

KERRY EXPRESS (THAILAND) PUBLIC COMPANY LIMITED

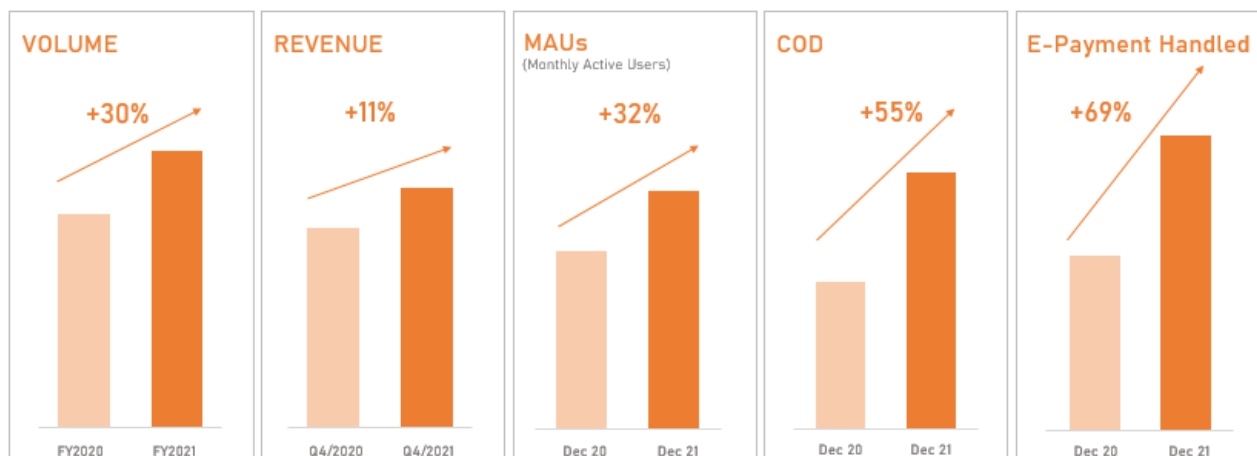
MANAGEMENT DISCUSSION AND ANALYSIS FY2021

2021: KEX WIDENS MARKET LEADERSHIP WITH 30% VOLUME GROWTH IN THE CHALLENGING YEAR

- **EXPRESS-FOCUS** continues to be KEX's top strategy aiming at widening our leadership position and dominance. We also **DIVERSIFY BUSINESS** to welcome new revenue streams. In October, we joined forces with Betagro Group, Thailand's leading agro-industrial and food company, to launch **A COLD DELIVERY PLATFORM** under the brand **KERRY COOL**.
- KEX has continued to execute strategic moves against other players. Following market leadership strategy, KEX's successfully penetrated across market segments nationwide through **PROACTIVELY AGGRESSIVE PRICING APPROACH**, resulting in unparalleled growth in volume, number of active users and market share. This strategic move, though leads to short-term volatility in profit, was aimed at medium to long-term sustainable growth, which is our preeminent priority.
- During FY2021 KEX propels 30% **GROWTH IN DELIVERY VOLUME** and reports revenue of THB 18,818 million, relatively flat compared to 2020 amidst the relatively **LACKLUSTER E-COMMERCE AND SOCIAL COMMERCE GROWTH** in the country, especially during the last quarter of 2021. In spite of the **WEAK CONSUMPTION** and the temporary shift in consumer behaviours from online to physical shopping as the country reopens, KEX has **SIGNIFICANTLY ACQUIRED GREATER VOLUME AND MARKET PRESENCE** in the **ECONOMY SEGMENT**, widening our leadership in terms of scale while marginalising other players in the market. KEX has engaged the **RESELLER MODEL** through partnerships with 4PL (fourth-party logistics) agents by launching the certified economy service namely **ORANGE EXPRESS**, to deepen penetration into communities and hunt additional volume. As of December 2021, there are 26,174 service locations nationwide, representing 64% YoY growth. This strategic action echoes with KEX's strategy to pursue synergistic partnerships, neutrality and volume & user base growth expedition.



