

2 August 2023

Subject Management Discussion and Analysis for the year ended 31 December 2022

Attention Directors and Managers
The Stock Exchange of Thailand

KCG Corporation Public Company Limited and subsidiaries (collectively called “**the Company**”) would like to inform the analysis of financial performance, financial positions and financial ratio for the year ended 31 December 2022. The details are as follows:

A summary of the key financial information for the year ended 31 December 2022

Items	For the years ended 31 December		Change	
	2021	2022	THB mm	%
	THB mm	THB mm		
Revenue from sales	5,242.7	6,156.9	914.2	17.4
Total Revenue	5,265.0	6,232.7	967.7	18.4
Cost of sales	3,375.0	4,390.9	1,015.9	30.1
Gross Profit	1,867.7	1,766.0	(101.7)	(5.4)
Net profit for the year	303.4	241.1	(62.3)	(20.5)

Total Revenue

For the years ended December 31, 2021, and 2022, the Company's total revenue was THB 5,265.0 million and THB 6,232.7 million, respectively. The source of the Company's total revenue was mainly revenue from the sales, accounting for 99.6% and 98.8% of the total revenue from the same periods, respectively.

For the year 2022, the Company's total revenue increased from THB 5,265.0 million in 2021 to THB 6,232.7 million, representing a 18.4% increase. The growth in total revenue was primarily driven by increased sales of all products through the Business to Customer (B2C) and Business to Business (B2B) channels. This growth was the result of the unravelling of the COVID-19 situation and higher selling prices in products affected by rising raw material prices. Additionally, the Company benefited from higher foreign exchange gains arising from forward contracts used to manage risks in purchasing raw materials and goods in foreign currencies.

Profitability Ratio

Financial Ratio	For the years ended	
	31 December	
	2021	2022
Gross Profit Margin (%) ^{/1}	35.6	28.7
Net Profit Margin (%) ^{/2}	5.8	3.9

Remark:

/1 Calculated as gross profit divided by revenue from sales

/2 Calculated as net profit for the year divided by total income

Cost of sales and Gross Profit

For the years ended December 31, 2021, and 2022, the Company's cost of sales was THB 3,375.0 million and THB 4,390.9 million, respectively. These amounts accounted for 64.4% and 71.3% of revenue from sales, respectively. The Company's cost of sales includes raw material costs, labor costs, depreciation of production machinery and equipment, and utilities related to production.

For the year 2022, the Company's cost of sales grew from THB 3,375.0 million in 2021 to THB 4,390.9 million in 2022, representing an increase of 30.1%. The growth in the cost of sales was driven by increased raw material costs and import costs. This increase was a result of higher raw material prices for imported commodities due to a global shortage of such raw materials. Factors such as the Russia-Ukraine War, the weakening of the Thai Baht, and rising fuel and transportation costs for imported raw materials and goods all contributed to these higher costs. As a result, the Company's gross profit margin decreased from 35.6% in 2021 to 28.7% in 2022.

Net profit and net profit margin

For the years ended December 31, 2021, and 2022, the Company's net profit for the year was THB 303.4 million and THB 241.1 million, respectively. This resulted in net profit margins 5.8% and 3.9%, respectively.

For the year 2022, the Company's net profit for the year decreased from THB 303.4 million in 2021 to THB 241.1 million in 2022, indicating a decline of 20.5%. The net profit margin also decreased from 5.8% in 2021 to 3.9% in 2022. The decrease was primarily caused by the increase in raw material prices for imported commodities due to global shortages, the Russia-Ukraine War, rising transportation costs, and the weakening of the Thai Baht. These factors led to a higher increase in the cost of sales more than the proportion of higher increase in sales.

Financial Positions

Items	As of 31 December 2021	As of 31 December 2022	Change	
	THB mm	THB mm	THB mm	%
Total Assets	4,601.8	5,539.6	937.8	20.4
Total Liabilities	3,111.0	4,356.1	1,245.1	40.0
Equity	1,490.8	1,183.5	(307.3)	(20.6)

Total Assets

As of December 31, 2022, the Company's total assets were THB 5,539.6 million. The total assets include property, plant and equipment, trade and other receivables, and inventories.

As of December 31, 2022, the total assets increased from THB 4,601.8 million on December 31, 2021, to THB 5,539.6 million in 2022, representing an increase of 20.4%. The increase in total assets was primarily driven by the growth in inventories as the Company increased its reserve of raw materials used for production to mitigate risks associated with predicted increases in raw material prices. Additionally, there was an increase in trade and other receivables in line with the growth in sales revenue. Moreover, the Company's goodwill increased by THB 23.8 million due to the acquisition of Indoguna as its subsidiary in March 2022.

Total Liabilities

As of December 31, 2022, the Company's total liabilities were THB 4,356.1 million. The total liabilities include trade and other payables, long-term loans from financial institutions, and short-term loans from financial institutions. The Company primarily utilizes short-term credit lines to purchase raw materials and goods, especially for key raw materials in production sourced from abroad, such as milk fat and cheese.

As of December 31, 2022, the total liabilities increased from THB 3,111.0 million on December 31, 2021, to THB 4,356.1 million in 2022, representing a 40.0% increase. The primary reason for this increase was the significant rise in short-term borrowing from financial institutions, resulting from the higher volume of raw material imports.

Equity

As of December 31, 2022, the Company's equity was THB 1,183.5 million. The Company's equity decreased from THB 1,490.8 million on December 31, 2021, to THB 1,183.5 million in 2022. The main reason for this decrease was the payment of dividends amounting to THB 150.0 million, which included dividends for the fiscal year 2021 and interim dividends of THB 400.0 million during the fourth quarter of 2022. Nonetheless, as of December 31, 2022, the Company had a net profit for the year of THB 241.1 million.

Total Liabilities to Equity Ratio and Interest-bearing debt-to-equity Ratio

Financial Ratio	As of 31 December	
	2021	2022
Total Liabilities to Equity Ratio (times) ^{/1}	2.1	3.7
Interest-bearing debt-to-equity Ratio (times) ^{/2}	1.2	2.5

Remark:

/1 Calculated as total liabilities divided by total equity

/2 Calculated as interest bearing debt divided by total equity

For the year 2022, the Company's total liabilities to equity ratio and interest-bearing debt-to-equity ratio increased compared to 2021. The main reason for this increase was the higher short-term borrowing from financial institutions. The Company utilized these short-term loans to purchase raw materials for increased production, particularly for the purchase of raw materials from foreign markets. This move aimed to mitigate the risks associated with fluctuations in the quantity and price of raw materials. Additionally, in the year 2022, the Company's shareholder equity decreased due to the payment of dividends for the 2021 fiscal year and interim dividends, totaling THB 550.0 million.

Please be informed accordingly,

Sincerely yours,

(Mrs. Kanokwanrat Srimaneesiri)
Chief Financial Officer