

**Malee Group Public Company Limited and Its Subsidiaries  
Management Discussion and Analysis  
For the Q3/2019 and 9M/2019 ended 30 September 2019**



**1. Q3/2019 Highlights**

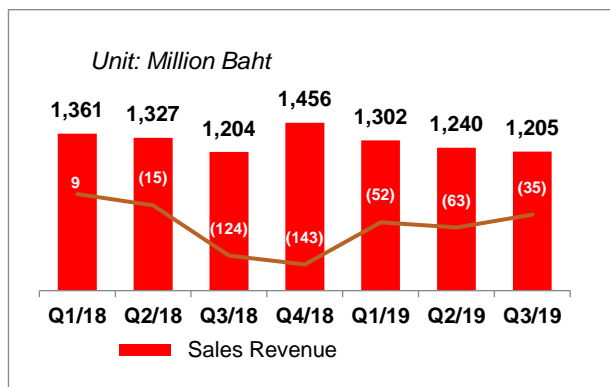


Figure 1: Quarterly results

- In 9M/2019 ending 30 September 2019, the Company and its subsidiaries recorded total sales of Baht 3,741 million, a decrease of 4% YoY, mainly due to 11% YoY decline in domestic branded sales. However, export branded sales positively performed with the increase of 12% YoY. This was mainly due to financial statement adjustment in accordance with new Thai accounting standards. According to the previous accounting standards, the Company and its subsidiaries would have recognized a total sales Baht 3,898 million or increase of 0.2% YoY in 9M/2019 ended 30 September 2019, higher than total sales Baht 3,892 million in 9M/2018 ended 30 September 2018.
- In Q3/2019, the Company and its subsidiaries recorded total sales of Baht 1,205 million, an increase of 0.1% YoY, occurred from a decline in domestic branded sales at 11% YoY while export branded sales continued to grow at 25% YoY. This was impacted by financial statement adjustment in accordance with new Thai accounting standards. According to the previous accounting standards, Q3/2019 total sales would have been Baht 1,235 million which was higher than Q3/2018 total sales of Baht 1,204 million, a growth of 3% YoY.
- In Q3/2019, the Company and its subsidiaries recorded loss of Baht 35 million, loss decreasing from Q3/2018 that recognized net loss Baht 124 million, due to 1) sales shrinkage in domestic branded sales; 2) 42% decrease from Q3/2018 in selling and administrative expenses; 3) higher finance costs due to investments in machinery, and joint ventures in Thailand and overseas; 4) higher depreciation of investments in machinery and 5) non-cash, one-time expenses recognized from selling unused old machines Baht 23 million

- Thai Financial Reporting Standard No. 15 (Revised) : Revenue from Contracts with Customers, effective 1 January 2019 has impacted on the Company and its subsidiaries' financial statement as follows :
  - Brand : Adjusting some advertising and promotion transactions to impact on total sales reduction and also selling expenses reduction. However, there is no impact on net profit.
  - CMG : TFRS 15 set a principle to recognize CMG revenues when goods are ready for transfer to customers and not when it has been transferred. This impacted the Company and its subsidiaries' financial statement on total sales and net profit either increasing or decreasing from changes of inventory at the end of period.

## 2. Overview of Domestic Economy and Ready-to-Drink Fruit Juice Market

At the end of Q3/2019, domestic RTD fruit juice market decreased 1% YoY. Moving Annual Total (MAT) September 2019 of domestic RTD fruit juice market was Baht 11,591 million.

RTD fruit juice market value and growth is as shown in figure 2.

