

Date 31 October 2022

Subject: Management Discussion and Analysis  
Performance for the Financial Statements for the year ended 31 December 2021

To: President of the Stock Exchange of Thailand

Enclosures: Management Discussion and Analysis of the Performance for the Financial Statements for the year ended 31 December 2021 in Thai and English

Asian Alliance International Public Company Limited (the "Company") would like to submit financial statements for the year ended 31 December 2021 which were reviewed by certified public accountants to the Stock Exchange of Thailand. In this regard, the Company would like to inform management discussion and analysis of the performance for the financial statements for the year ended 31 December 2021, details of which appear as attached.

Please be informed accordingly.

Respectfully yours,



Ms. Varanratch Assanupong

Chief Financial Officer

**Management Discussion and Analysis**  
**Performance for the Financial Statements for the year ended 31 December 2021**  
**Asian Alliance International Public Company Limited**

**1. Business Overview**

Asian Alliance International Public Company Limited (the “Company” or “AAI”) and its subsidiaries (collectively referred to as “AAI Group”) is one of the leading original equipment manufacturers of pet food and human food in Thailand. AAI Group has strived to manufacture and distribute products with quality and food safety standards for over 15 years, which lead AAI Group to be recognized by international brand owners and end consumers. AAI Group also has placed importance on sustainable development and growth. Moreover, the Company establishes a strategic plan for continuous organizational development by elevating its position from being a co-developer to a strategic partner. The Company searches for opportunities to develop relationship in both upstream and downstream businesses in order to have more continuous and more effective supply chain management as well as to widen the business opportunity and to enhance potential competitiveness in the long term. For upstream business, the Company searches for the opportunity to invest in business such as packaging manufacturer in order to ensure that the Company is able to continuously procure raw materials and packaging as well as to improve cost effective management. For downstream business, such as clients of the Company, the Company focuses on building up and extend an immediate relationship with customers to be beyond a co-developer. The Company intends to grow together with the customers by giving confidence that the Company could support the customers in various provisions; namely, research and development capability to keep up with market demand, production capacity and storage capacity that could accommodate customers’ business growth plan.

Currently, most of revenue from sales of pet food and human food are from original equipment manufacturing (OEM) business under customers’ brands, accounting for approximately 97 percent of total revenue from sales from 2019 to the 6-month period ended 30 June 2022. Major customers of the Company are international brand owners. Moreover, most of the total revenue from sales are from exporting products to foreign markets, accounting for approximately 90 – 94 percent of total revenue from sales from 2019 to the 6-month period ended 30 June 2022.

In addition to being an original equipment manufacturer under customers’ brands, AAI Group has started to develop its own pet food brands for dogs and cats since 2019. Currently, the Company has various brands that cover all market segments, comprised of (1) Pet food brands targeted high-end market, namely, monchou and Maria, (2) Pet food brands targeted mass market, namely, monchou balanced and Hajiko and (3) Pet food brand targeted low-end market, namely, Pro.

## 2. Operating Results

### 2.1 Revenue from sales

Revenue from sales of the Company for the year 2020 and 2021 were THB 4,512.09 million and THB 4,985.49 million, respectively, representing an increase of 10.49 percent. The structure of revenue from sales of the Company can be summarized as follows:

Structure of Revenue from Sales for the year 2020 – 2021

Items	For the year ended 31 December			
	2020		2021	
	THB million	Percent	THB million	Percent
<b>Revenue from Sales of Pet Food</b>				
– Export Sales	3,184.24	70.57	3,842.56	77.07
– Domestic Sales	148.68	3.30	243.97	4.89
<b>Total Revenue from Sales of Pet Food</b>	<b>3,332.92</b>	<b>73.87</b>	<b>4,086.53</b>	<b>81.97</b>
<b>Revenue from Sales of Human Food</b>				
– Export Sales	978.21	21.68	826.36	16.58
– Domestic Sales	122.25	2.71	12.28	0.25
<b>Total Revenue from Sales of Human Food</b>	<b>1,100.46</b>	<b>24.39</b>	<b>838.64</b>	<b>16.82</b>
<b>Revenue from Sales of By-Products</b>				
– Domestic Sales	78.71	1.74	60.32	1.21
<b>Total Revenue from Sales of By-Products</b>	<b>78.71</b>	<b>1.74</b>	<b>60.32</b>	<b>1.21</b>
<b>Total Revenue from Sales</b>	<b>4,512.09</b>	<b>100.00</b>	<b>4,985.49</b>	<b>100.00</b>

