 percent as compared to the same period of previous year, due to the increasing costs of raw materials (pork) by 2 percent. In this regard, the Company focused on managing its costs and investment budget to be in line with sales forecast.

The company has net profit in the second quarter amounted to THB 49 million, representing 7.1 percent of revenue from sales, an increased by 58.0 percent as compared to that of the same quarter of previous year (an increased by 42.3 percent from Q1/2021). Upon comparison of net profit margin to sales, the profit increased by 2.6 percent as compared to that of the same quarter of previous year, as a result of recognition of the decreased selling and distribution expense forecast.

The company has net profit for the first six months amounted to THB 84 million, representing 6.2 percent of revenue from sales, an increased by 29.7 percent as compared to the same period of previous year. Upon comparison of net profit margin to sales, the profit increased by 1.6 percent as compared to that of the same period of previous year, as a result of the adjustments of the selling and distribution expense' accrual, and the gain on changes in fair value less cost of sales of biological assets (swine farm).

| Income Statements (Consolidated)<br>Quarter 2 (April - June) | Quarter 2 /2021 |          | Quarter 2 /2020 |          | Change   |
|--|-----------------|----------|-----------------|----------|----------|
|  | (THB Mil.)      | (%)      | (THB Mil.)      | (%)      | (%YOY)   |
| Revenue from Sales   | 692             | 100.0 %  | 690             | 100.0 %  | 0.2 %    |
| Cost of Sales  | (508)           | (73.5 %) | (508)           | (73.6 %) | 0.0 %    |
| Gross Margin   | 184             | 26.5 %   | 182             | 26.4 %   | 0.7 %    |
| Selling and Distribution Expenses                            | (52)            | (7.5 %)  | (64)            | (9.3 %)  | (19.2 %) |
| Administrative Expenses                                      | (80)            | (11.5 %) | (79)            | (11.4 %) | 1.2 %    |
| EBIT   | 61              | 8.9 %    | 45              | 6.5 %    | 35.8 %   |
| Financial Cost   | (8)             | (1.1 %)  | (8)             | (1.2 %)  | (6.7 %)  |
| Tax Expenses   | (4)             | (0.6 %)  | (6)             | (0.8 %)  | (25.1 %) |
| Profit: Equity holders of the Company                        | 49              | 7.1 %    | 31              | 4.5 %    | 58.0 %   |
| Earning per Share (THB/Share)                                | 0.15            |          | 0.10            |          |          |

| Income Statements (Consolidated)<br>Year-to-Date (January - June) | YTD June 2021 |          | YTD June 2020 |          | Change   |
|---|---------------|----------|---------------|----------|----------|
|   | (THB Mil.)    | (%)      | (THB Mil.)    | (%)      | (%YOY)   |
| Revenue from Sales  | 1,347         | 100.0 %  | 1,409         | 100.0 %  | (4.4 %)  |
| Cost of Sales   | (998)         | (74.1 %) | (1,032)       | (73.2 %) | (3.4 %)  |
| Gross Margin  | 349           | 25.9 %   | 377           | 26.8 %   | (7.4 %)  |
| Selling and Distribution Expenses                                 | (105)         | (7.8 %)  | (135)         | (9.6 %)  | (22.5 %) |
| Administrative Expenses   | (158)         | (11.7 %) | (151)         | (10.7 %) | 4.5 %    |
| EBIT  | 109           | 8.1 %    | 95            | 6.7 %    | 15.0 %   |
| Financial Cost  | (15)          | (1.1 %)  | (17)          | (1.2 %)  | (12.0 %) |
| Tax Expenses  | (10)          | (0.7 %)  | (13)          | (0.9 %)  | (23.2 %) |
| Profit: Equity holders of the Company                             | 84            | 6.2 %    | 65            | 4.6 %    | 29.7 %   |
| Earning per Share (THB/Share)                                     | 0.26          |          | 0.20          |          |          |

## Core Business

### 1. Processed Food from Pork

*Launched new products, developed traditional trade channels.*

The Company has revenue from sales in the second quarter amounted to THB 370 million, representing 54 percent of total sales, with a growth rate **increased by 0.2 percent** as compared to the same quarter of previous year (an increased by 14.0 percent from Q1/2021), and its gross profit amounted to THB 103 million, representing 27.8 percent of revenue from sales.