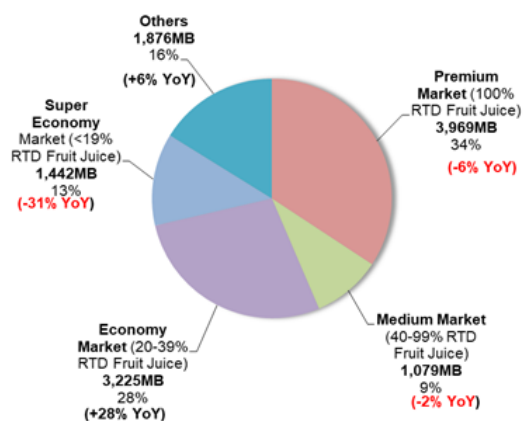


Figure 2: MAT September 2019 RTD Fruit Juice Market Value breakdown by Market Segment  
(Source : Nielson)

## 3. Results of Operations and Profitability

### Consolidated financial statements

(Unit : Baht Million)	Q3/2019	Q3/2018	%YoY	9M/2019	9M/2018	%YTD
Revenues from sales and services	1,205	1,204	0.1%	3,741	3,891	(3.9%)
Cost of goods sold and services	992	955	4%	3,131	2,975	5%
Gross profit	213	249	(14%)	612	916	(33%)
% gross profit	17.7%	20.7%		16.3%	23.5%	
Selling expenses	132	268	(50%)	406	679	(40%)
% selling expenses to sales	11.0%	22.2%		10.9%	17.5%	
Administrative expenses	102	135	(24%)	359	412	(13%)
% Administrative expenses to sales	8.5%	11.2%		9.6%	10.6%	
Finance costs	19	16	16%	52	43	22%
Share of profit (loss) from investment in subsidiaries and joint ventures	(1)	(3)	60%	(6)	(15)	60%
Tax (income)	(13)	(35)	63%	(48)	(57)	16%
Net profit (loss)	(35)	(124)	72%	(149)	(129)	(16%)
% net profit (loss)	(2.9%)	(10.3%)		(4.0%)	(3.3%)	

Q3/2019 Sales Revenue

The Company and its subsidiaries recorded sales revenue of Baht 1,205 million, an increase of 0.1% YoY, mainly due to financial statement adjustment in accordance with new Thai accounting standards. Details are as follows:

- Domestic Branded Business sales decreased 19% YoY.
- Export Branded Business sales rose 23% YoY, mainly due to sales increase from fruit juice and milk products, and sales recognition from Long Quan Safe Food JSC (LQSF), Vietnam.
- Total Contract Manufacturing Business (CMG) sales increased 7% YoY.

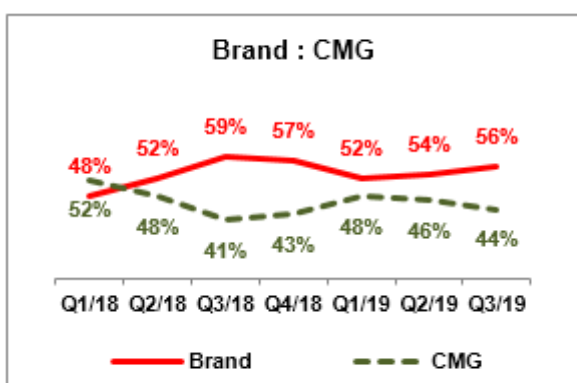
*Sales breakdown by business and geography are as follows:*

Sales Breakdown by Business:

- Brand: Baht 673 million, down 5% YoY.
- CMG: Baht 532 million, up 7% YoY.
- Sales ratio of Brand: CMG was 56:44, compared with 59:41 in Q3/2018.

*Sales Breakdown by Geography:*

- Domestic: Baht 726 million, down 11% YoY.
- Export: Baht 479 million, up 25% YoY.
- Sales ratio of Domestic: Export was 60:40, compared with 68:32 in Q3/2018.



Q3/2019 Cost of Goods Sold

The Company and its subsidiaries recorded cost of goods sold of Baht 992 million. Cost of goods sold to sales increased to 82.3% from 79.3% in Q3/2018, mainly due to financial statement adjustment in accordance with new Thai accounting standards, and higher cost per unit as a result of higher depreciation.

9M/2019 Sales Revenue

The Company and its subsidiaries recorded sales revenue of Baht 3,741 million, a decrease of 4% YoY, mainly due to financial statement adjustment in accordance with new Thai accounting standards. Details are as follows:

- Domestic Branded Business sales decreased 17% YoY.
- Export Branded Business sales increased 38% YoY, mainly due to sales increase from fruit juice and milk products, and sales recognition from Long Quan Safe Food JSC (LQSF), Vietnam.
- Total Contract Manufacturing Business (CMG) sales decreased 6% YoY.