- Following the **INDUSTRIALISATION OF KEX** and the planned **PLATFORM UPGRADE**, we have been revising our operational procedures, especially in sorting hubs and distribution centres, to achieve further standardisation and efficiency enhancement. Nonetheless, as COVID-19 continues to pose threats to the community and our operation network, extra temporary costs and expenses were inevitably incurred to establish **SPARE RESOURCES** amidst higher labour & fuel cost during the pandemic, along with **NEW CAPACITY PREPARATION**. Impact is expected to gradually decline if COVID-19 situation recedes and volume acquisition accelerates.
- Approximately 20 million monthly active customers used KEX services during 2021, growing 32% compared to 2020, aligning with our pricing strategy to **CONTINUOUSLY PENETRATE INTO ALL SEGMENTS** and **ACQUIRE MORE LONGTAIL CUSTOMERS**.



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MAINTAINING SERVICE EXCELLENCE WITH ZERO OPERATIONAL DISRUPTION AMIDST THE PANDEMIC

Despite several adverse factors that directly impact the delivery industry during the past year, such as countrywide COVID-19 impact, tightening labour market, rising oil price and record low e-commerce growth in the second half of 2021, KEX has been able to flex our networks to support our 365-day operations, while service excellence has not been compromised, thanks to extra preparations including the planning and management of spare resources; manpower, sorting hubs, distribution centres, service locations and fleets.

As the nation has battled against COVID-19 peak and new variants for the whole year, KEX keeps the hygiene and safety protocol uncompromised. We imposed a number of measures including workplace sanitisation, travel ban, social gathering ban, work-from-home protocol and vaccination campaign through KerryPrompt, an in-house motivation programme, to build company-wide health safety. We also ensure the safety of our customers through contactless delivery, enabled by e-payment on delivery and digital signatures. As a long-standing supporter of the Thai people and the community, KEX has collaborated with Thai Red Cross Society and major donors to distribute COVID-relief boxes to patients and field hospitals nationwide.

FY2021 FINANCIAL PERFORMANCE

Table 1: Selected Indicators for Operational Results

(Unit: Million THB)	2020	2021	YoY % +/-
Volume growth (%)	8%	30%	
Sales and services income	18,917.1	18,817.8	-0.5%
Cost of sales and services	-15,849.8	-17,478.5	10.3%
Gross profit	3,067.3	1,339.3	-56.3%
Selling and administrative expenses	-1,314.3	-1,379.6	5.0%
EBITDA	4,201.6	2,456.1	-41.5%
EBIT	1,846.0	114.0	-93.8%
Net profit for the period	1,405.0	46.9	-96.7%
EPS (THB/Share)*	1.111	0.027	
Gross Profit Margin (%)	16.2%	7.1%	
EBITDA Margin (%)	22.2%	13.1%	
EBIT Margin (%)	9.8%	0.6%	
Net Profit Margin (%)	7.4%	0.2%	

Remark: As shown in financial statement, excluding minority interests

*Weighted average number of shares post-IPO is greater than during pre-IPO, and this number is used as the denominators.

Table 2: Revenue by Segment

(Unit: Million THB)	2020	% Proportion	2021	% Proportion	YoY % +/-
Sales and Parcel Delivery Service Income	18,891.5	99.9%	18,775.6	99.8%	-0.6%
B2B	352.1	1.9%	360.5	1.9%	2.4%
B2C	8,528.4	45.1%	8,523.5	45.3%	-0.1%
C2C	10,011.0	52.9%	9,891.6	52.6%	-1.2%
Advertising Income	25.6	0.1%	42.2	0.2%	64.6%
Total Sales and Service Income	18,917.1	100%	18,817.8	100%	-0.5%

