

## **PEARL RIVER HOLDINGS LIMITED**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Six months ended June 30, 2023**

#### **Forward-Looking Information**

This interim management discussion and analysis contains certain forward-looking statements and information relating to Pearl River Holdings Limited (“**Pearl**” or the “**Company**”). All statements, other than statements of historical fact, included herein may be forward-looking information. Generally, forward-looking information may be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “proposed”, “is expected”, “budgets”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases, or by the use of words or phrases which state that certain actions, events or results may, could, would, or might occur or be achieved. This forward-looking information reflects the Company’s current beliefs and is based on information currently available to the Company and on assumptions the Company believes are reasonable. These assumptions include, but are not limited to, the level of activity in the plastics industry and the economy generally, consumer interest in the Company’s products, and future costs and expenses being based on historical costs and expenses, adjusted for inflation. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information. Such risks and other factors may include, but are not limited to: general business, economic, competitive, political and social uncertainties; fluctuations in raw material costs; competition; lack of insurance; changes in legislation, including environmental legislation, affecting the Company; timing and availability of external financing on acceptable terms; and lack of qualified, skilled labour or loss of key individuals. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

#### **Basis of Discussion and Analysis**

The following management discussion and analysis of the financial condition and results of operations of the Company and other information is dated August 29, 2023 and should be read in conjunction with the Company’s condensed interim consolidated financial statements and notes thereto as at and for the six months ended June 30, 2023. These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements including International Accounting Standard 34 – Interim Financial Reporting and have been prepared following the same accounting policies and methods of computation as the annual consolidated financial statements for the year ended December 31, 2022.

These condensed interim consolidated financial statements include only significant events and transactions affecting the Company during the current fiscal period and do not include all disclosures normally provided in the Company’s annual financial statements. As a result, these condensed interim consolidated financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2022. The Company’s consolidated financial statements for the year ended December 31, 2022 and related MD&A can be obtained on the System for

Electronic Document Analysis and Retrieval (“SEDAR”). Interim results are not necessarily indicative of the results expected for the fiscal year.

In this MD&A, Pearl and its subsidiaries are referred to collectively as “Pearl”, the “Group” or the “Company” unless the context requires otherwise.

## FINANCIAL HIGHLIGHTS

	2023		2022	
	Quarter ended June 30 (RMB)	Year to date (RMB)	Quarter ended June 30 (RMB)	Year to date (RMB)
Revenue	58,704,499	114,271,032	86,943,683	171,259,268
Gross profit	14,310,692	24,872,928	16,323,900	33,245,220
Gross margin	24.38%	21.77%	18.78%	19.41%
Net income (loss) attributable to common shareholders	718,593	(1,836,468)	1,303,927	1,655,413
Net income (loss) attributable to common shareholders per share	0.0263	(0.0672)	0.0477	0.0606
			<b>June 30, 2023 (RMB)</b>	<b>December 31, 2022 (RMB)</b>
Total assets			200,160,915	210,498,227
Total liabilities			74,008,458	84,686,889
Shareholders’ Equity			126,152,457	125,811,338
Non-controlling interest			31,938,933	31,780,386

- Revenues decreased by 32.48% for the quarter compared to 2022. The operating margins have increased by 5.60% for the quarter compared to 2022.
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- Debt to equity .59:1 (June 30, 2023), .67:1 (December 31, 2022), .68:1 (December 31, 2021)

## Outlook

### Cooler Factory:

#### China Sales:

The company continues to focus on China domestic sales as it is a market we can control. The local market is growing receptive for sports and outdoor camping activities which is a position for the cooler business to tap into. The company has added an ecommerce division for B2B, and B2C sales in the domestic market.

#### Export Sales:

The depreciation of RMB currency in relation to the US dollar has a positive impact on the export business. Trade relations between US and China are still an uncertain risk. The export sales to non Chinese customers have declined significantly in this quarter. The decline is due to export customers reducing inventory levels that had been previously built up to guard them from supply chain delays.

Main Factory:

We have continued our focus toward developing new products in consistently growing market sectors, to compensate for some of the declining traditional products. In additions, the company has began to receive inquiries for large orders in the custom moulding business.