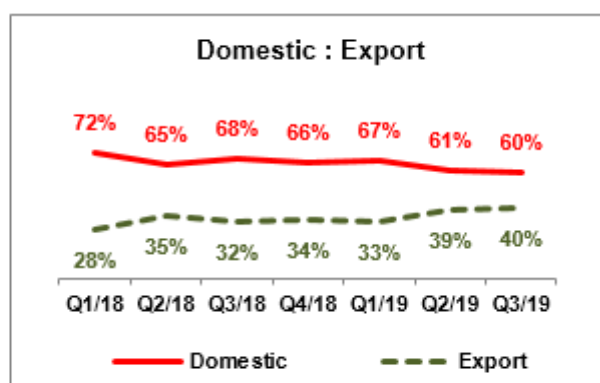
*Sales breakdown by business and geography are as follows:*

Sales Breakdown by Business:

- Brand: Baht 2,024 million, down 1% YoY.
- CMG: Baht 1,717 million, down 7% YoY.
- Sales ratio of Brand: CMG was 54:46, compared with 53:47 in Q3/2018.

*Sales Breakdown by Geography:*

- Domestic: Baht 2,353 million, down 11% YoY.
- Export: Baht 1,388 million, up 12% YoY.
- Sales ratio of Domestic: Export was 63:37, compared with 68:32 in Q3/2018.



9M/2019 Cost of Goods Sold

The Company and its subsidiaries recorded cost of goods sold of Baht 3,131 million. Cost of goods sold to sales increased to 83.7% from 76.5% in Q3/2018, mainly due to financial statement adjustment in accordance with new Thai accounting standards, and higher cost per unit as a result of higher depreciation.

### Q3/2019 Gross Profit

The Company and its subsidiaries recorded gross profit of Baht 213 million, a decrease of 14% YoY, representing gross profit margin of 17.7%, reduced from 20.7% in Q3/2018, mainly due to financial statement adjustment in accordance with new Thai accounting standards, and higher cost per unit as a result of higher depreciation.

### Q3/2019 Selling Expenses

The Company and its subsidiaries recorded selling expenses of Baht 132 million, a decrease of 50% YoY. Selling expenses to sales reduced to 11% from 22% in Q3/2018 due to financial statement adjustment in accordance with new Thai accounting standards, selling expenses recognition from Long Quan Safe Food JSC (LQSF), Vietnam, and efficient expenses control.

### Q3/2019 Administrative Expenses

The Company and its subsidiaries recorded administrative expenses of Baht 102 million, a decrease of 24% YoY. Administrative expenses to sales decreased to 8.5% from 11.2% in Q3/2018, mainly due to efficient expenses control despite the decrease in sales impacted from financial statement adjustment in accordance with new Thai accounting standards that caused administrative expenses to sales ratio to rise.

### Q3/2019 Finance Costs

The Company and its subsidiaries recorded finance costs of Baht 19 million, an increase of 11% YoY due to higher borrowings as a result of investments in machinery, subsidiaries, and joint ventures both in Thailand and overseas.

### Q3/2019 Net Profit

The Company and its subsidiaries recorded net loss of Baht 35 million, a decrease loss from net loss of Baht 135 million in Q3/2018, mainly due to 1) domestic branded business sales decrease; 2) a decrease in selling and administrative expenses from Q3/2018 as 50% and 24%, respectively; 3) higher finance costs due to investments in machinery, and joint ventures in Thailand and overseas; 4) higher cost as a result of higher depreciation of investments in machinery and 5) non-cash, one-time expenses recognized from selling unused old machines.

### 9M/2019 Gross Profit

The Company and its subsidiaries recorded gross profit of Baht 610 million, a decrease of 33% YoY, representing gross profit margin of 16.3%, reduced from 23.5% in Q3/2018, mainly due to financial statement adjustment in accordance with new Thai accounting standards, and higher cost per unit as a result of higher depreciation.

