

Malee Group Public Company Limited and Its Subsidiaries
Management Discussion and Analysis
For the Q2/2020 and H1/2020 ended 30 June 2020



1. Q2/2020 Highlights

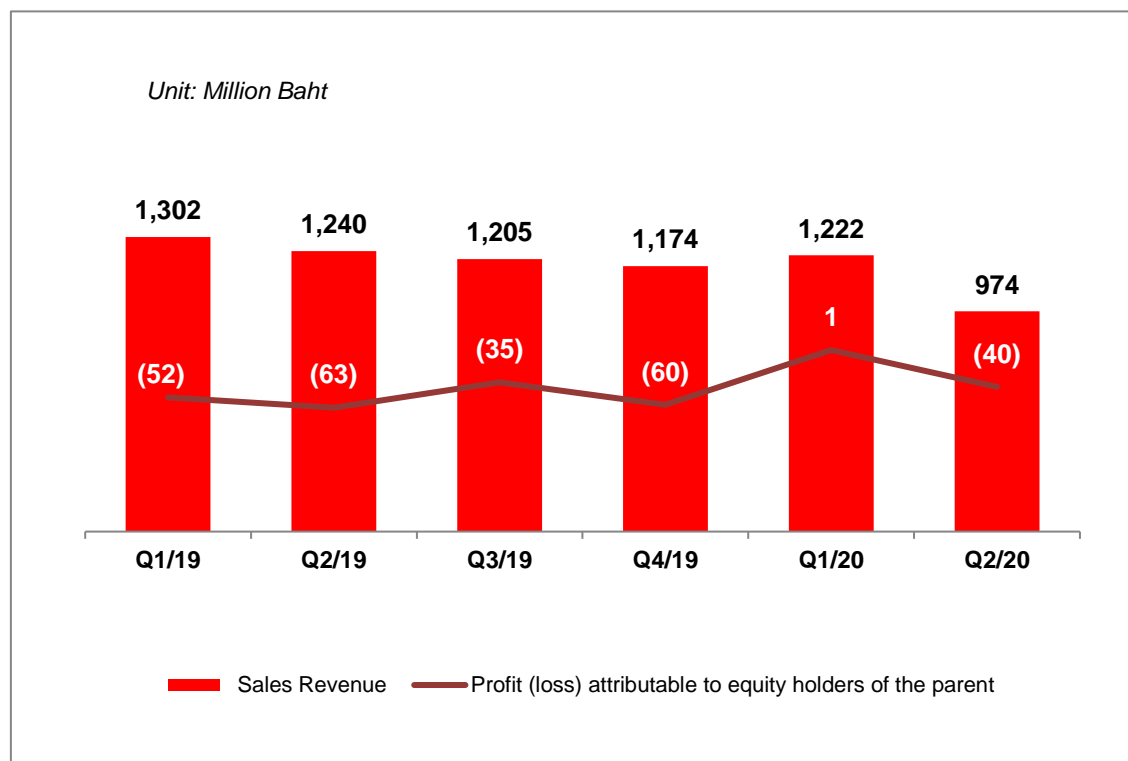


Figure 1: Quarterly results

- In Q2/2020, the Company and its subsidiaries recorded total sales of Baht 974 million, a decrease of 21% YoY. This occurred from a decline in Domestic Branded sales and Export Branded Business sales 25% YoY and 16% YoY, respectively.
- In H1/2020 ending 30 June 2020, the Company and its subsidiaries recorded total sales of Baht 2,196 million, a decrease of 14% YoY. This was mainly contributed from 15% YoY decline in Domestic Branded sales and 11% YoY decline in Export Branded sales.
- In Q2/2020, the Company and its subsidiaries recorded loss of Baht 40 million, loss decreasing from Q2/2019 that recognized net loss Baht 63 million. Cost reduction and selling expense cut and control according to the set goal promoted the Company greater performance. However, these did not compensate an impact from 1) sales shrinkage in CMG and Domestic Branded sales largely caused by Covid-19 pandemic; and 2) recognition of a one-time net loss of 3 joint venture company termination expenses.
- In H1/2020 ending 30 June 2020, the Company and its subsidiaries recorded a decreased total sales of 14% YoY while total performance increased 65%.

