

Triple i Logistics Public Company Limited

Management Discussion and Analysis for the Year 2019, ending 31 December 2019

Management Discussion and Analysis

Net profit growth of 10% YoY in 2019

The Company's operational performance continued to grow from the year 2018. The net profit in the year 2019 was Baht 164.5 million, an increase by Baht 14.8 million or 9.9% growth from the year 2018 amidst the slowdown in global and Thai economies, which caused a decline in Thailand's exports and imports. As a result, the Company's total revenues in 2019 slightly decreased compared to the previous year. The Company's growth in net profit was due to its adjustment of strategy to the current economic situation. The Company expanded its sources of income through investments with partners at regional level. Such investments had generated better-than-expected return.

Returns from investments in joint ventures and associated company

Returns from investment of 50% shareholding in DG Packaging Pte., Ltd. ("DGPS") on 2 July 2018 and investment of 50% shareholding in Around Logistics Management Co., Ltd. ("AROUND") on 11 March 2019 were as targeted. Share of profit and dividend from DGPS and AROUND in the year 2019 was an approximate of Baht 64 million in aggregate.

Summary of Key Events in the Year 2019

Investment in businesses related to the Company

In the year 2019, the Company had additional investment in local and foreign companies to expand its business and cooperated with business partners according to its 3-year strategic plan (Year 2019 – 2021) in order to respond to increase in competition within the industry and diversify risks by not relying on any particular business of the Group. The Company's investment can be summarized as set out below.

- The Company invested in SAL Group (Thailand) Co., Ltd., which provides airport ground handling and passenger services, by acquiring 14.95% shareholding from the existing shareholder. The investment amount was Baht 80 million. Such investment has given the Company an opportunity to provide airport ground handling services in addition to its existing local transport and international logistics services. This was in line with a business expansion plan of the Company's air freight business unit and the investment would generate benefits in the long run. In addition, the Company acquired newly issued shares of SAL in September 2019. As a result, the Company currently has 15.86% shareholding in SAL.

- The Company acquired 50% shareholding in Around Logistics Management in Hong Kong from the existing shareholder on 11 March 2019. The investment amount was not exceeding Baht 511.3 million. Such company conducts general sales agent for airline business in Asia region with subsidiaries in Thailand, Singapore, Hong Kong and Vietnam. At present, Around Logistics Management acts as a sales agent for over 22 airlines with service routes covering 24 countries in Asia, North America and Europe. The investment had given positioning to the Company as a regional sales agent for airlines with expanded network and also expanded its air freight business.
- The Company acquired ordinary shares in Excel Air (Cambodia) Co., Ltd. (“EAC”), which represented 32% of the total registered and paid-up capital of EAC. EAC conducts general sales agent for airlines business for airlines in Cambodia. The investment amount was USD32,000 or an amount of not exceeding Baht 1.00 million.
- The Company entered into a shareholder’s agreement with Teleport Everywhere Pte., Ltd., a company under AirAsia Group Berhad Group, in respect of its investment in Teleport (Thailand) Co., Ltd. (“TLP-TH”) on 4 December 2019. The Company will hold 50% of the total registered and paid-up capital of TLP-TH to conduct general sales agent for airline business and other related logistics business for AirAsia Group. AirAsia Group has 9 airlines including Malaysia AirAsia, AirAsia X, Indonesia AirAsia, Indonesia AirAsia X, AirAsia Japan, AirAsia India, AirAsia Philippines, Thai AirAsia and Thai AirAsia X. Formerly, the Company only acted as sales agent for Thai AirAsia and Thai AirAsia X. At present, the Company had invested in TLP-TH and the business operation had started since January 2020.
- In March 2019, the Company registered an increase in its paid-up capital in the amount of Baht 1,164,544, comprising of 2,329,088 shares at the par value of Baht 0.50 per share to accommodate for the exercise of warrants to purchase ordinary shares of the Company no. 1 issued to its employees (III-WA)(“Warrants”) according to TLG ESOP 2017 project. The warrant holders exercised their rights under the Warrants according to the conditions and period for the exercise no. 1 totaling 2,329,088 units.
- In September 2019, the Company registered an increase in its paid-up capital in the amount of Baht 1,239,343.50, comprising of 2,478,687 ordinary shares at the par value of Baht 0.50 per share on 11 September 2019 to accommodate for the exercise of warrants to purchase ordinary shares of the Company no. 2. The warrant holders exercised their rights under the Warrants according to the conditions and period for the exercise no. 2 totaling 2,478,687 units.