**RESULTS OF OPERATIONS**

***Sales***

<b>2023</b>		<b>2022</b>	
<b>Quarter</b>	<b>Year to date</b>	<b>Quarter</b>	<b>Year to date</b>
<b>(RMB)</b>	<b>(RMB)</b>	<b>(RMB)</b>	<b>(RMB)</b>
<b><u>58,704,499</u></b>	<b><u>114,271,032</u></b>	<b><u>86,943,683</u></b>	<b><u>171,259,268</u></b>

Revenues have decreased by 56,988,236 RMB or 33.28% for the quarter from 2022.

***Gross Profit***

	<b>Quarter</b>		<b>Year to date</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Gross Profit	14,310,692	16,323,900	24,872,928	33,245,220
% of Total Sales	19.41	18.78	21.77	19.41

The Cost of Goods Sold as percentage has decreased as a reflection of the decreased raw market cost caused by increase in oil prices.

***Salaries***

Salaries decreased to 10,591,605 RMB from 11,782,869 RMB (-10.11%) compared to 2022 due to the decrease of sales team commission and overtime pay.

***General Administration***

General administrative expenses decreased to 16,207,702 RMB from 18,242,692 RMB (-11.16%) compared to 2022.

***Selling***

Selling expenses decreased to 4,899,088 RMB from 6,268,772 RMB (-21.85%) compared to 2022.

***Financing***

Finance expenses decreased to 127,461 RMB from 216,810 RMB compared to 2022.

***Interest on Debt***

Interest has decreased for the quarter and for the current year.

### ***Income Tax Expense***

Income tax is incurred at the Chinese joint venture level at a rate of 25% of taxable earnings. The expenses incurred outside China are not deductible and as such the tax expense is higher as a percentage of consolidated profits due to this non-deductibility.

### **Quarterly Information**

	<b>Unaudited Quarters Ended</b>			
	<b>June 30, 2023 (RMB)</b>	<b>March 31, 2023 (RMB)</b>	<b>December 30, 2022 (RMB)</b>	<b>September 30, 2022 (RMB)</b>
Revenue	58,704,499	55,566,533	47,816,008	78,480,380
Net income (loss) attributable to common shareholders	718,593	(2,555,061)	(3,020,274)	2,339,967
Net income (loss) attributable to common shareholders per Share	0.0263	(0.0936)	0.0357	0.0857

	<b>Unaudited Quarters Ended</b>			
	<b>June 30, 2022 (RMB)</b>	<b>March 31, 2022 (RMB)</b>	<b>December 30, 2021 (RMB)</b>	<b>September 30, 2021 (RMB)</b>
Revenue	86,943,683	84,315,585	81,342,733	76,168,455
Net income attributable to common shareholders	1,303,927	351,486	1,831,028	981,823
Net income attributable to common shareholders per Share	0.0477	0.0129	0.0670	0.0360

### **Selected Quarterly Consolidated Financial Information**

The Corporation's primary capital management objective is to maintain a strong statement of financial position through the optimization of the debt and equity balance affording the Corporation financial flexibility to achieve goals of continued growth and access to capital. The capital structure of the Company consists of shareholders' equity comprised of share capital and deficit.

The basis for the Corporation's capital structure is dependent on the Corporation's expected business growth and changes in the business environment. The Corporation manages its capital structure and makes adjustments according to market conditions to maintain flexibility while achieving the objective stated above. To manage the capital structure, The Corporation may adjust capital spending, issue new shares, issue new debt, or repay existing debt.

The Corporation is not exposed to externally imposed capital requirements.

**Cash Flow:**

	<b>June 30, 2023 (RMB)</b>	<b>June 30, 2022 (RMB)</b>
Cash provided by operating activities	4,313,053	2,002,765
Cash used in investing activities	(1,289,482)	(2,294,372)
Cash provided by (used in) financing activities	(4,591,453)	(2,800,868)

**Contractual obligations, Commitments and Guarantees**a) **Commitments**

The Company is committed to payments under operating leases for premises and equipment as follows:

	<b>(RMB)</b>
Current liabilities	37,466,393
Non-current liabilities	36,542,065

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**Share Capital**a) **Authorized**

Unlimited number of voting, common shares and non-voting, preferred shares.

b) **Issued**

	<b>June 30, 2023</b>		<b>June 30, 2022</b>	
	<b>Common Shares (#)</b>	<b>Amount (RMB)</b>	<b>Common Shares (#)</b>	<b>Amount (RMB)</b>
Balance – Beginning and end of period	<b>27,309,927</b>	<b>52,242,949</b>	27,309,927	52,242,949

c) **Stock option plan**

Under the Corporation's stock option plan, the aggregate number of common shares that maybe reserved for issuance pursuant to options shall not exceed 10% of the outstanding common shares at the time of the granting of an option, less the aggregate number of common shares then reserved for issuance pursuant to any other share compensation arrangement. The exercise price per common share for option granted shall not be less than the market price.

