



S. Khonkaen Foods PCL. and its subsidiaries ("Company")

Management Discussion and Analysis

For the 9-month period ended 30 September 2023

Business Overview

In Q3/2023, the Company's total sales amounted to THB 757.9 million, decreased by 6.3% QOQ.

The Company has revenue from sales in the third quarter amounted to THB 757.9 million, representing a **decreased by 6.3 percent** as compared to the same quarter of previous year (a decreased by 3.1 percent from Q2/2023), due to the swine farm business has sales decreased because the market price has decreased.

The Company has revenue from sales for the first nine months amounted to THB 2,306.9 million, representing a **decreased by 0.9 percent** as compared to the same period of previous year. Sales in processed food from pork, which accounted for 54.87 percent of total revenue from sales, showed a growth rate with an **increased by 8.2 percent** as compared to the same period of previous year, while the swine farm business has sales decreased because the market price has decreased.

Profit attributable to the Company in the third quarter 2023 amounted to THB 16.8 million, decreased by 5.3% QOQ.

The Company has gross profit in the third quarter amounted to THB 188.5 million, representing 24.9 percent of revenue from sales. The gross profit margin **increased by 1.5 percent** as compared to the same quarter of previous year, since the market prices of pork and chicken decrease as compared to the average prices in the same quarter of previous year, while the swine farming business declined due to the decline in market prices.

The Company has gross profit for the first nine months amounted to THB 553.6 million, representing 24.0 percent of revenue from sales. The gross profit margin **decreased by 0.4 percent** as compared to the same period of previous year.

The company has net profit in the third quarter amounted to THB 16.8 million, representing 2.2 percent of revenue from sales, a **decreased by 5.3 percent** as compared to the same quarter of the previous year (a decrease by 31.3 percent from Q2/2023). Upon comparison of net profit margin to sales, the profit increased by 0.02 percent as compared to that of the same quarter of the previous year.

The company has net profit for the first nine months amounted to THB 42.2 million, representing 1.8 percent of revenue from sales, a **decreased by 49.1 percent** as compared to the same period of previous year. Upon comparison of net profit margin to sales, the profit decreased by 1.7 percent as compared to the same period of the previous year.

The Company recognized a loss on change in fair value less cost of sales of biological assets in the third quarter in amount of THB 4.1 million. If such entry is excluded, the Company's profit for the second quarter would amount to THB 20.9 million, representing 2.8 percent of revenue from sales, an decrease by 0.02 percent from the same period of last year.

| Income Statements (Consolidated) July - September | Quarter 3/23 | | Quarter 3/22 | | Change | |
|--|--------------|----------|--------------|----------|---------|-----------|
| | (THB Mil.) | (%) | (THB Mil.) | (%) | (%YOY) | (%QOQ) |
| Revenue from Sales | 757.9 | 100.0 % | 808.7 | 100.0 % | (6.3 %) | (3.1 %) |
| Cost of Sales | (569.4) | (75.1 %) | (619.3) | (76.6 %) | (8.1 %) | (5.5 %) |
| Gross Margin | 188.5 | 24.9 % | 189.4 | 23.43 % | (0.5 %) | 4.9 % |
| Selling and Distribution Expenses | (79.2) | (10.5 %) | (87.3) | (10.8 %) | (9.3 %) | (12.6 %) |
| Administrative Expenses | (75.6) | (10.0 %) | (74.2) | (9.2 %) | 1.9 % | (4.3 %) |
| EBIT | 33.9 | 4.5 % | 32.7 | 4.0 % | 3.6 % | 3.9 % |
| Financial Cost | (10.2) | (1.3 %) | (7.6) | (0.9 %) | 33.7 % | 0.1 % |
| Tax Expenses | (8.9) | (1.2 %) | (7.2) | (0.9 %) | 23.4 % | (708.9 %) |
| Profit/(Loss) : Holders of the Company | 16.8 | 2.2 % | 17.8 | 2.2 % | (5.2 %) | (31.3 %) |
| Earnings per Share (THB/Share) | 0.052 | | 0.055 | | | |

Core Business

1. Processed Food from Meat

Expand distribution channels in response to consumers' behavior and cost management to mitigate impact of main raw materials

The Company has revenue from sales in the third quarter amounted to THB 413.4 million, representing 54.5 percent of total sales, with a growth rate **decreased by 0.8 percent** as compared to the same quarter of previous year (a decreased by 7.5 percent from Q2/2023), and its gross profit amounted to THB 116.4 million, representing 28.1 percent of revenue from sales.

The Company has revenue from sales for the first nine months amounted to THB 1,265.7 million, representing 54.9 percent of total sales, with a growth rate **increased by 8.2 percent** as compared to the same period of previous year, and its gross profit amounted to THB 303.2 million, representing 24.0 percent of revenue from sales, The Company's revenue continued to grow, particularly via convenience stores, and new products could be distributed as planned.