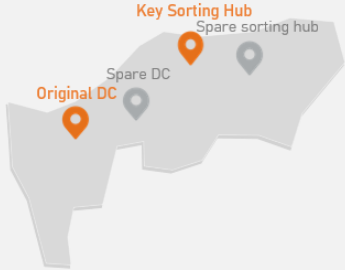
NEW VOLUME GROWTH RECORDED AMIDST INTENSIFIED COMPETITION AND THE SPREAD OF NEW VARIANTS

- KEX marked the highest record of delivery volume in FY2021, representing 30% YoY growth and reported revenue of THB 18,817.8 million, slightly dipped by 0.5% from THB 18,917.1 million in 2020. This aligned with the revenue contribution from B2B, B2C and C2C segments which does not change substantially

on the back of our successful aggressive pricing even though the purchasing power remained weak and growth of Thai e-commerce and social commerce sales stalled.

- Cost of sales and services totaled THB 17,478.5 million, rising by approximately 10.3%, lower than the 30% delivery volume growth. Though normalized unit cost was kept in check during the year, KEX had to make short-term investment in its margins to prepare extra operating resources for service quality assurance during COVID-19 peak in the third quarter and the advent of Omicron in the fourth quarter. The pandemic has piled operations complications on top of other challenges including global supply chain disruption, labour supply shortages and demand forecast difficulties. Such temporary incidents have layered on more costs for KEX to establish spare resources and new capacity expansion, including the preparation of headcounts, vehicles, equipment, as well as spare sorting hubs, distribution centres, and service locations nationwide. Without advance preparation, failures in resource management and planning could result in operation disruption, service quality deficiency and brand damage, as experienced by industry peers. We expect pressures on cost to lower as the volume acquisition accelerates and pandemic situation recedes in the second quarter of 2022.

Spare operation resources



Spare hubs, DCs & service locations

- Extra vehicles, equipment & operating resources
- Shuttle services sending labour to work across regions and areas
- Temporary control tower & training centres to enhance COVID control & education as well as new staff training


Earlier engagement of workforce, sites and supplies



Avoided operations seizure due to random sites close-down, people confiscation and supplies shortage

- Secured people and working sites despite spiking labour cost and severe shortages in certain areas
- Pre-purchase of supplies and equipment to avoid shortage caused by distorted international supply chain

Tight control and policies



Company-wide policies & control

- Including travel ban, social gathering ban, work-from-home protocol
- Thailand's biggest staff vaccination motivation programme (KerryPrompt)

- Selling and administrative expenses (SG&A) grew 5.0% in 2021. These include share-based payment expenses resulting from ESOP Warrant scheme granted to directors, management and key staffs in December 2020 which amount to THB 52.7 million and THB 2.0 million in 2021 and 2020 respectively. Excluding such item, SG&A rose by only 1.1%. The company has maintained its continuous focus to strengthen its strategic corporate functions and new business initiation, aiming at good corporate governance practices, effective risk management system, IT systems and cybersecurity, human resources management and development, brand recognition, and sustainability development.
- FY2021 ended with net profit attributable to owners of the Company of THB 46.9 million with 0.2% margin, as a result of our aggressive pricing strategy to gain market leadership as well as investment in margins to prepare extra resources to uphold service excellence and build up new capacity. We expect continuous growth in volume in response to our market leadership strategy and gradual decline in temporary expenses as COVID-19 situation improves.

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FINANCIAL POSITION AND LIQUIDITY

Figure 1: Financial Position
(Unit: Million THB)