❖ *Thai Financial Reporting Standard No. 16: Lease (TFRS 16), effective 1 January 2020, has impacted the Company and its subsidiaries' financial statement in recognizing a right-of-use asset and a lease liability in the financial statement for all of its leases that have leasing term more than 12 months.*

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

At the end of Q2/2020, Moving Annual Total (MAT) of domestic RTD fruit juice market was Baht 10,489 million, a considerable decrease of 10% YoY. RTD fruit juice market value and growth is as shown in Figure 2.

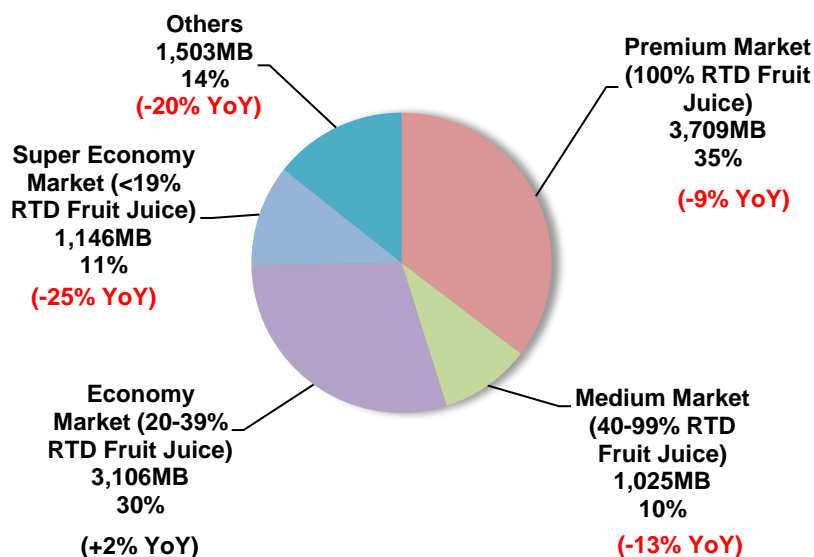


Figure 2: MAT June 2020 RTD Fruit Juice Market Value breakdown by Market Segment (Source: Nielsen)

3. Results of Operations and Profitability

(Unit : Baht Million)	Q2/2020	Q2/2019	%YoY	H1/2020	H1/2019	%YoY
Revenues from sales and services	974	1,240	-21%	2,196	2,542	-14%
Cost of goods sold and services	787	1,069	-26%	1,765	2,143	-18%
Gross profit	187	171	+9%	431	399	+8%
% gross profit	19.2%	13.8%		19.6%	15.7%	
Selling expenses	106	125	-15%	212	279	-24%
% selling expenses to sales	10.9%	10.1%		9.7%	11.0%	
Administrative expenses	121	117	+4%	256	256	
% Administrative expenses to sales	12.4%	9.4%		11.7%	10.1%	
Finance costs	20	18	+13%	36	34	+8%
Share of profit (loss) from investment in subsidiaries and JV	(5)	(1)	-412%	(6)	(2)	-141%
Tax (income)	(20)	(21)	+5%	(20)	(36)	+46%
Net profit (loss)	(40)	(63)	+36%	(40)	(115)	+65%
% net profit (loss)	(4.1%)	(5.1%)		(1.8%)	(4.5%)	

Q2/2020 Sales Revenue

The Company and its subsidiaries recorded sales revenue of Baht 974 million, a decrease of 21% YoY. Details are as follows:

- Domestic Branded Business sales decreased 18% YoY.
- Export Branded Business sales decreased 1% YoY, fairly close to Q2/2019.
- Total Contract Manufacturing Business (CMG) sales decreased 33% YoY.

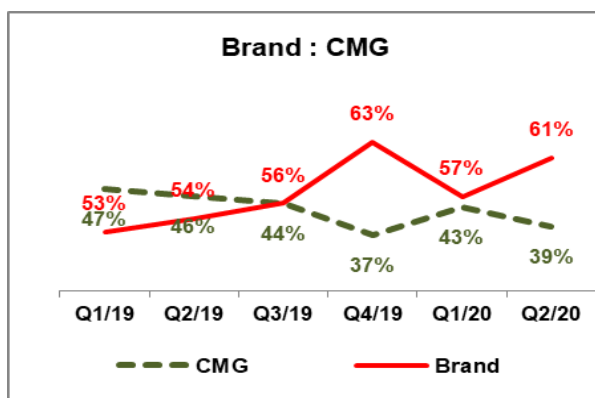
Sales breakdown by business and geography are as follows:

Sales Breakdown by Business:

- Brand: Baht 594 million, down 11% YoY.
- CMG: Baht 380 million, down 33% YoY.
- Sales ratio of Brand: CMG was 61:39 compared with 54:46 in Q2/2019.

