

Date 31 October 2022

Subject: Management Discussion and Analysis
Performance for the Financial Statements for the 6-month period ended 30 June 2022

To: President of the Stock Exchange of Thailand

Enclosures: Management Discussion and Analysis of the Performance for the Financial Statements for the 6-month period ended 30 June 2022 in Thai and English

Asian Alliance International Public Company Limited (the "Company") would like to submit financial statements for the 6-month period ended 30 June 2022 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 6-month period ended 30 June 2022, 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 6-month period ended 30 June 2022

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 6-month period ended 30 June 2021 and 2022 were THB 2,415.39 million and THB 3,464.30 million, respectively, representing an increase of 43.43 percent. The structure of revenue from sales of the Company can be summarized as follows:

Structure of Revenue from Sales for the 6-month period ended 30 June 2021 and 2022

Items	For the 6-month period ended 30 June			
	2021		2022	
	THB million	Percent	THB million	Percent
Revenue from Sales of Pet Food				
– Export Sales	1,849.81	76.58	2,767.33	79.88
– Domestic Sales	107.13	4.44	182.58	5.27
Total Revenue from Sales of Pet Food	1,956.94	81.02	2,949.92	85.15
Revenue from Sales of Human Food				
– Export Sales	423.79	17.55	458.21	13.23
– Domestic Sales	2.26	0.09	11.48	0.33
Total Revenue from Sales of Human Food	426.05	17.64	469.69	13.56
Revenue from Sales of By-Products				
– Domestic Sales	32.40	1.34	44.70	1.29
Total Revenue from Sales of By-Products	32.40	1.34	44.70	1.29
Total Revenue from Sales	2,415.39	100.00	3,464.30	100.00

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 6-month period ended 30 June 2022 was THB 2,878.51 million, which increased by THB 958.87 million from THB 1,919.64 million for the 6-month period ended 30 June 2021, representing an increase of 49.95 percent. These were mainly due to the increase in pet food orders from customers who are brand owners since their business continuously grew in accordance with the growth of global pet food market from the previous year. The average selling price per ton of pet food products slightly increased compared to the same period of the previous year as the Company had adjusted the selling price to reflect the increase in raw material prices.

(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 6-month period ended 30 June 2021 and 2022 were THB 37.30 million and THB 71.40 million, respectively, representing an increase of 91.43 percent. These were mainly due to the continuous implementation of marketing campaign activities 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 6-month period ended 30 June 2022 was THB 469.69 million, which increased by THB 43.64 million from THB 426.05 million for the 6-month period ended 30 June 2021, representing an increase of 10.24 percent. The sales quantity of human food products decreased compared to that of the same period of the previous year. These were mainly due to the surge in tuna price and in freight cost since 2021, causing the customers to decrease human food orders while the Company had adjusted the average selling price to reflect 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 6-month period ended 30 June 2021 and 2022 were THB 32.40 million and THB 44.70 million, respectively, representing an increase of 37.96 percent.

2.2 Cost of Goods Sold and Gross Profit

Cost of Sales and Gross Profit for the 6-month period ended 30 June 2021 and 2022

Items	For the 6-month period ended 30 June			
	2021		2022	
	THB million	Percent	THB million	Percent
Revenue from Sales	2,415.39	100.00	3,464.30	100.00
Cost of Goods Sold	(1,911.58)	(79.14)	(2,803.13)	(80.91)
Gross Profit	503.82	20.86	661.18	19.09

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 6-month period ended 30 June 2022 was THB 2,803.13 million, which increased by THB 891.55 million from THB 1,911.58 million for the 6-month period ended 30 June 2021, representing an increase of 46.64 percent. These was in accordance with the increase in sales quantity and in average cost per unit from the same period of the previous year, representing an increase of approximately 12.95 percent. The increase in average cost per unit was mainly due to the increase in raw material price per unit compared to that of the same period of the previous year. As a result of the continuous increase in revenue from sales of pet food products due to an increase in sales quantity while the price of product per unit increased at a relatively lesser rate than an increase in raw material costs per unit, the gross profit of the Company was THB 661.18 million, which increased by THB 157.36 million from THB 503.82 million for the 6-month period ended 30 June 2021, representing an increase of 31.23 percent. The gross profit margin of the Company for the 6-month period ended 30 June 2021 and 2022 were 20.86 percent and 19.09 percent, respectively.