Every option shall have a term not exceeding and shall expire no later than five years after the date of grant. The options granted under this plan may not be assigned or transferred. The Board of Directors shall determine the manner in which an option shall vest and become exercisable.

As at 31 December 2022, there are 2,320,000 (2021 - 3,050,000) stock options outstanding and exercisable at a weighted average price of RMB1.62 (CAD - \$0.32) per share and have a weighted average life remaining of 3.79 years. During fiscal 2022, 500,000 (2021 – 500,000) stock options were forfeited.

### Transactions with Related Parties

Details of transactions between the Pearl River group of companies and related parties are disclosed below:

- a) During the period and in the normal course of business, the Company entered into the following transactions with Guangzhou Plastics Industrial Joint Stock Co. Limited, the PRC partner of the jointly controlled entity, Guangzhou Rodman Plastics:

	<u>2023</u> (RMB)	<u>2022</u> (RMB)
Purchase of raw materials	5,387,480	12,752,583
Sale of finished goods	17,558	155,427
Trademark paid	176,015	176,015

- b) During the period the Company had the following other transactions included in general and administrative expenses with related parties:

Administrative fees incurred with a company controlled by a director of the Company were incurred in the amount of 154,540RMB during the period. Of this amount 110,951RMB is included in accounts payable and accrued liabilities at June 30, 2023.

- c) The remuneration paid of directors and other members of key management during the period was as follows:

	<u>2023</u> (RMB)	<u>2022</u> (RMB)
Management salary and benefits	1,200,000	1,000,000

These transactions have been recorded in the financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Management is of the opinion that these transactions were undertaken under the similar terms and conditions as those with non-related parties.

## **New Accounting standards and amendments**

The Corporation adopted the following new accounting standards which did not have a material impact on these financial statements:

Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS 3	Reference to the Conceptual Framework
Annual Improvements to	IFRS 1, IFRS 9, IFRS 16, IAS 41

The adoption of this standard did not have any material impact on the Group's accounting policies.

## **Financial Instruments and Other Instruments**

### **Capital and financial risk management**

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The capital structure of the Group consists of equity attributable to equity holders of the Company only, comprising share capital and reserves.

The main risks arising from the Group's financial instruments in the normal course of the Group's businesses are credit risk, interest rate risk, liquidity risk, and currency risk.

These risks are limited by the Group's financial management policies and practices described below.

#### **a) Credit risk**

The Group's credit risk is primarily attributable to cash, and trade and other receivables. The carrying amounts of cash and trade and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problems.

For trade and other receivables, management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Most of these balances are due from state-owned enterprises or major customers with good repayment history. There has been no material credit defaults in the past.

#### Trade receivables

The Group measures loss allowances for accounts receivable at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience indicates no significantly different loss patterns by customer segments, the grouping for accounts receivable for the assessment of ECLs is by past due days, except one customer that was assessed as being credit-impaired and at risk of default.

Expected loss rates are based on actual loss experience over the past three years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Expected credit losses for accounts receivable and other receivables are detailed in the respective notes to these consolidated financial statements. At the end of the reporting period, the Group has a concentration of credit risk of 45% (2021: 27%) of accounts receivable which was due from one customer (2021 : one customer).

#### **b) Interest rate risk**

The Group's interest rate risk arises primarily from bank borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk, respectively.

The Group's exposure to interest rate risks relates primarily to the Group's borrowings with a floating interest rate. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 18. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

#### **c) Liquidity risk**

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of each reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows including interest payments computed using contractual rates and the earliest date the Group is required to settle the obligations.

#### **d) Currency risk**

The Group is exposed to currency risk primarily through transactions that are denominated in a currencies other than the functional currency of the entities to which they relate. The primary operations of the Group's subsidiaries are located in the PRC with most of the operating assets and transactions denominated and settled in Renminbi, which is the functional currency of the majority of the Group's subsidiaries. The entity does not have significant financial assets and liabilities or transactions denominated in currencies that are not the functional currency of the entities in which they relate. As a result, the Group does not have significant exposure to risk resulting from changes in foreign currency exchange rates.