Sales Breakdown by Geography:

- Domestic: Baht 565 million, down 25% YoY.
- Export: Baht 409 million, 16% YoY reduction.
- Sales ratio of Domestic: Export was 58:42, compared with 61:39 in Q2/2019.



H1/2020 Sales Revenue

The Company and its subsidiaries recorded sales revenue of Baht 2,196 million, a decrease of 14% YoY. Details are as follows:

- Domestic Branded Business sales decreased 10% YoY.
- Export Branded Business sales increased 3% YoY, mainly due to sales increase from fruit juice and milk products.
- Total Contract Manufacturing Business (CMG) sales decreased 23% YoY.

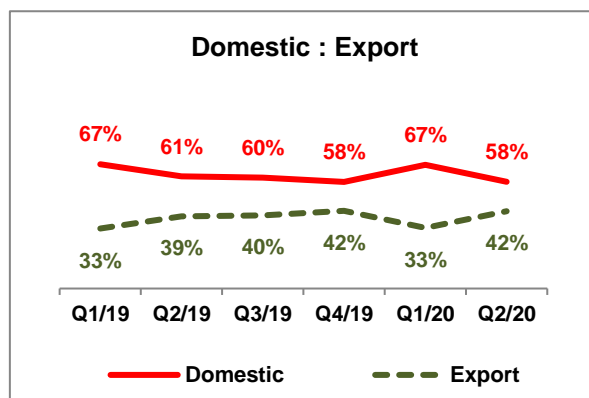
Sales breakdown by business and geography are as follows:

Sales Breakdown by Business:

- Brand: Baht 1,286 million, down 5.2% YoY.
- CMG: Baht 910 million, down 23% YoY.
- Sales ratio of Brand: CMG was 59:41, compared with 53:47 in Q2/2019.

Sales Breakdown by Geography:

- Domestic: Baht 1,385 million, down 15% YoY.
- Export: Baht 811 million, 11% YoY reduction.
- Sales ratio of Domestic: Export was 63:37, compared with 64:36 in Q2/2019.



Q2/2020 Cost of Goods Sold

The Company and its subsidiaries recorded cost of goods sold of Baht 787 million. Cost of goods sold to sales decreased to 80.8% from 86.2% in Q2/2019, mainly due to efficient cost of goods sold control.

Q2/2020 Gross Profit

The Company and its subsidiaries recorded gross profit of Baht 187 million, an increase of 9% YoY, representing gross profit margin of 19.2%, growth from 13.8% in Q2/2019, mainly due to cost of goods sold decline as a result of effective cost of goods sold control.

Q2/2020 Selling Expenses

The Company and its subsidiaries recorded selling expenses of Baht 106 million, a decrease of 15% YoY, 10.9% selling expenses to sales was relatively close to that of 10.1% in Q2/2019. This was mainly due to efficient selling expense cut and control.

Q2/2020 Administrative Expenses

The Company and its subsidiaries recorded administrative expenses of Baht 121 million, an increase of 4% YoY. Administrative expenses to sales increased to 12.4% from 9.4% in Q2/2019, mainly due to sales decreased.

Q2/2020 Finance Costs

The Company and its subsidiaries recorded finance costs in Q2/2020 compared to the Q2/2019 of Baht 20 million and Baht 18 million, respectively, an increase of 13% YoY. This resulted from financial institution loans in previous years.

Q2/2020 Net Loss

The Company and its subsidiaries recorded a lower net loss of Baht 40 million, as performance improved from Q2/2019 that recognized net loss Baht 63 million. While the Company and its subsidiaries performed better, an outstanding loss shown was due to 1) sales shrinkage in CMG and Domestic Branded sales impacted from Covid-19; 2) recognition of a one-time net loss from our three joint ventures company termination.

H1/2020 Cost of Goods Sold

The Company and its subsidiaries recorded cost of goods sold of Baht 1,765 million. Cost of goods sold to sales decreased to 80.4% from 84.3% in H1/2019, mainly due to efficient cost of goods sold control.