The Company has revenue from sales for the first six months amounted to THB 696 million, representing 52 percent of total sales, with a growth rate **decreased by 7.2 percent** as compared to the same period of previous year, and its gross profit amounted to THB 184 million, representing 26.4 percent of revenue from sales, due to the declining sales via Modern Trade channels, as the major channels. The Company focused on developing new products to expand its customers base, e.g., teenagers and office worker, by improving the convenience and availability for consumption, and also adjusted its strategies on expansion of distribution channels through traditional trade and online channels via leading application providers, as alternative access to products, and marketing promotion during the Covid-19 situations.

### 2. Processed Seafood

*Sales continued to grow via traditional trade and export markets*

The Company has revenue from sales in the second quarter amounted to THB 248 million, representing 36 percent of total sales, with a growth rate **increased by 5.3 percent** as compared to the same quarter of previous year (an increased by 2.5 percent from Q1/2021), and its gross profit amounted to THB 69 million, representing 28.0 percent of revenue from sales.

The Company has revenue from sales for the first six months amounted to THB 490 million, representing 36 percent of total sales, with a growth rate **increased by 1.9 percent** as compared to the same period of previous year, and its gross profit amounted to THB 133 million, representing 27.2 percent of revenue from sales. Sales via traditional trade channel and export markets continued to grow while sales via modern trade channel declined in the same manner as the processed food from pork.

### 3. Swine Farming

*Positive impact from increasing swine market price, with improvement of farm management measures.*

The Company has revenue from sales in the second quarter amounted to THB 60 million, representing 9 percent of total sales, with a growth rate **decreased by 6.7 percent** as compared to the same quarter of previous year (a decreased by 14.3 percent from Q1/2021), and its gross profit amounted to THB 5 million, representing 8.1 percent of revenue from sales.

The Company has revenue from sales for the first six months amounted to THB 130 million, representing 10 percent of total sales, with a growth rate **increased by 2.5 percent** as compared to the same period of previous year, and its gross profit amounted to THB 16 million, representing 12.3 percent of revenue from sales. The Company recognized gain on change in fair value less cost of sales of biological assets (swine) in the amount of THB 15 million due to the increasing swine' market price. In this year, the Company has made more investment in its swine farming business to enhance the efficiency, control the quality of swine farming, and pave the way for future expansion.

#### 4. Quick Service Restaurant (QSR)

*Branches at a loss were shut down, delivery channel was focused, and branches' profits were managed.*

The Company has revenue from sales in the second quarter amounted to THB 13 million, representing 2 percent of total sales, with a growth rate **decreased by 36.6 percent** as compared to the same quarter of previous year (a decreased by 27.6 percent from Q1/2021), and its gross profit amounted to THB 6 million, representing 48.3 percent of revenue from sales, due to the fact that the restaurant business, particularly those restaurants located in department stores, was one of the businesses directly affected by Covid-19.

The Company has revenue from sales for the first six months amounted to THB 31 million, representing 2 percent of total sales, with a growth rate **decreased by 40.6 percent** as compared to the same period of previous year, and its gross profit amounted to THB 17 million, representing 53.7 percent of revenue from sales. The Company decided to shut down such branches with substantial and continuing loss. As of June 30, 2021, there were 10 branches which were owned by the Company, namely 7 branches of Zaap Classic, 4 branches of 'Yunnan' Stewed Pork Leg with Rice Restaurant, and 3 branches of Cloud Kitchen. Such loss forecast from branch shutdown, including another three branches to be shut down in the third quarter, was recorded and recognized in the financial statements. The branch platform was adjusted to focus on delivery channel to accommodate consumers' behaviour under the current circumstances, and every branch's cost management was closely monitored.

| Revenue from Sales<br>Segment Information | Quarter 2 /2021 |              |              | YTD June 2021 |                |
|---|-----------------|--------------|--------------|---------------|----------------|
|   | (THB Mil.)      | (%YOY)       | (%QOQ)       | (THB Mil.)    | (%YOY)         |
| <b>Grand Total</b>                        | <b>692</b>      | <b>0.2 %</b> | <b>5.6 %</b> | <b>1,347</b>  | <b>(4.4 %)</b> |
| - Processed food from pork                | 370             | 0.2 %        | 14.0 %       | 696           | (7.2 %)        |
| - Processed seafood                       | 248             | 5.3 %        | 2.5 %        | 490           | 1.9 %          |
| - Swine farm                              | 60              | (6.7 %)      | (14.3 %)     | 130           | 2.5 %          |
| - Quick Service Restaurant (QSR)          | 13              | (36.6 %)     | (27.6 %)     | 31            | (40.6 %)       |

### *Revenue from lease and services*

*Sales agent was appointed for SOR Tower' leased space management.*

The Company has revenue from rental and service in the second quarter amounted to THB 3 million, with a growth rate **increased by 58 percent** as compared to the same quarter of previous year, due to the lease of space in Sor Tower Bangna, in which the Company used as its office and also leased out to third parties, with the costs of lease and services in the amount of THB 5 million.