### 9M/2019 Selling Expenses

The Company and its subsidiaries recorded selling expenses of Baht 406 million, a decrease of 39% YoY. Selling expenses to sales reduced to 11% from 17.5% in Q3/2018 due to financial statement adjustment in accordance with new Thai accounting standards, selling expenses recognition from Long Quan Safe Food JSC (LQSF), Vietnam, and efficient expenses control.

### 9M/2019 Administrative Expenses

The Company and its subsidiaries recorded administrative expenses of Baht 359 million, a decrease of 13% YoY. Administrative expenses to sales decreased to 9.6% from 10.6% in Q3/2018, mainly due to efficient expenses control despite the decrease in sales impacted from financial statement adjustment in accordance with new Thai accounting standards that caused administrative expenses to sales ratio to rise.

### 9M/2019 Finance Costs

The Company and its subsidiaries recorded finance costs of Baht 52 million, an increase of 20% YoY due to higher borrowings as a result of investments in machinery, subsidiaries, and joint ventures both in Thailand and overseas.

### 9M/2019 Net Profit

The Company and its subsidiaries recorded net loss of Baht 149 million, an increase loss from net loss of Baht 129 million in Q3/2018, mainly due to 1) domestic branded business and CMG sales decrease; 2) a decrease of selling expenses and administrative expenses from 9M/2018, in the amount of 40% and 13%, respectively; 3) higher finance costs due to investments in machinery, and joint ventures in Thailand and overseas; 4) higher cost as a result of higher depreciation of investments in machinery and 5) non-cash, one-time expenses recognized from selling unused old machines.

#### 4. Financial Position of the Company and its Subsidiaries

(Unit: Baht Million)	30 September 2019	31 December 2018	% Change
Cash and cash equivalents	82	103	(20%)
Account receivables	817	700	16.6%
Inventories	632	885	(29%)
Other current assets	156	175	(11%)
<b>Total current assets</b>	<b>1,687</b>	<b>1,864</b>	<b>(9%)</b>
Property, plant and equipment	1,973	2,120	(7%)
Goodwill	49	52	(6%)
Investments in joint venture	90	56	59.9%
Other non-current assets	600	576	4.2%
<b>Total non-current assets</b>	<b>2,712</b>	<b>2,805</b>	<b>(3%)</b>
<b>Total Assets</b>	<b>4,399</b>	<b>4,668</b>	<b>(6%)</b>
Bank overdrafts and short-term loans from financial institutions	1,488	1,512	(2%)
Account payables	463	437	5.9%
Current portion of long-term loans from financial institutions	142	190	(25%)
Current portion of liabilities under financial lease agreements	35	33	4.7%
Other non-current liabilities	387	403	(4%)
<b>Total Current Liabilities</b>	<b>2,515</b>	<b>2,576</b>	<b>(2%)</b>
Long-term loans, net of current portion from financial institutions	584	599	(2%)
Liabilities under financial lease agreements, net of current portion	36	58	(38%)
Other non-current liabilities	256	276	(7%)
<b>Non-current Liabilities</b>	<b>876</b>	<b>932</b>	<b>(6%)</b>
<b>Total Liabilities</b>	<b>3,391</b>	<b>3,508</b>	<b>(3%)</b>
Authorized share capital	140	140	0.0%
Issued and fully paid-up share capital	140	140	0.0%
Share premium	6	6	0.0%
Retained earnings	689	829	(17%)
Other components of equity	180	189	(5%)
Deduct: Treasury stock	(114)	(114)	0.0%
<b>Total equity of parent Company's shareholders</b>	<b>901</b>	<b>1,049</b>	<b>(14%)</b>
Non-controlling interests	107	111	(4%)
<b>Total Shareholders' Equity</b>	<b>1,008</b>	<b>1,160</b>	<b>(13%)</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>4,399</b>	<b>4,668</b>	<b>(6%)</b>

#### Assets

As at 30 September 2019, the Company and its subsidiaries had total assets of Baht 4,399 million, a decrease of 6% from Baht 4,668 million as of 31 December 2018. The main factor was the decrease in inventories.