H1/2020 Gross Profit

The Company and its subsidiaries recorded gross profit of Baht 431 million, an increase of 8% YoY, representing gross profit margin of 19.6%, growth from 15.7% in H1/2019, mainly due to cost of goods sold decline as a result of effective cost of goods sold control.

H1/2020 Selling Expenses

The Company and its subsidiaries recorded selling expenses of Baht 212 million, a decrease of 24% YoY. It represented a reduction of 9.7% to sales, a decrease from 11.0% in H1/2019, mainly due to efficient selling expense cut and control.

H1/2020 Administrative Expenses

The Company and its subsidiaries recorded administrative expenses of Baht 256 million, a close figure to that of previous year. Administrative expenses to sales increased to 11.7% from 10.1% in H1/2019, mainly due to sales decreased.

H1/2020 Finance Costs

The Company and its subsidiaries recorded finance costs in H1/2020 compared to the H1/2019 of Baht 36 million and Baht 34 million, respectively, an increase of 8% YoY. This resulted from financial institution loans in previous years.

H1/2020 Net Loss

The Company and its subsidiaries recorded a lower net loss of Baht 40 million, as performance improved a decrease from net loss of Baht 115 million in H1/2019, mainly due to efficient cost of goods sold and selling expense control. However, net loss was recognized because of 1) sales shrinkage in CMG and Domestic Branded sales impacted from Covid-19; 2) recognition of a one-time net loss from our three joint ventures company termination.

4. Financial Position of the Company and its Subsidiaries

(Unit: Baht Million)	30 June 2020	31 December 2019	% Change
Cash and cash equivalents	82	119	(31%)
Account receivables	612	737	(17%)
Inventories	591	512	15.4%
Other current assets	161	141	14.1%
<i>Total current assets</i>	1,445	1,508	(4%)
Property, plant and equipment	1,753	1,983	(12%)
Goodwill	50	48	2.3%
Investments in joint venture	80	72	11.3%
Other non-current assets	1,007	575	74.9%
<i>Total non-current assets</i>	2,889	2,679	7.8%
Total Assets	4,335	4,187	3.5%
Bank overdrafts and short-term loans from financial institutions	1,102	1,439	(23%)
Account payables	369	373	(1%)
Current portion of long-term loans from financial institutions	211	143	47.4%
Current portion of liabilities under financial lease agreements	72	38	87.5%
Other non-current liabilities	350	361	(3%)
<i>Total Current Liabilities</i>	2,104	2,356	(11%)
Long-term loans, net of current portion from financial institutions	706	541	30.5%
Liabilities under financial lease agreements, net of current portion	291	43	583.5%
Other non-current liabilities	272	263	3.5%
<i>Non-current Liabilities</i>	1,269	847	49.8%
Total Liabilities	3,373	3,203	5.3%
Authorized share capital	140	140	-
Issued and fully paid-up share capital	140	140	-
Share premium	6	6	-
Retained earnings	589	628	(6%)
Other components of equity	244	225	8.3%
Deduct: Treasury stock	(114)	(114)	-
Total equity of parent Company's shareholders	864	885	(2%)
Non-controlling interests	97	99	(2%)
Total Shareholders' Equity	961	984	(2%)
Total Liabilities and Shareholders' Equity	4,335	4,187	3.5%

Assets

As at 30 June 2020, the Company and its subsidiaries had total assets of Baht 4,335 million, an increase of 3.5% from Baht 4,187 million as of 31 December 2019. The main factors included an increase in a right-of-use asset and a lease liability for all of leases with leasing term more than 12 months, according to TFRS 16: Lease, effective 1 January 2020. In addition, the Company recorded a rise of inventories.

Liabilities

As at 30 June 2020, the Company and its subsidiaries had total Liabilities of Baht 3,373 million, an increase of 5.3% from Baht 3,203 million as of 31 December 2019, mainly due to an increase in a right-of-use asset and a lease liability for all of leases with leasing term more than 12 months, as a result of TFRS 16: Lease, effective 1 January 2020.

Shareholders' Equity

As at 30 June 2020, the Company and its subsidiaries had total equity of parent Company's shareholders of Baht 864 million, a decrease of 2% from Baht 885 million as of 31 December 2019, mainly due to H1/2020 net loss.

5. Liquidity and Capital Resources**Current Ratio**

As at 30 June 2020, the Company and its subsidiaries recorded current ratio of 0.69x, approximately close to 0.64x of 31 December 2019 because an increase in inventories and a decrease in current liabilities which resulted from short – and long-term loans from financial institutions.