The Company has revenue from rental and service in the first six months amounted to THB 6 million, with a growth rate **increased by 46 percent** as compared to the same period of previous year. Before the second wave of the Covid-19 outbreak, the Company did appoint its sales agent with experience and expertise to optimize the leased space management.

### *Selling and distribution expenses*

The Company has selling and distribution expenses in the second quarter amounted to THB 52 million, representing 7.5 percent of revenue from sales. The ratio of selling and distribution expenses to sales **decreased by 1.8 percent** from the same quarter of previous year.

The Company has selling and distribution expenses in the first six months amounted to THB 105 million, representing 7.8 percent of revenue from sales. The ratio of selling and distribution expenses to sales **decreased by 1.8 percent** from the same period of previous year, partially due to recognition of the decreased selling and distribution expenses' accrual.

### *Administrative expenses*

The Company has administrative expenses in the second quarter amounted to THB 80 million, representing 11.5 percent of revenue from sales. The ratio of administrative expense to sales **increased by 0.1 percent** from the same quarter of previous year.

The Company has administrative expenses in the first six months amounted to THB 158 million, representing 11.7 percent of revenue from sales. The ratio of administrative expense to sales **increased by 1.0 percent** from the same period of previous year, partially due to recognition of loss from QSR branch shutdown.

## **Financial Highlights as of June 30, 2021**

### *Assets*

The Company's total assets amounted to THB 2,742 million, representing an increase by 3 percent as compared to that at the end of previous year. Trade receivables increased in line with sales in Q2/2021 and certain real property for investment (Sor Tower) was

adjusted to be recorded under Property, Plant and Equipment, once their utilization started.

### **Liabilities**

The Company has total liabilities amounted to THB 1,577 million, representing an increase by 4 percent as compared to that at the end of previous year, due to drawdown of short-term loans pending approval of long-term loans for improvement project of the Bang Plee factory and for build stock of raw materials, with the debt-to-equity ratio at 1.35 times.

### **Shareholders' Equity**

The Company has total shareholders' equity amounted to THB 1,165 million, representing an increase by 2 percent as compared to that at the end of previous year, due to unappropriated retained earnings.

| Statements of Financial Position<br>(Consolidated) | June 30, 2021 |                | December 21, 2020 |                | Change     |
|--|---------------|----------------|-------------------|----------------|------------|
|  | (THB Mil.)    | (%)            | (THB Mil.)        | (%)            | (%YOY)     |
| <b>Total Assets</b>                                | <b>2,742</b>  | <b>100.0 %</b> | <b>2,655</b>      | <b>100.0 %</b> | <b>3 %</b> |
| Current Assets                                     | 925           | 33.7 %         | 885               | 33.3 %         | 5 %        |
| - Cash and cash equivalents                        | 134           | 4.9 %          | 161               | 6.1 %          | (17 %)     |
| - Trade and other receivables                      | 442           | 16.1 %         | 417               | 15.7 %         | 6 %        |
| - Inventories                                      | 239           | 8.7 %          | 217               | 8.2 %          | 10 %       |
| Investment Properties                              | 625           | 22.8 %         | 637               | 24.0 %         | (2 %)      |
| Property, Plant, and Equipment                     | 1,053         | 38.4 %         | 985               | 37.1 %         | 7 %        |
| Right-of-use Assets                                | 108           | 3.9 %          | 116               | 4.4 %          | (7 %)      |
| <b>Total Liabilities</b>                           | <b>1,577</b>  | <b>57.5 %</b>  | <b>1,509</b>      | <b>56.8 %</b>  | <b>4 %</b> |
| Current Liabilities                                | 1,025         | 37.4 %         | 909               | 34.2 %         | 13 %       |
| Non-Current Liabilities                            | 552           | 20.1 %         | 600               | 22.6 %         | (8 %)      |
| <b>Total Shareholders' Equity</b>                  | <b>1,165</b>  | <b>42.5 %</b>  | <b>1,146</b>      | <b>43.2 %</b>  | <b>2 %</b> |
| Equity holders of the Company                      | 1,163         | 42.4 %         | 1,144             | 43.1 %         | 2 %        |
| Non-controlling interests of the subsidiaries      | 2             | 0.1 %          | 2                 | 0.1 %          | 9 %        |