#### Liabilities

As at 30 September 2019, the Company and its subsidiaries had total Liabilities of Baht 3,391 million, a decrease of 3% from Baht 3,508 million as of 31 December 2018, mainly due to a decrease in loans from financial institutions.

### Shareholders' Equity

As at 30 September 2019, the Company and its subsidiaries had total equity of parent Company's shareholders of Baht 901 million, a decrease of 14% from Baht 1,049 million as of 31 December 2018, mainly due to net loss of Baht 149 million in 9M/2019.

## 5. Liquidity and Capital Resources

### Current Ratio

As at 30 September 2019, the Company and its subsidiaries recorded current ratio of 0.67x, a decrease from 0.72x as of 31 December 2018 because decreases in inventories were greater than current liabilities that the Company repaid loans from financial institutions.

Interest-bearing debt to equity ratio increased from 2.28x to 2.54x because loans from financial institutions reduced less than the decrease of the parent company's shareholders.

Consolidated	Q3/2019	2018
Current Ratio (Times)	0.67	0.72
Interest-bearing Debt to Equity (Times)	2.54	2.28

### Cash Flow

(Unit: Baht Million)	30 Sep 2019	30 Sep 2018	% Change
Profit (loss) from operating activities before changes in operating assets and liabilities	155	64	92.7%
Profit (loss) from changes in operating assets and liabilities	88	7	33.8%
<b>Net Cash flows from (used in) operating activities</b>	<b>243</b>	<b>71</b>	<b>239.6%</b>
Cash paid from business combination	0	(305)	100.0%
Cash paid for increased investments in joint ventures	(56)	(13)	(341%)
Acquisition of property, plant and equipment	36	11	213.9%
Net Cash flows from other investing activities	(82)	(93)	11.3%
<b>Net Cash flows from (used in) investing activities</b>	<b>(103)</b>	<b>(399)</b>	<b>74.3%</b>
Increase (decrease) in bank overdraft and short - term loans from financial institutions	(24)	233	(110%)
Increase (decrease) in long-term loans from financial institutions	0	0	-
Repayment of long-term loans from financial institutions	(63)	349	(118%)
Cash paid to liabilities under finance lease agreement	(20)	(42)	52.0%
Treasury shares	0	(114)	100.0%
Finance costs paid	(52)	(46)	(15%)
Dividend paid	0	(69)	100.0%
<b>Net Cash flows from (used in) financing activities</b>	<b>(159)</b>	<b>311</b>	<b>(151%)</b>
Exchange differences on translating financial statements	(2)	(1)	(229%)
Net increase (decrease) in cash and cash equivalents	(21)	(17)	(21%)
Cash and cash equivalents at beginning of periods	103	100	2.7%
<b>Cash and cash equivalents at end of periods</b>	<b>82</b>	<b>83</b>	<b>(1%)</b>

In Q3/2019, the Company and its subsidiaries recorded ending cash of Baht 82 million, a decrease of Baht 21 million at the end of Q3/2019, with details as follows:

- Net cash received from operating activities of Baht 243 million, consisting of (1) cash inflows from operating activities before changes in operating assets and liabilities of Baht 155 million; and (2) cash inflows from net change in working capital of Baht 88 million, mainly due to increase of account receivable and a decrease in inventories.
- Net cash used in investing activities of Baht 103 million, comprising of (1) cash outflows from investments in fixed assets of Baht 36 million; (2) cash outflows from investment in joint venture of Baht 56 million; and (3) other cash inflows from other investing activities of Baht 82 million.
- Net cash received in financing activities of Baht 159 million, consisting of (1) repayment to short-term loans from financial institutions of Baht 24 million; (2) repayment to long-term loans from financial institutions of Baht 63 million; (3) cash inflows from liabilities under financial lease agreement of Baht 20 million; and (4) cash paid to finance costs of Baht 52 million.

## **6. Forward Looking**

The Company and its subsidiaries will continue to expand branded business overseas and hasten the performance recovery by strict cost control and cost reduction and ramping up asset utilization to manage fixed costs. In Q3/2019, we have recognized apparent expenses decrease. This contribution leveraged our business performance as a whole. The Company and its subsidiaries will closely monitor and control the operation to achieve our turnaround plan as set.