Revenue from sales of the Company is from 2 main product categories, namely, (1) revenue from sales of pet food and (2) revenue from sales of human food. Moreover, the Company also has revenue from sales of by-products of tuna processing, namely, fish meal, fish soluble, and fish oil.

#### (1) Revenue from Sales of Pet Food

Most of revenue from sales of pet food are from original equipment manufacturing (OEM) business under customers' brands, which are owned by leading international brand owners. Most of the Company's revenues are from exporting products to foreign markets, which are the United States of America and European countries, accounting for approximately 90 percent of revenue from sales of pet food.

(1.1) Revenue from Sales of Pet Food from Original Equipment Manufacturing (OEM) business under customers' brands

Revenue from sales of pet food from original equipment manufacturing (OEM) business under customers' brands of the Company for the year 2021 was THB 3,992.46 million, which increased by THB 690.28 million from THB 3,302.19 million in 2020, representing an increase of 20.90 percent. The revenue growth of the Company increased at a faster rate compared to that of global pet food market of 10.86<sup>1/</sup> during the same period. The global pet food market tended to continuously grow from the previous year. In addition, the outbreak of Coronavirus disease 2019 ("COVID-19") had caused people around the world to spend more time staying at and working from home, leading to an increasing trend of raising pets and spending more time with their pets. As a result, brand-owner customers have had a continuous growth, leading the Company to receive more pet food orders, especially from the customers in the United States of America and in the United Kingdom. The average selling price per ton of pet food products in the year 2021 was relatively at the same level as that in 2020.

(1.2) Revenue from Sales of Pet Food under Company's owned brands

Revenue from sales of pet food under Company's owned brand for the year 2020 and 2021 were THB 30.73 million and THB 94.07 million, respectively, representing an increase of 206.09 percent. The main reasons were a continuous implementation of marketing campaign and expansion of sales channels for pet food products under the Company's owned brand during the period.

(2) Revenue from Sales of Human Food

Total revenue from sales of human food of the Company are from revenue from original equipment manufacturing (OEM) business under customers' brands. The main exporting destinations of Company are Japan, Israel, and Middle East countries, such as Saudi Arabia and Syria, representing approximately 70 – 95 percent of revenue from sales of human food.

Revenue from sales of human food for the year 2021 was THB 838.64 million, which decreased by THB 261.82 million from THB 1,100.46 million in 2020, representing a decrease of 23.79 percent. These were mainly due to the impact of COVID-19 outbreak which led to a surge in tuna price, the main cost of sales, and in freight cost since the second quarter of 2021. As the Company set out term of sales and delivery as Free on Board (FOB), the customers are responsible for freight charges, causing the customers to decrease human food orders. Moreover, the Company had faced the labor shortage in certain periods due to the impact of COVID-19 outbreak which had affected the overall manufacturing sector. The Company had focused on managing labor in accordance with its business plans by prioritizing the workforce to the pet production line. As a result, human food sales in 2021 decreased by 30 percent compared to the previous year. The average

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<sup>1/</sup> Source: Fortune Business Insights, Pet Food Market – Global Market Analysis, Insights and Forecast, 2018 – 2029

selling price per ton increased compared to as that in 2020 due to the adjustment in selling price to be aligned with the increase in tuna price.

(3) Revenue from Sales of By-Products

By-products of tuna processing are fish meal, fish soluble, and fish oil, which used the remaining parts of tuna from the tuna processing as raw materials. Thus, the quantities of by-products vary according to the quantity of tuna used in the production process in each period. The revenue from sales of by-products for the year 2020 and 2021 were THB 78.71 million and THB 60.32 million, respectively, representing a decrease of 23.37 percent.