2.3 Other Revenue

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 6-month period ended 30 June 2021 and 2022, other revenues of the Company were THB 27.79 million and THB 36.60 million, respectively.

2.4 Selling and Distribution Expenses

Selling and Distribution Expenses for the 6-month period ended 30 June 2021 and 2022

Items	For the 6-month period ended 30 June			
	2021		2022	
	THB million	Percent	THB million	Percent
Freight expenses	25.66	30.75	34.43	35.72
Employees compensation	15.63	18.72	20.15	20.90
Brokerage fees	20.52	24.59	14.07	14.60
Advertising and sales promotion expenses	13.35	16.00	20.87	21.65
Other selling expenses ^{1/}	8.30	9.94	6.87	7.13
Total selling and distribution expenses	83.46	100.00	96.38	100.00

Remark: ^{1/}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 6-month period ended 30 June 2022, selling and distribution expenses of the Company was THB 96.38 million, which increased by THB 12.92 million from THB 83.46 million for the same period of the previous year, representing an increase of 15.48 percent. These were mainly due to the increase in freight expenses, which were in accordance with the increase in exporting quantity and in advertising and promotion expenses as the Company had increased marketing activities and expanded sales channels of products under monchou and Hajiko brands from 2021.

2.5 Administrative Expenses

Administrative Expenses for the 6-month period ended 30 June 2021 and 2022

Items	For the 6-month period ended 30 June			
	2021		2022	
	THB million	Percent	THB million	Percent
Employee compensation	22.28	26.22	36.84	23.05
Shared service fee from ASIAN	21.82	25.67	-	-
Loss from exchange rate	5.94	6.99	73.17	45.78

Items	For the 6-month period ended 30 June			
	2021		2022	
	THB million	Percent	THB million	Percent
Other administrative expenses ^{1/}	34.93	41.12	49.81	31.17
Total administrative expenses	84.97	100.00	159.82	100.00

Remark: ^{1/} Other administrative expenses are comprised of utility expenses, depreciation and amortization, loss from the allowance for the impairment of buildings and equipment, doubtful account, transportation expenses, membership fee, and professional fee.

For the 6-month period ended 30 June 2022, administrative expenses of the Company were THB 159.82 million, which increased by THB 74.85 million from THB 84.97 million for the same period of the previous year, representing an increase of 88.08 percent. These were mainly due to the increase in loss from exchange rate.

2.6 Operating Profit and Net Profit

Operating Profit and Net Profit for the 6-month period ended 30 June 2021 and 2022

Items	For the 6-month period ended 30 June	
	2021	2022
Operating Profit (THB million)	363.17	441.57
Net Profit (THB million)	308.06	363.60
Operating Profit Margin (Percent)	14.86	12.61
Net Profit Margin (Percent)	12.61	10.39

For the 6-month period ended 30 June 2022, operating profit of the Company was THB 441.57 million, which increased by THB 78.40 million from THB 363.17 million for the 6-month period ended 30 June 2021, representing an increase of 21.59 percent. These was mainly due to a continuous growth in revenue from pet food sales and the Company's ability to maintain the gross profit margin to be relatively close to that of the same period of the previous year. The selling and distribution expenses and administrative expenses increased to THB 87.77 million, which were mainly due to the increase in loss from exchange rate, resulting in an operating profit margin of 12.61 percent for the 6-month period ended 30 June 2022. The operating profit margin was slightly decreased from that of the 6-month period ended 30 June 2021, which was 14.86 percent. However, the tax expenses of the Company for the 6-month period ended 30 June 2022 was increased from for the 6-month period ended 30 June 2021 by THB 11.05 million. Therefore, the net profit of the Company for the 6-month period ended 30 June 2022, was THB 363.60 million, which increased by THB 55.54 million from THB 308.06 million for the 6-month period ended 30 June 2021, representing an increase of 18.03 percent. The net profit margin for the 6-month period ended 30 June 2022 was 10.39 percent, which was slightly decreased from the net profit margin for the 6-month period ended 30 June 2021 of 12.61 percent.