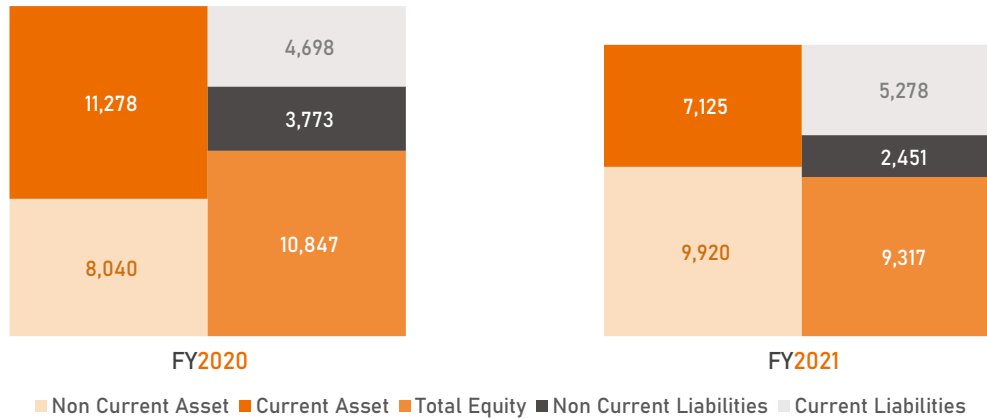


Table 3: Assets Breakdown

(Unit: Million THB)	2020	2021	YoY % +/- (-)
Cash and investment in liquid financial assets	9,696.8	7,294.9	-24.8%
Trade and other receivables	1,466.8	1,612.7	9.9%
Plant and equipment	2,258.5	2,244.2	-0.6%
Right-of-use assets	5,320.6	4,897.1	-8.0%
Other Assets	575.5	996.7	73.2%
Total Assets	19,318.2	17,045.6	-11.8%

Table 4: Liabilities and Shareholders' Equity

(Unit: Million THB)	2020	2021	YoY % +/- (-)
Trade and other payables	1,347.0	1,977.1	46.8%
Cash on delivery payable	615.1	723.7	17.7%
Current portion of lease liabilities	1,760.6	2,502.0	42.1%
Lease liabilities	3,593.1	2,256.1	-37.2%
Other Liabilities	1,155.0	269.8	-76.6%
Total Liabilities	8,470.8	7,728.7	-8.8%
Total Shareholders' Equity	10,847.5	9,316.9	-14.1%
Total Liabilities and Equity	19,318.2	17,045.6	-11.8%

HEALTHY BALANCE SHEET AND SOLID LIQUIDITY POSITION

- KEX continues to maintain solid financial health and abundant liquidity. The company has redeemed all bank loan since the beginning of the year resulting in a healthy, debt-free balance sheet, forming a solid foundation for strategic moves and further business expansion. With its abundant cash during the year, the company invested a large portion of its excess cash in low-risk, highly liquid fixed income funds and corporate debentures following the investment direction with the purpose of yield enhancement, capital preservation and high liquidity.
- Following its dividend policy, aiming at appropriate periodic returns to shareholders, the Company paid dividends twice during the year, in the amounts of THB 382.8 million on 21 May 2021 from FY2020 net profit and THB 1,292.8 million on 10 September 2021 from retained earnings.
- Prudently following our expansion strategy to diversify our portfolio and create additional income streams, KEX has been selective and remained cautious with our investment plans as uncertainties from COVID-19 situation and economic conditions are yet to be seen.

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KEY FINANCIAL RATIOS

Table 5: Key Financial Ratios

		2020	2021
Liquidity ratios			
Current ratio ⁽¹⁾	(times)	2.40	1.35
Quick ratio ⁽²⁾	(times)	2.38	1.30
Cash flow liquidity ratio ⁽³⁾	(times)	0.91	0.47
Accounts receivable turnover ⁽⁴⁾	(times)	16.75	17.40
Average collection period ⁽⁵⁾	(days)	21.79	20.98
Accounts payable turnover ⁽⁶⁾	(times)	28.69	23.97
Average payment period ⁽⁷⁾	(days)	12.72	15.23
Cash cycle ⁽⁸⁾	(days)	9.07	5.75
Profitability ratios			
Gross profit margin ⁽⁹⁾	(%)	16.21	7.12
Net profit margin ⁽¹⁰⁾	(%)	7.43	0.25
Return on equity ⁽¹¹⁾	(%)	21.48	0.47
Efficiency ratios			
Return to total assets ⁽¹²⁾	(%)	11.09	0.26
Total assets turnover ⁽¹³⁾	(times)	1.49	1.03
Financial policy ratios			
Total liabilities to equity ratio ⁽¹⁴⁾	(times)	0.78	0.83
Interest-bearing debt to EBITDA ratio ⁽¹⁵⁾	(times)	1.46	1.94
Interest coverage ratio ⁽¹⁶⁾	(times)	37.53	25.36
Debt service coverage ratio ⁽¹⁷⁾	(times)	1.64	0.98