## 2.2 Cost of Goods Sold and Gross Profit

Cost of Goods Sold and Gross Profit for the year 2020 – 2021

Items	For the year ended 31 December			
	2020		2021	
	THB million	Percent	THB million	Percent
Revenue from Sales	4,512.09	100.00	4,985.49	100.00
Cost of Goods Sold	(3,728.54)	(82.63)	(3,915.81)	(78.54)
Gross Profit	783.55	17.37	1,069.68	21.46

Cost of goods sold of the Company were mainly variable costs, which accounted for approximately 85 – 90 percent of total cost of goods sold. Variable costs were mainly comprised of raw materials and packing cost, and direct labor cost. The remaining cost of goods sold are fixed costs, which accounted for approximately 10 – 15 percent of total cost of sales. Fixed costs were mainly comprised of indirect labor cost, electricity cost, water cost, energy cost, and depreciation cost.

Cost of goods sold of the Company for the year 2021 was THB 3,915.81 million, which increased by THB 187.27 million from THB 3,728.54 million in 2020, representing an increase of 5.02 percent. The increase in cost of goods sold was relatively less than the increase in revenue from sales, which was due to a slight reduction of approximately 1.00 percent in cost of sales per unit from that of the previous year. Although the raw material prices increased, the proportion of human food products that have higher production cost per unit than pet food products decreased from the previous year. These resulted in a decline in overall raw material cost per unit. However, the direct labor cost per unit of the Company increased due to the impact of COVID-19 outbreak, which caused the Company to have limited number of employees in some period due to quarantine measures. However, the Company had to pay normal wages and additional overtime payments to compensate for the labor shortfalls. Moreover, the repair and maintenance expenses of tools and equipment also increased based on the repair and maintenance plan. Due to the continuous increase in revenue from sales of pet food products and the abilities of the Company to maintain the selling price per unit to be in the same level as in the

previous year together with a decline in raw material cost per unit that decreased more than the increase in direct labor cost per unit, the gross profit of the Company was THB 1,069.68 million, which increased by THB 286.13 million from THB 783.55 million in 2020, representing an increase of 36.52 percent. The gross profit margin was 21.46 percent in 2021, increased from 17.37 percent in 2020.

### 2.3 Other Revenues

Other revenues of the Company were mainly comprised of (1) revenue from tax card compensation, which was the tax compensation from the exporting products that were produced domestically and the tax exemption from the import of raw materials to be used in the production process. The revenue from tax card compensation varied according to the quantity of exporting products and (2) gain from exchange rate. For the year 2020 and 2021, other revenues of the Company were THB 116.37 million and THB 50.94 million, respectively.

### 2.4 Selling and Distribution Expenses

Selling and Distribution Expenses for the year 2020 – 2021

Items	For the year ended 31 December			
	2020		2564	
	THB million	Percent	THB million	Percent
Freight expenses	46.19	34.42	55.18	30.31
Employees compensation	24.30	18.11	38.67	21.24
Brokerage fees	40.84	30.43	37.21	20.44
Advertising and sales promotion expenses	17.09	12.74	35.58	19.54
Other selling expenses <sup>1/</sup>	5.77	4.30	15.44	8.48
<b>Total selling and distribution expenses</b>	<b>134.19</b>	<b>100.00</b>	<b>182.07</b>	<b>100.00</b>

Remark: <sup>1/</sup> Other selling expenses comprises of transportation fee and compensation for damaged products

Selling and distribution expenses were mainly comprised of (1) freight expenses, which were container trailer expenses incurred when transporting the products from the Company to the port and export declaration expenses (2) employees compensation, which were comprised of salary, bonus, and welfare benefits (3) brokerage fees, which in the past were mostly from the sales of human food products and (4) advertising and sales promotion expenses.

For the year 2021, selling and distribution expenses of the Company was THB 182.07 million, which increased by THB 47.88 million from THB 134.19 million in 2020, representing an increase of 35.67 percent. These was mainly due to an increase in advertising and sales promotion expenses as the Company had increased marketing activities and expanded sales channels of products under monchou and Hajiko brands. However, in 2021, the brokerage fees of the Company slightly decreased from the previous year as the sales

quantity of human food decreased, while the sales of pet food through Asian Group SCS Europe GmbH (“AGE”), which is the distributor of pet food products in Europe, continuously increased from previous year.

