

Management Discussion and Analysis – For the Year ended December 31, 2013 (Consolidated)

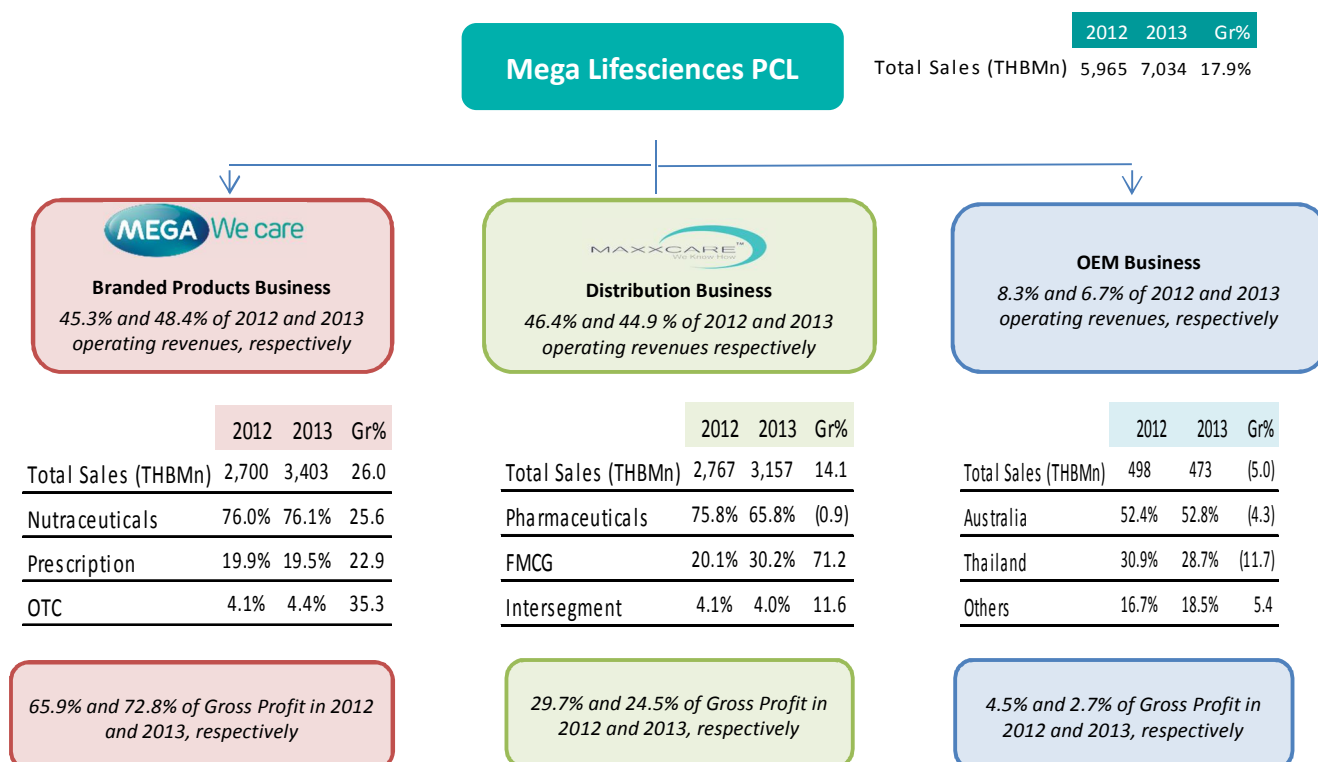
Business Overview

Mega Lifesciences PCL (MEGA) is a leading participant in the health and wellness industry in developing countries. Our business may be categorized into three segments

- 1. Mega We Care™ branded products business:** We develop, manufacture, market and sell our own brand of market leading nutraceutical products, prescription pharmaceutical products and OTC products which are sold in 29 developing countries
- 2. Maxxcare™ distribution business:** We market, sell and distribute various branded prescription pharmaceutical products, OTC and FMCG products. We operate our Maxxcare™ distribution business in three countries, namely, Myanmar, Vietnam and Cambodia. Our clients for this business segment include leading domestic and international pharmaceutical and FMCG companies
- 3. OEM business:** In addition to manufacturing our own branded products, our manufacturing facilities in Thailand and Australia accepts various production orders from third-party customers.

Analysis of financial status and performance for the 12 months ended December 31, 2013

Summary of Segmental revenue and Gross margin contribution at glance



Consolidated Income Statement 2013 (Summarized)

For the year 2013, the Company reported a consolidated operating revenue of THB 7,033.5 mn, consolidated EBIDTA of THB 884.5 mn, normalized² profit after tax and minority interest (PATMI) (before deferred tax adjustment) of THB 662.0 mn and reported PATMI of THB 624.0 mn

<i>All figures in THB mn</i>	2013	2012
Operating Revenue	7,033.5	5,964.8
Gross Margin (GM)	2,959.4	2,633.3
% of GM to operating revenue	42.1%	44.1%
% of GM to operating revenue (Normalized) ¹	42.5%	42.0%
Selling and Admin. exp (SGA)	2,235.8	1,980.0
% of SGA to operating revenue	31.8%	33.2%
EBIDTA	884.5	798.3
Reported (PATMI)	624.0	577.7
Normalized ² PATMI before deferred tax adjustment	662.0	555.6

1. Overall Revenue Analysis

We recognize our revenue and related cost of sales when we have delivered and sold the goods to customers including hospitals, drug dispensers and retailers.