Remarks:

- (1) Current ratio = total current assets divided by total current liabilities
- (2) Quick ratio = sum of cash and cash equivalents, short-term investments and trade and other receivables, divided by total current liabilities
- (3) Cash flow liquidity ratio = net cash generated from operating activities divided by average total current liabilities
- (4) Accounts receivable turnover = sales and services income divided by average gross trade accounts receivable
- (5) Average collection period = 365 divided by accounts receivable turnover
- (6) Account payable turnover = cost of sales and service divided by average trade account payable
- (7) Average payment period = 365 divided by accounts payable turnover
- (8) Cash cycle = the difference between the average collection period and the average payment period
- (9) Gross profit margin = gross profit divided by sales and services income
- (10) Net profit margin = profit (loss) for the period divided by sales and services income
- (11) Return on equity = profit (loss) for the period divided by average total equity
- (12) Return to total assets = profit (loss) for the period divided by average total assets
- (13) Total assets turnover = sales and services income divided by average total assets
- (14) Total liabilities to equity ratio = total liabilities divided by total equity
- (15) Interest-bearing debt to EBITDA ratio = total interest-bearing debt and lease liabilities divided by EBITDA
- (16) Interest coverage ratio = EBITDA divided by interest expense
- (17) Debt service coverage ratio = EBITDA divided by the sum of the current portion of short-term loan obligation, lease liabilities due within one year and finance cost

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2022: KEX PROGRESSING AS AN INDUSTRY WINNER

Thailand is a medium-sized country with the furthest North-South distance on land of approximately 2,000 km, and a population size of approximately 70 million people. In medium term, we expect **MARKET CONSOLIDATION** within the express industry and Thailand will be able to accommodate only a few players afterwards. Such segment integration is similarly found in similar-sized countries and other industries like telecom, convenience store, energy drink, etc. Premium-to-good service at affordable price will eventually become the market norm and the best entry barrier, which aligns with KEX's business direction and preparation expenses. KEX has maintained its sharp focus on express and will continue to do so to further **WIDEN THE LEADERSHIP** in Thailand's express industry.

Following KEX's **BUSINESS DIVERSIFICATION** strategy, KEX together with our partners will serve the unmet demand in different market segments, fostering new growth and additional revenue stream. Recently, KEX has joined forces with **BETAGRO GROUP**, Thailand's leading agro-industrial and food company, to venture the cold delivery platform under the brand **KERRY COOL**. Kerry Cool initially services the business-to-business customers and will later expand into business-to-consumer cold-package delivery through Kerry Express and Betagro service points by the second quarter of 2022. Furthermore, KEX also formed a JV with **CENTRAL RETAIL** to operate Thailand's first less-than-truckload (LTL) delivery platform under the brand **KERRY XL** driven by world-class technology, process engineering and ultimate user-experience. Given Central Retail's various assortments of brands and nationwide customer base, this LTL service will jumpstart with a promising demand and brand reliability. With our expected medium to long-term revenue growth of 20%, we will ensure that we will continue to preserve our dominant position in the market and diversify revenue streams as well as enhance resilience in business including investing in LTL delivery & **KERRY WALLET**. We are also exploring potential **M&A** deals which will strengthen KEX's ecosystem and provide the markets with services unseen in the country.