Dividend payment in the year 2019

The 2019 Annual General Meeting of Shareholders held on 24 April 2019 resolved to approve dividend payment of Baht 0.17 per share, totaling Baht 103.2 million. The Company made such payment of dividend to the shareholders on 22 May 2019.

Summary on Operating Performance for the Year 2019

Unit : Million Baht	2018	2019	change	% change + / (-)
Revenues from sales and services	2,770.6	2,712.5	(58.1)	(2.1%)
Costs of sales and services	2,286.0	2,274.5	(11.5)	(0.5%)
Gross profit	484.6	438.1	(46.6)	(9.6%)
Gross profit margin	17.5%	16.1%		(1.3%)
Other income	18.4	11.8	(6.6)	(35.9%)
Selling expenses	77.2	80.9	3.7	4.8%
Administrative expenses	295.0	280.0	(15.0)	(5.1%)
Gain (loss) on exchange rates, net	7.0	8.0	1.0	13.8%
Finance costs	1.9	14.9	13.1	701.2%
Share of profits from investments in associates and joint ventures	32.1 ¹	96.1	64.0	199.6%
Net profit for the period	149.7	164.5	14.8	9.9%
Net profit margin	5.4%	6.1%		0.7%

In respect of the Company's operating performance in the year 2019, the Company's revenues was Baht 2,712.5 million, a slight decrease by 2.1% from the previous year, which was in line with overall economic conditions of the country. Thailand's overall export and import in the year 2019 were -4.7% and -8.3% respectively.²

The Company's gross profit in the year 2019 was Baht 438.1 million or equivalent to gross profit margin of 16.1%, a decrease compared to that of the year 2018. The decrease was mainly due to increase in costs of services in air freight business, particularly air freight cost under contract with airlines represented by the Company. Revenues from air freight service did not increase in line with such increase in air freight cost.

Selling expenses increased by 4.8% compared to the previous year, while administrative expenses decreased by 5.1%.

Share of profits from investments in associates and joint ventures significantly increased compared to that of the year 2018 due to recognition of revenues from investments in joint ventures, particularly DG Packaging Pte., Ltd. in Singapore acquired by the Company on 2 July 2018 and Around Logistics Management in Hong Kong acquired by the Company on 11 March 2019. As a result, the Company's net profit in the year 2019 was Baht 164.5 million, an increase of 9.9% compared to the previous year.

¹ Share of profits from investments in associates and joint ventures was revised from purchase price allocation (PPA) for DG Packaging Pte., Ltd. ("DGPS").

² Source: Economic and Financial Report (December 2019) by the Bank of Thailand.

Operating Performance by Business Unit

Business Unit	Revenues (Million Baht)		% change + / (-)	% Total Revenues	Gross Profit (Million Baht)		% change + / (-)
	2018	2019			2018	2019	
1. Air freight	2,279.6	2,215.6	(2.8%)	73.3%	249.9	205.7	(17.7%)
2. Sea freight and inland transport	116.6	84.9	(27.2%)	2.8%	71.7	60.1	(16.2%)
3. Logistics management	135.0	181.8	34.7%	6.0%	36.1	51.6	43.2%
4. Chemical and dangerous goods logistics	561.9	526.9	(6.2%)	17.4%	132.9	126.8	(4.5%)
5. Other business	15.1	15.2	0.3%	0.5%	4.8	4.7	(1.9%)
Total	3,108.2	3,024.3	(2.7%)	100.0%	495.3	448.9	(9.4%)
Net of intercompany transactions	2,770.6	2,712.5	(2.1%)		484.6	438.1	(9.6%)

1) Air freight business

Air freight business is a core business of the Company as majority of its revenues derives from such business. Revenues from air freight business accounted for 73.3% of the Company's total revenues. The Company's air freight volume increased from 70,215 tons in the year 2018 to 73,790 tons in the year 2019, which was better than Thailand's overall air freight volume with negative growth of 10.3%³ in the year 2019. Nevertheless, revenues from air freight business was Baht 2,215.6 million, a slight decrease from the previous year revenues of Baht 2,279.6 million. This was due to the freight rates decrease and also part of the revenues were generated in foreign currency. As a result of the strengthening of Thai Baht, the growth in revenues was inconsistent with the increase in air freight volume.

The business's net profit in the year 2019 was Baht 205.7 million, a decrease from that of the previous year by Baht 44.2 million or 17.7% due to increase in costs of services. Freight cost, which is a cost of service, under contracts had increased, while revenues did not increase in line with such increase in freight cost.