3. Assets and Liabilities Management

3.1 Assets

Total assets of the Company as of 31 December 2021 and as of 30 June 2022 were THB 3,606.44 million and THB 4,571.43 million, respectively, representing an increase of 26.76 percent. Total assets of the Company were mainly comprised of inventories and building and equipment, accounting for approximately 70 – 75 percent of total assets. As of 30 June 2022, total assets of the Company increased by THB 965.00 million from total assets as of 31 December 2021. The increase was mainly due to (1) an increase in trade receivables and inventories according to the revenue growth of the Company (2) an increase in building and equipment due to the capacity expansion of pet food products by 6,000 tons and (3) an increase in rights of use as a result of the Company entering into a 30-year long-term land lease agreement in January 2022 instead of the previous 3-year lease agreement.

3.2 Liabilities

Total liabilities of the Company as of 31 December 2021 and as of 30 June 2022 were THB 1,229.94 million and THB 2,151.34 million, respectively, representing an increase of 74.91 percent. Total liabilities were mainly comprised of bank overdrafts and short-term loans from financial institutions, and trade and other payables, accounting for approximately 82 percent of total liabilities. As of 30 June 2022, total liabilities of the Company increased from as of 31 December 2021, which was mainly due to (1) an increase in short-term loans from financial institutions 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 30 June 2022 was THB 2,420.10 million, which increased by THB 43.60 million from THB 2,376.50 million as of 31 December 2021. Although the Company had total comprehensive income during the period of THB 363.60 million, according to the resolution of the annual shareholders' meeting for 2022 held on 4 March 2022, the Company announced dividend payment during the period of THB 320.00 million or THB 1.88 per share based on the operating results of the year 2021. Thus, the Company had retained earnings as of 30 June 2022 of THB 761.05 million. In addition, the meeting of the Board of Directors No. 4/2022 (after the conversion to a public company) held on 4 August 2022 resolved to announce an interim dividend payment of THB 192.10 million or THB 0.11 per share based on the operating results of the first half of the year 2022, with the payment scheduled in August 2022. The dividend announcement has not been reflected in the Company's most recent financial statements for the 6-month period ended 30 June 2022.

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 6-month period ended 30 June 2021 and 2022 were THB 463.09 million and THB 583.46 million, respectively. The changes in 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 6-month period ended 30 June 2022 were mainly due to an increase in trade and other receivables and inventories which resulted from an increase in sales orders. As a result, the cash flows from (to) operating activities for the 6-month ended 30 June 2021 and 2022 were THB 127.42 million and THB 17.85 million, respectively.

4.2 Cash Flows from Investing Activities

Cash flows from investing activities for the 6-month period ended 30 June 2021 and 2022 were THB 499.71 million and THB 226.24 million, respectively. For the 6-month period ended 30 June 2022, the Company invested in capacity expansion for pet food products as well as machines and equipment to continuously improve production efficiency, amounting 226.31 million to accommodate the continuous increase in orders from brand-owner customers.

4.3 Cash Flows from (to) Financing Activities

For the 6-month period ended 30 June 2021 and 2022, cash flows from (to) financing activities of the Company were THB 339.37 million and THB 224.31 million, respectively.

For the 6-month period ended 30 June 2022, cash flows from financing activities of the Company were mainly due to a continuous increase in short-term loans from financial institutions of THB 608.43 million, which were from the increase in use of promissory notes, loans for importing of raw materials, and loans for exporting products to accommodate the business growth of the Company. However, the Company announced the dividend payment during the period of THB 320.00 million or THB 1.88 per share, based on the operating results of the year 2021, according to the resolution of the 2022 Annual General Meeting of the Company held on 4 March 2022.