KEX has recently **PARTNERED WITH GRAB THAILAND**, whose strength lies in its driver base and fast deliveries, to introduce **DOOR-TO-DOOR INSTANT PICK-UP & EXPRESS PICK-UP SERVICES**. Leveraging on our existing resources, this collaboration will cater a better experience for KEX's customers, especially those who relish convenient and rapid service at an affordable price, without posing additional cost to KEX.

Additionally, with **S.F. HOLDING**, one of China's largest and most advanced express conglomerates, becoming a major shareholder in Kerry Logistics Network, KEX's ultimate shareholder, KEX's competitive edge with platform-related technology and **THAILAND-CHINA CROSS BORDER E-COMMERCE** will be sharpened, and will assist KEX's leaping and sustainable growth.

As Omicron variant continues to be highly unpredictable, we continue to set aside the spare resources. However, we expect to see a gradual decline in the related expenses as COVID situation recedes in 2022.

KEX also puts high priority for **TALENT ACQUISITION, RETENTION AND INCUBATION**. Several executive-level positions have been recruited from various industry leaders, serving as new building blocks to support and propel KEX's growth.

Progressing into 2022, KEX will continue to adhere our 5-year XPRESS strategy as follows:

1 | X - Express: Strengthen "Express" Market Leadership & Profitable Growth

Maintain market leadership and continue to grow profitable "Express" core business driven by e-commerce as well as create strong brand equity and loyalty with service quality at lower cost

2 | P - Partner: Engage More Synergistic Partnerships & Acquisitions

Pursue strategic investment and partnership by maintaining a "carrier neutral" concept. Strategically invest & seek synergistic partnerships that sustainably support our growth & assurance for our shareholders

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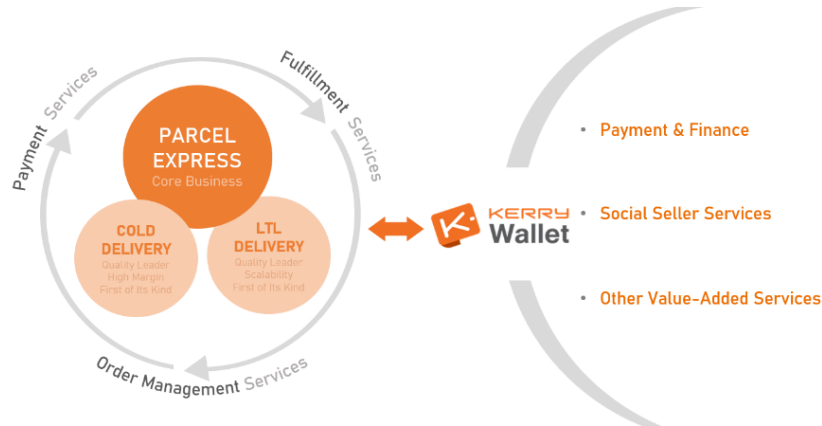
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3 | R - Retail: Grow “Open and Neutral” Retail Networks

Continue to adapt to local habits and preferences, change to more dynamic model by deploying “social-oriented” sales network and rationalise retail network while deep penetrating into communities of online sellers, individual traders as well as marketplace sellers

4 | E - Expansion: Diversify for Sustainable Growth

Revenue stream enhancement through existing network & continual creation of new initiatives. Selectively pursue horizontal expansion & vertical integration to further strengthen our competitiveness & profit growth and grow inorganically



5 | S - Systems: Improve Efficiency in Technology & IT Systems

Continue investing in in-house developed proprietary technologies, IT systems, R&D capabilities to uplift standard & control of data centre, optimise operations network & route planning and streamline work process enabling by technology

6 | S - Sustainability: Achieve Sustainable Development

Strive to integrate ESG (Environmental, Social & Corporate Governance) approach and initiate sustainability program to our business operations, product & service development, employee welfares, talent attraction & retention and stakeholders' engagement

Alex Ng
Chief Executive Officer
Kerry Express (Thailand) Public Company Limited