## 2.5 Administrative Expenses

### Administrative Expenses for the year 2020 – 2021

Items	For the year ended 31 December			
	2020		2021	
	THB million	Percent	THB million	Percent
Employee compensation	40.40	22.51	63.87	29.91
Shared service fee from ASIAN	44.05	24.55	22.02	10.31
Loss from obsolete goods	40.80	22.75	16.02	7.51
Other administrative expenses <sup>1/</sup>	54.19	30.19	111.62	52.27
<b>Total administrative expenses</b>	<b>179.44</b>	<b>100.00</b>	<b>213.53</b>	<b>100.00</b>

Remark: <sup>1/</sup> Other administrative expenses are comprised of utility expenses, depreciation and amortization, loss from exchange rate, doubtful account, transportation expenses, membership fee, and professional fee.

For the year 2021, administrative expenses of the Company were THB 213.53 million, which increased by THB 34.09 million from THB 179.44 million in 2020, representing an increase of 19.00 percent. These was mainly due to an increase in loss from exchange rate and an increase in employee compensation due to an increase in number of employees. During May – July 2021, the Company had transferred some management and employees from Asian Sea Corporation Public Company Limited (“ASIAN”) and recruited additional employees for the business supporting units. As a result, the Company had not incurred additional of shared service fee from ASIAN since then. Thus, the shared service fee from ASIAN in 2021 decreased.

## 2.6 Operating Profit and Net Profit

### Operating Profit and Net Profit for the year 2020 – 2021

Items	For the year ended 31 December	
	2020	2021
Operating Profit (THB million)	586.27	725.02
Net Profit (THB million)	555.22	639.01
Operating Profit Margin (Percent)	12.67	14.40
Net Profit Margin (Percent)	12.00	12.69

For the year 2021, operating profit of the Company was THB 725.02 million, which increased by THB 138.75 million from THB 586.27 million in 2020, representing an increase of 23.67 percent. These was mainly due to a continuous growth in revenue from pet food sales and an increase in gross profit margin as the average cost of sales per unit decreased. Although the raw material prices increased, the proportion of human food products, which had higher production cost per unit than pet food products, decreased from previous year,

resulted in a decrease in overall raw material cost per unit. However, direct labor cost per unit increased due to the impact of COVID-19 outbreak since the Company had to pay normal wages and additional overtime payments to compensate for the labor shortfalls due to the quarantine measures. Moreover, there was an increase in repair and maintenance cost of tools and equipment. Thus, the selling and distribution expenses and administrative expenses of the Company increased to THB 81.96 million. These were mainly due to an increase in advertising and sales promotion expenses for pet food products under the Company's owned brands, loss from exchange rate, and employee compensation. Since the increase in the expenses was relatively lower than an increase in gross profit, the operating profit margin of the Company in 2021 was 14.40 percent, increased by 12.67 percent in 2020. Therefore, the net profit of 2021 was THB 639.01 million, which increased by THB 83.79 million from THB 555.22 million in 2020, representing an increase of 15.09 percent. The net profit margin of the Company for 2021 was 12.69 percent, increased from 12.00 percent in 2020.

### **3. Assets and Liabilities Management**

#### **3.1 Assets**

Total assets of the Company as of 31 December 2020 and 2021 were THB 3,563.73 million and 3,606.44 million, respectively, representing an increase of 1.20 percent. Total assets of the Company were mainly comprised of inventories and plant and equipment, accounting for approximately 55 – 75 percent of total assets. As of 31 December 2021, total assets of the Company were relatively at the same level as total assets as of 31 December 2020. There was an increase in inventories, plant and equipment, and trade and other receivables from the previous year, while the Company had separated its financial management policy to be independent from ASIAN. Thus, the Company received full repayment of short-term loans from ASIAN in forms of cash and offsetting debt, which comprised of partial short-term loans, dividend payment, and investment value in acquisition of shares of Asian Pets Care Corporation Company Limited (“APCC”).