The fluctuating prices of pork and chicken, which accounted for the major production costs since last year and price began to decrease in the third quarter which make the Company gross profit increasing. The public utility costs, namely electricity costs, and labor cost were increasing and as such, However, the Company focused on its internal management efforts by way of, among others, increase in the stock of raw materials at reasonable price, and cost management.

2. Processed Seafood

Expanded distribution channels through modern trade and export to reach more new consumer groups

The Company has revenue from sales in the third quarter amounted to THB 273.6 million, representing 36.1 percent of total sales, with a growth rate **increased by 1.1 percent** as compared to the same quarter of previous year (an increased by 13.0 percent from Q2/2023), and its gross profit amounted to THB 67.7 million, representing 24.7 percent of revenue from sales.

The Company has revenue from sales for the first nine months amounted to THB 771.8 million, representing 33.5 percent of total sales, with a growth rate **decreased by 3.4 percent** as compared to the same period of previous year, and its gross profit amounted to THB 205.0 million, representing 26.6 percent of revenue from sales.

Despite such an impact on the Company from the fluctuation of seafood prices, as the main raw materials, the Company has a cost management and expanded distribution channels for ready-to-eat products through modern trade channels and expanded to export channel.

3. Quick Service Restaurant (QSR)

Revised sales plan and cost management for every branch to generate operating profits

The Company has revenue from sales in the third quarter amounted to THB 16.8 million, representing 2.2 percent of total sales, with a growth rate **decreased by 13.4 percent** as compared to the same quarter of previous year (a decreased by 7.4 percent from Q2/2023), and its gross profit amounted to THB 8.5 million, representing 50.9 percent of revenue from sales.

The Company has revenue from sales for the first nine months amounted to THB 51.9 million, representing 2.3 percent of total sales, with a growth rate **decreased by 1.9 percent** as compared to the same period of previous year, and its gross profit amounted to THB 26.0 million, representing 50.0 percent of revenue from sales.

The Company closed certain branches which suffered from high operating loss, the company focused on management's operational and strategies to increase efficiency and reduce costs. Sales in the remaining branches and via delivery channels tended to continue to improve.

4. Swine Farming

Focused on cost management while Market price of pork drop

The Company has revenue from sales in the third quarter amounted to THB 54.1 million, representing 7.1 percent of total sales, with a growth rate **decreased by 46.9 percent** as compared to the same quarter of previous year (a decreased by 27.7 percent from Q2/2023), and its negative gross profit amounted to THB 4.1 million, representing negative 7.5 percent of revenue from sales.

The Company has revenue from sales for the first nine months amounted to THB 217.5 million, representing 9.4 percent of total sales, with a growth rate **decreased by 28.7 percent** as compared to the same period of previous year, and its gross profit amounted to THB 19.4 million, representing 8.9 percent of revenue from sales.

Since last year, the farm business has been affected by the swine price drop. The Company focused on cost management to increase efficiency, quality and cost of swine to reduce the overall cost effect of the group.

| Income Statements (Consolidated) Segment information | Quarter 3/23 | | | Jan - Sep 2023 | |
|---|--------------|----------|----------|----------------|----------|
| | (THB Mil.) | (%YOY) | (%QOQ) | (THB Mil.) | (%YOY) |
| Revenue from Sales | 757.9 | (6.3 %) | (3.1 %) | 2,306.9 | (0.9 %) |
| Processed food from meat | 413.4 | (0.8 %) | (7.5 %) | 1,265.7 | 8.2 % |
| Processed seafood | 273.6 | 1.1 % | 13.0 % | 771.8 | (3.4 %) |
| Restaurants | 16.8 | (13.4 %) | (7.4 %) | 51.9 | (1.9 %) |
| Swine farm | 54.1 | (46.9 %) | (27.7 %) | 217.5 | (28.7 %) |

Revenue from lease and services

The Company has revenue from rental and service in the third quarter amounted to THB 3.4 million, with a growth rate **increased by 14.3 percent** as compared to the same quarter of previous year.

The Company has revenue from rental and service in the first nine months amounted to THB 9.5 million, with a growth rate **increased by 23.8 percent** as compared to the same period of previous year.

As a result of the increase of management service income of S.Tower Office Building on Bang Na-Trad Road, where the Company's office is located.

Selling and distribution expenses

The Company has selling and distribution expenses in the third quarter amounted to THB 79.2 million, representing 10.5 percent of revenue from sales. The ratio of selling and distribution expenses to sales **decreased by 0.4 percent** from the same quarter of previous year.