Consolidated	2020	2019
Current Ratio (Times)	0.69	0.64
Interest-bearing Debt to Equity (Times)	2.41	2.49

Debt to Equity Ratio

As at 30 June 2020, the Company and its subsidiaries recorded Interest-bearing debt to equity ratio of 2.41x, decreasing from 2.49x as of 31 December 2019. This was caused by decreased interest-bearing liabilities due to repayment of long-term loans and leasing loans.

Cash Flow

(Unit: Baht Million)	H1/2020	H1/2019	% Change
Profit (loss) from operating activities before changes in operating assets and liabilities	153	78	96.8%
Profit (loss) from changes in operating assets and liabilities	(26)	78	(133%)
Net Cash flows from (used in) operating activities	126	156	(19%)
Cash paid from business combination	21	0	-
Cash paid for increased investments in joint ventures	0	(10)	100.0%
Acquisition of property, plant and equipment	10	10	(5%)
Cash paid for property, plant and equipment	(17)	(50)	65.0%
Net Cash flows from other investing activities	(1)	0	(619%)
Net Cash flows from (used in) investing activities	12	(49)	125.3%
Increase (decrease) in bank overdraft and short - term loans from financial institutions	(337)	(56)	(506%)
Increase (decrease) in long-term loans from financial institutions	233	(26)	994.4%
Repayment of long-term loans from financial institutions	0	0	-
Cash paid to liabilities under finance lease agreement	(35)	(16)	(122%)
Treasury shares	0	0	-
Finance costs paid	(36)	(34)	(8%)
Dividend paid	0	(0)	100.0%
Net Cash flow from other financing activities	0	0	-
Net Cash flows from (used in) financing activities	(175)	(131)	(34%)
Exchange differences on translating financial statements	0	5	(101%)
Net increase (decrease) in cash and cash equivalents	(37)	(19)	(94%)
Cash and cash equivalents at beginning of periods	119	122	(3%)
Cash and cash equivalents at end of periods	82	103	(20%)

In Q2/2020, the Company and its subsidiaries recorded ending cash of Baht 82 million, a decline of Baht 21 million from Q2/2019, with details as follows:

- Net cash received from operating activities of Baht 128 million, consisting of (1) cash inflows from operating activities before changes in operating assets and liabilities of Baht 151 million; and (2) cash outflows from net change in working capital and liability of Baht 22 million. The main reasons were a decline of account receivables and a rise of inventories.
- Net cash used in financing activities of Baht 175 million, consisting of (1) repayment to short-term loans from financial institutions of Baht 337 million; (2) repayment to long-term loans from financial institutions of Baht 233 million; (3) liabilities occurred from financial lease agreements of Baht 35 million; and (4) cash paid to finance costs of Baht 36 million.
- Net cash in investing activities of Baht 12 million, comprising of (1) cash inflows from bank deposit that bared Baht 21 million less bank guarantee; (2) cash outflows from investment in fixed assets of Baht 7 million; and (3) cash inflows from other investment activities of Baht 1 million.

6. Forward Looking

The Covid-19 situation had a significant impact on the Company's and its subsidiaries sales volume. The Domestic Branded Business sales decreased in great amount primarily from general trade and food service channels. In regards of Export Branded Business sales, the effect was mainly caused by lockdown and quarantine measure in each country despite the fact that cross border logistics has faced less trouble.

The Company has persistently emphasized on turnaround its performance by strict cost and expense reduction control together with work process improvement in all areas for higher efficiency. We have achieved continuous cost and expense declining, increased asset utilization to better manage fixed asset and, the most importantly, controllable cash management to leverage liquidity especially during the Covid-19 pandemic. As a result, even though sales in H1/2020 diminished by 14%, the Company gained positive performance by 65% YoY.

Although the Covid-19 situation in Thailand has been considerably constructive and controllable, the Company has stayed alert and been prepared. We will closely monitor the situation and quickly adjust to the rapid changes especially focusing on cash flow management. We will also carry on our operation improvement to 1) expand capacity utilization; 2) improve work processes in all areas for higher efficiency; 3) strictly control and reduce costs and expenses; and 4) ramp up asset utilization to manage fixed asset. We are confident that these measures will leverage our business performances as a whole and we will grow stronger.