2) Sea freight and inland transport business

Sea freight and inland transport business generated Baht 84.9 million in revenues in the year 2019, a decrease by 27.2% from the previous year mainly due to decrease in cross-border transport for ISO Tank.

The gross profit of the business was Baht 60.1 million, a decrease by only 16.2% compared to the previous year. The decrease was due to decrease in service of non-core business as mentioned above. However, the core business still generated gross profit as expected.

³ Source: Air Transport Statistics 2019 (December) by Airport of Thailand Public Company Limited (AOT).

3) Logistics management business

There was a significant growth in the logistics management business. The business generated Baht 181.8 million in revenues in the year 2019, an increase by Baht 46.8 million or 34.7% compared to the previous year. This was due to implementation of the Company's goal to increase its key account customers, which resulted in significant increase in service volume of international air and sea freight, related logistics services and E-Commerce logistics.

The business generated Baht 51.6 million in gross profit, an increase by Baht 15.6 million or 43.2% increase compared to the previous year. The increase in gross profit was in line with increase in service volume and revenues from services.

4) Chemical and dangerous goods logistics business

Chemical and dangerous goods logistics business generated Baht 526.9 million in revenues, a decrease by Baht 35.0 million or 6.2% decrease compared to the previous year. This was due to decrease in revenue from international chemical and dangerous goods logistics via air freight and sea freight and decrease in revenue from tank container service.

In the year 2019, the business generated Baht 126.8 million in gross profit, a decrease by 4.5% compared to the previous year. This was in line with the decrease in revenues.

Financial Position Analysis

Unit : Million Baht

Statement of Financial Position	31 December 2018	31 December 2019	Increase (Decrease)	%
Total assets	1,899.5	2,225.7	326.1	17.2%
Total liabilities	697.6	946.8	249.2	35.7%
Shareholders' equity	1,200.9	1,278.9	77.9	6.5%

Total assets

As of 31 December 2019, the Company's total assets was Baht 2,225.7 million, an increase from that as of 31 December 2018 of Baht 326.1 million due to increase in investments in joint ventures.

Total liabilities

As of 31 December 2019, the Company's total liabilities was Baht 946.8 million, an increase from that as of 31 December 2018 of Baht 249.2 million due to increase in long-term loan used to purchase Around Logistics Management Co., Ltd. in Hong Kong.

Shareholders' equity

As of 31 December 2019, the Company's shareholders' equity was Baht 1,278.9 million, an increase from that as of 31 December 2018 of Baht 77.9 million due to increase in retained earnings from profit in the previous year and share premium arising from the exercise of right by employees to purchase newly issued ordinary shares of the Company.

Management's Viewpoints on Trend and Strategy for Year 2020

Vision and Goals

The Company has prepared a 3-year strategic plan (Year 2019 – 2021) to determine the Company's business directions. The Company targets to become Thailand's leading logistics provider in Southeast Asia region with continuous and sustainable growth. The management has analyzed the Company's operating performance in the year 2019 and reviewed its business plan to create a business plan for the year 2020 that is suitable for the current business environment. The Company has created 2 strategies, including partner driven strategy and customer driven strategy. Both strategies cover business plan of the four existing core businesses of the Company (Organic) and expansion of logistics business through business acquisition and joint investment (Inorganic), details of which are as follows:

Business plan for 4 core businesses

- Increase in revenues through increase in service volume to customers, including development of new logistics products and services (Organic Plus) to cover and better respond to customers' needs. The Company focuses on building on the existing customer base through preparing logistics management plan with customers.
- Expansion of business partners in general sales agent for airline and shipping line business, including creating cooperation for provision of other related logistics services such as inland transport. In respect of general sales agent for AirAsia airlines, the Company invested in TLP-TH since January 2020 to conduct general sales agent for airline business and other related logistics business for AirAsia Group, which currently has 9 airlines under the group, including Malaysia AirAsia, AirAsia X, Indonesia AirAsia, Indonesia AirAsia X, AirAsia Japan, AirAsia India, AirAsia Philippines, Thai AirAsia and Thai AirAsia X. Formerly, the Company acted as general sales agent for only Thai AirAsia and Thai AirAsia X. Such investment had given the Company an opportunity to provide outbound air freight service from Thailand through airlines under AirAsia Group such as Malaysia AirAsia, Malaysia AirAsia X, Indonesia AirAsia, and AirAsia Philippines in addition to the existing Thai AirAsia and Thai AirAsia X. The Company also has the opportunity to provide warehouse service at Don Mueang Airport to such airlines.