The Company has selling and distribution expenses in the first nine months amounted to THB 249.2 million, representing 10.8 percent of revenue from sales. The ratio of selling and distribution expenses to sales **increased by 0.4 percent** from the same period of the previous year.

The company has sales and distribution expenses that increase in accordance with the growth of revenue. Delivery cost factors such as fuel prices, as well as the increase of marketing expenses.

Administrative expenses

The Company has administrative expenses in the third quarter amounted to THB 75.6 million, representing 10.0 percent of revenue from sales. The ratio of administrative expense to sales **increased by 0.8 percent** from the same quarter of previous year.

The Company has administrative expenses in the first nine months amounted to THB 228.9 million, representing 9.9 percent of revenue from sales. The ratio of administrative expense to sales **increased by 1.0 percent** from the same period of previous year.

Financial Highlights as of September 30, 2023

Assets

The Company's total assets amounted to THB 2,967.4 million, representing a decrease by 4.2 percent as compared to that at the end of previous year. Investment properties decreased from the sale of land. Account receivable decreased in line with sales dropped in the third quarter.

| Statements of Financial Position (Consolidated) | September 30, 2023 | | December 31, 2022 | | Change |
|--|--------------------|----------------|-------------------|----------------|----------------|
| | (THB Mil.) | (%) | (THB Mil.) | (%) | (%YOY) |
| Total Assets | <u>2,967.4</u> | <u>100.0 %</u> | <u>3,098.6</u> | <u>100.0 %</u> | <u>(4.2 %)</u> |
| Current Assets | 1,111.3 | 37.5 % | 1,224.3 | 39.5 % | (9.2 %) |
| - Cash and cash equivalents | 188.0 | 6.3 % | 186.8 | 6.0 % | 0.6 % |
| - Trade and other receivables | 475.8 | 16.0 % | 524.4 | 16.9 % | (9.3 %) |
| - Inventories | 348.4 | 11.7 % | 384.1 | 12.4 % | (9.3 %) |
| Non-Current Assets | 1,856.1 | 62.5 % | 1,874.3 | 60.5 % | (1.0 %) |
| Investment Properties | 584.4 | 19.7 % | 665.7 | 21.5 % | (12.2 %) |
| Property, Plant, and Equipment | 1,118.2 | 37.7 % | 1,081.7 | 34.9 % | 3.4 % |
| Right-of-use Assets | 91.3 | 3.1 % | 100.6 | 3.2 % | (9.3 %) |

Liabilities

The Company has total liabilities amounted to THB 1,675.9 million, representing a decrease by 8.1 percent as compared to that at the end of previous year. Current liabilities increased by 1.9 percent and non-current liabilities decreased by 25.6 percent from loan repayment., As of September 30, 2023, the debt-to-equity ratio was 1.3 times.

Shareholders' Equity

The Company has total shareholders' equity amounted to THB 1,291.5 million, representing an increase by 1.2 percent as compared to that at the end of previous year.

| Statements of Financial Position (Consolidated) | September 30, 2023 | | December 31, 2022 | | Change |
|--|--------------------|---------------|-------------------|---------------|----------------|
| | (THB Mil.) | (%) | (THB Mil.) | (%) | (%YOY) |
| Total Liabilities | <u>1,675.9</u> | <u>56.5 %</u> | <u>1,822.9</u> | <u>58.8 %</u> | <u>(8.1 %)</u> |
| Current Liabilities | 1,184.6 | 39.9 % | 1,162.7 | 37.5 % | 1.9 % |
| - Bank overdraft | 667.0 | 22.5 % | 545.0 | 17.6 % | 22.4 % |
| - Trade and other payable | 354.3 | 11.9 % | 381.3 | 12.3 % | (7.1 %) |
| - Current portion of long term loan | 110.2 | 3.7 % | 157.3 | 5.1 % | (29.9 %) |
| Non-Current Liabilities | 491.3 | 16.6 % | 660.2 | 21.3 % | (25.6 %) |
| - Lease liabilities - net of current portion | 85.3 | 2.9 % | 92.7 | 3.0 % | (8.0 %) |
| - Long term loan - net of current portion | 290.3 | 9.8 % | 453.6 | 14.6 % | (36.0 %) |
| - Provision for retirement benefit | 95.6 | 3.2 % | 87.7 | 2.8 % | 9.0 % |
| Total Shareholders' Equity | <u>1,291.5</u> | <u>43.5 %</u> | <u>1,275.6</u> | <u>41.2 %</u> | <u>(0.0 %)</u> |
| Equity holders of the Company | 1,287.8 | 43.4 % | 1,277.8 | 41.2 % | (0.5 %) |
| Non-controlling interests of the subsidiaries | 3.7 | 0.1 % | (2.2) | (0.1 %) | (293.7 %) |