#### **e) Price risk**

The Group is not exposed to any equity securities risk or commodity price risk.

#### **Fair value of financial instruments**

All financial instruments are carried at amounts not materially different from their fair values as at June 30, 2023 and December 31, 2022.

## **Critical accounting judgments and key sources of estimation uncertainty**

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that periods, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Group's accounting policies, management has made the following judgments apart from those involving estimation as discussed below, which have the most significant effect on the amounts recognized in the financial statements.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgment in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or de-recognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

### *Key sources of estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of the Corporation's and the Group's assets and liabilities within the next financial year are discussed below.

### *Useful lives of property, plant and equipment*

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of property, plant and equipment. Management will increase the depreciation charges where useful lives are less than previously estimated. It will impair technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore affect the depreciation charges in future periods.

### *Provision against slow-moving inventories*

Provision for slow-moving inventories is made based on the ageing and estimated net realizable value of inventories. The assessment of the provision required involves management judgment and estimates. Where the actual outcome or future expectation is different from the original estimate, such differences will impact the carrying value of inventories and provision charged/reversed in the period in which the estimate has been changed.

## **Critical accounting judgments and key sources of estimation uncertainty - continued**

### *Estimating the incremental borrowing rate — the Group as lessee*

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (“IBR”) of the relevant lessee to measure lease liabilities. The IBR is the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the lessee would have to pay, which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs such as market interest rates when available.

To determine the IBR, the Group:

Where possible, use recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, and makes adjustments specific to the lease, e.g. term, country, currency and security. Impairment of trade receivables The provision rate of trade receivables is made based on assessment of their recoverability and ageing analysis of trade receivables as well as other quantitative and qualitative information and on management’s judgement and assessment of the forward-looking information. At the end of reporting period, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assessment of the correlation between historical observed default rates, forecast of economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast of economic conditions. The Group’s historical credit loss experience and forecast of economic conditions may also not be representative of customer’s actual default in the future. The information about the ECLs on the Group’s trade receivables is disclosed in Note 26(a) of the consolidated financial statements

## **Business Development**

Pearl continues to expand its business activities by increasing its distribution network throughout the new economic development areas in China; by developing new products for the logistics / automotive and agriculture industries; developing new products in conjunction with its export OEM customers and continuing to increase business activity from non-plastic sourcing opportunities.

## **Risks and Uncertainties**

Pearl operates in the Chinese market which involves various known and unknown risk factors and uncertainties and other factors affecting Pearl specifically or the markets generally, Pearl’s future performance could be affected by these important factors, which in some cases have affected, and which in the future could affect, Pearl’s actual results and that could cause Pearl’s actual results for 2022 and beyond to differ materially from those expressed in any forward-looking statements made by or on behalf of Pearl. These risks and uncertainties include fluctuations in the level of local demand and capital, changes in Pearl’s product costs and pricing, an inability to achieve or delays in achieving sayings related to the cost reductions, consolidation and restructuring program, changes in Pearl’s product mix, the growth rate of the markets in which Pearl products are sold, market acceptance and demand for Pearl’s products, changes in availability or prices for raw materials, pricing competition, difficulty in developing and introducing new products, failure to penetrate new markets effectively, limitations on foreign investment in local business and other political, economic and regulatory risks, difficulty in preserving proprietary technology, changes in environmental regulation and currency risk exposure. Certain of these risks and uncertainties are described in more detail below.

The price and availability of raw materials represents a substantial portion of the cost of manufacturing Pearl products. Historically, there have been fluctuations in these raw materials' prices and in some instances price movements have been volatile and affected by circumstances beyond Pearl's control. There can be no assurance that Pearl can pass on increase from normal market fluctuations in the price of resin to its customers through increases in selling price, or otherwise absorb such cost increases without significantly affecting its margins. In addition, the industry has occasionally found certain raw materials to be in short supply.

### **The Assessment of the Impact of COVID-19**

The outbreak of the global pandemic ("COVID-19") resulted in uncertainty relating to the economic environment in which the Group operates and impacted the business and operations. The Group's manufacturing operations in the People's Republic of China were required to maintain necessary health and safety protocols for its employees in order to continue operations. As at the date of these consolidated financial statements, COVID-19 has not resulted in a material impact to the Group's financial position. Due to the high degree of uncertainty caused by the pandemic, management cannot predict the potential impact of further changes in economic conditions on the Group's financial condition or operations in future periods.