- Expansion of customer base in logistics management business by focusing on increasing number of customers using all types of logistics services (Triple i Solution). The target customers are customers who import health and beauty products, medicines, including E-Commerce customers and B2C customers who require various logistics services, from international logistics and warehouse services to local distribution service. The quantity of transport per time of this customer group is low, but with high frequency of using logistics service. This is consistent with the Company's warehouse and distribution services, which do not focus on generating revenue from warehouse service but generating revenue from related logistics services.
- More effective management of costs of sales to increase gross profit margin through integration among business units, particularly logistics management business and chemical and dangerous goods logistics business.

Expansion to new logistics business through business acquisition and joint investment (Inorganic)

Based on the Company's vision to become Thailand's leading logistics service provider in Southeast Asia region with continuous and sustainable growth, the Company continues to expand to new logistics business. The Company acquired shares in DGP Singapore in the year 2018 and shares in Around Logistics in the year 2019. Both investments have generated better-than-expected returns and allow the Company to have extensive network of logistics services covering the region. In addition, the Company invested in other logistics companies with potential and strength that will support the Company's strategic plan. In the year 2020, the Company focuses on its business expansion plan and has established Business Development Unit with the objective to expand to new logistics business through business acquisition, joint investment, development of new form of logistics product, and building the business towards using digital platform.

In respect of the 2020 business expansion plan, the Company has the following goals:

- Business expansion through investment with business partner : Not only focusing on investing in logistics business with good operating performance, the business partner of the investment company must have the business type and strengths which support potential and strategy of the Company to achieve its vision as can be seen with the Company's previous investments. Not only having good operating performance, business partners of DGP Singapore and Around Logistics have potential to expand to other logistics business with the Company. The Company will conduct feasibility study on additional investment in the business partners' business in which the Company has not invested this year. The Company will also develop new logistics services with its business partners, for instance, cooperation with TLP-TH to develop a new form of air freight service at regional level such as Same Day Asia air freight etc.
- Expansion of logistics services : The Company is interested in increasing revenues from its existing logistics services and sees the opportunity to increase proportion of the Company's revenues, such as expansion to other services under the airport ground handling service in

addition to airport warehouse service, project cargo handling, and inland transports via railway and trucking systems.

- Development of logistics services on digital platform : E-commerce market, particularly B2C business, has expanded rapidly. As a result, consumers demand for various logistics services which are differentiated from traditional logistics services. This is illustrated through low quantity of transport but increase in frequency of using logistics services. There is a higher expectation on speed of logistics services. Logistics service is connected to other systems of the on-line marketing trade, including order and payment systems etc. Therefore, the Company is interested in developing new form of logistics service with business partner who has expertise in developing digital platform in order to develop various and extensive logistics services that better respond to customers' requirements.

Other factors with impact on the business

- Exchange rate

In the year 2020, Thai Baht will continue to fluctuate. However, the Company is aware of such factor and has hedged against the risk through purchase of forwards and options in order to reduce impact from fluctuation in exchange rate, affecting the Company's business operations.

- Freight trends

With the Covid-19 outbreak in the first half of the year 2020, the Company anticipated that air freight cost will increase due to decrease in supply as a result of decrease in the number of flights. This will result in accumulation of products transported via air freight. Sea freight cost is expected to fluctuate as supply could not immediately decrease in respond to decreasing demand for sea freight due to lower production rate in China, impacting the whole supply chain system.

- Impact from global economy

In 2020, global economy and trades are expected to decline due to economic slowdown in the United States, China and Japan and uncertainties on impact from trade protection measure, which has impact on the volume of demand for international logistics, and freight cost is expected to continue to fluctuate.

- Impact from Covid-19 outbreak

The Covid-19 outbreak will result in China's economic slowdown and will impact economies of various countries which trade with China, including Thailand which has China as a major trade partner. Measures to prevent the spread of Covid-19 have caused a decrease in travelling and international transports between China and other countries. The number of flights and shipping has significantly decreased since the middle of January 2020, affecting international transportation and supply chain system. There are uncertainties on situations and impact of the Covid-19 outbreak with an assumption that the spread of Covid-

19 will reach its peak in March 2020 and end in early May 2020 and impact on international transportation and supply chain system will end within the first quarter of 2020. Impact on export and tourism will decrease in the second quarter and the industry will be back to normal in the third quarter. Analysts has revised China GDP growth from 5.8% to 5.4%, which is a risk to global economic recovery, may impact supply chain during the second half of the year and Thailand's export, which has been revised from 0.2% to -0.1%.

Yours sincerely,

Triple i Logistics Pubic Company Limited



(Mr. Tipp Dalal)

Chief Executive Officer