#### **3.2 Liabilities**

Total liabilities of the Company as of 31 December 2020 and 2021 were THB 907.54 million and THB 1,229.94 million, respectively, representing an increase of 35.52 percent. Total liabilities were mainly comprised of bank overdrafts, short-term loans from banks, and trade and other payables, accounting for approximately 70 – 82 percent of total liabilities. As of 31 December 2021, total liabilities of the Company increased from as of 30 December 2020. The increase was mainly due to (1) an increase in short-term loans from financial institutions to be used as working capital for the purchase of raw materials and exporting products and (2) an increase in trade and other payables due to an increasing demand for packaging and raw materials to support the increase in the Company's selling quantity during the period.



### 3.3 Shareholders' equity

Total shareholders' equity of the Company as of 31 December 2021 was THB 2,376.50 million which decreased by THB 279.69 million from THB 2,656.19 million as of 31 December 2020. Although the Company had total comprehensive income during the period of THB 652.75 million, according to the resolution of the annual shareholders' meeting for 2021 held on 29 April 2021, the Company announced a dividend payment during the period during the year of THB 790.50 million or THB 4.65 per share based on its operating results and retained earnings in 2020. Thus, the Company had retained earnings as of 31 December 2021 of THB 717.45 million.

## 4. Liquidity and Sufficiency of Company's Capital

### 4.1 Cash Flows from Operating Activities

Cash flows from operating activities before changes in operating assets and liabilities for the year 2020 and 2021 were THB 718.65 million and THB 910.18 million, respectively. The changes in the cash flows were mainly due to the changes in operating profit during period.

Cash flows from operating activities from changes in operating assets and liabilities for the year 2020 were mainly due to an increase in trade and other receivables and inventories. These were due to an increase in pet food orders from major customers who are brand owners as well as an increase in pet food orders to the normal level from major customers who are brand owners in the United States that delayed their pet food orders in the previous year.

Cash flows from operating activities from changes in operating assets and liabilities for the year 2021 were mainly due to an increase in trade and other receivables and inventories. These were due to a continuous increase in pet food orders from the previous year. However, during 2021, the international shipping industry around the world was disrupted, causing a surge in freight rate since the second quarter of 2021. Since most of the Company's customers are responsible for the freight rate according to the Free on Board (FOB) term of payments, the customers postponed the delivery of some of the products from the Company. These lead to the significant increase in finished good ready to be delivered to customers in the end of 2021. As a result, the cash flows from operating activities for year 2020 and 2021 were THB 621.79 million and THB 267.61 million, respectively.

### 4.2 Cash Flows from Investing Activities

Cash flows from investing activities for the year 2020 and 2021 were THB 587.63 million and THB 427.66 million, respectively. Most of the cash flows were used for the expansion and improvement of Samutsakron factory in order to support the continuous increase in pet food orders. Moreover, the short-term loans to ASIAN increased during the 2020 – 2021 as excess cash of the Company were managed based on

the centralized financial management policy of ASIAN Group. However, the Company had separated its financial management policy to be independent from ASIAN in December 2021 and had received full repayment of short-term loans from ASIAN.

#### **4.3 Cash Flows from (to) Financing Activities**

For the year 2020, cash flows to financing activities of the Company were THB 26.51 million. These were mainly due to (1) a decrease in short-term loans from related parties between APCC and ASIAN (2) repayment of long-term loans based on loan repayment schedule (3) repayment of principle of lease liabilities and (4) an increase in bank overdrafts and short-term loans from banks due to the increase in the use of promissory notes and loans for importing of raw materials to accommodate the business growth of the Company.

For the year 2021, cash flows from financing activities of the Company were THB 120.20 million. These were mainly due to the continuous increase in short-term loans from banks due to an increase in promissory notes, loans from importing of raw materials, and loans for exporting products to accommodate the business growth of the Company. However, during the year, the Company had repaid long-term loans based on loan repayment schedule and repaid the principle of lease liabilities.