While revenue from Mega We Care™ branded products grew significantly in 2013, Maxxcare™ distribution business grew at a reasonable pace and OEM business slightly declined due to the temporary stoppage of production in our Australian facility due to relocation to the new plant.

The following table represents the revenue generated under different operating segments.

1.1 Segmental revenue*

<i>Figures in THB mn</i>	2013	2012	% Gr.
Mega We Care™ branded products business	3,403.3	2,700.3	26.0%
Maxxcare™ distribution business	3,157.2	2,766.7	14.1%
OEM	473.0	497.7	(5.0%)
Total	7,033.5	5,964.8	17.9%

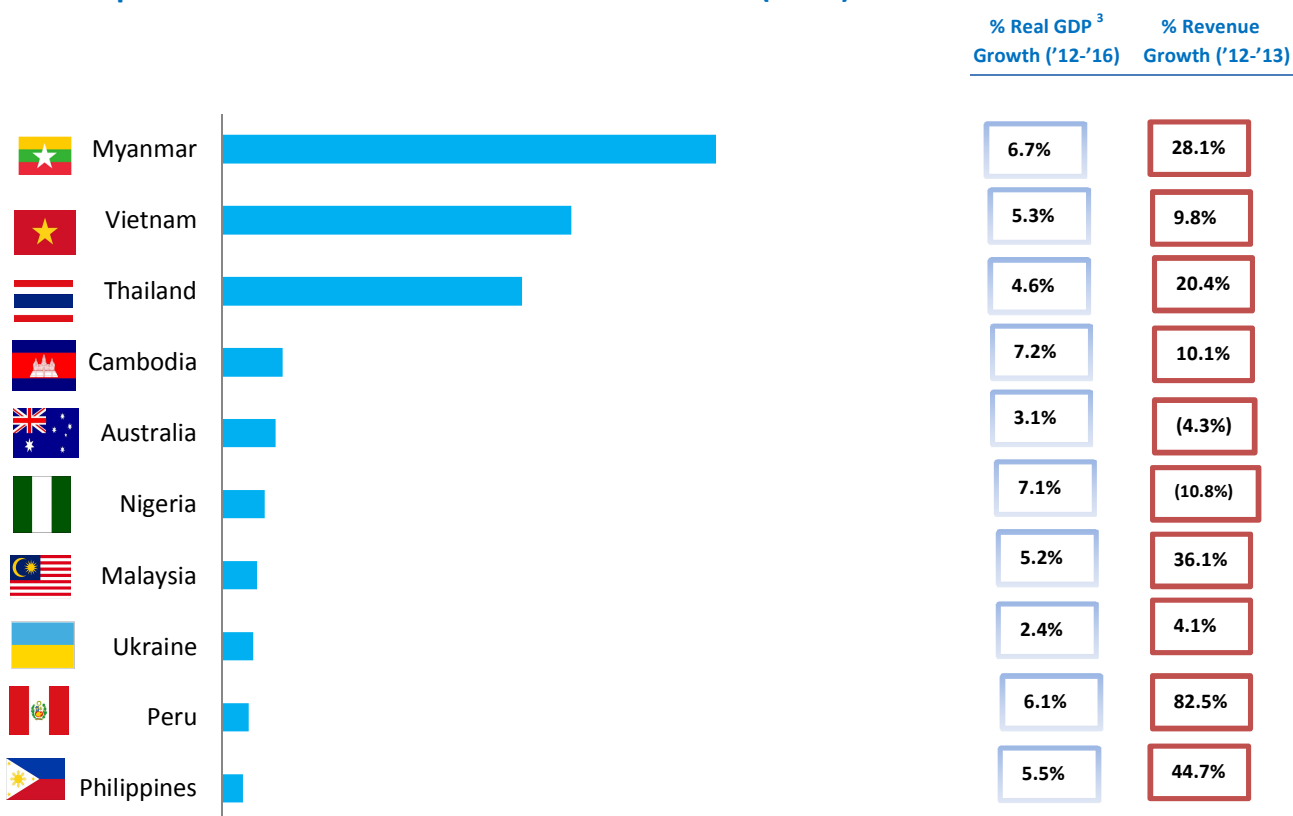
*Revenue is net of inter segment charges & eliminations relating to consolidation

1. Normalized for change in business model in Myanmar in 2012 and additional overheads in Australia in 2013.

2. Normalized for deferred tax and non-recurring expenses in 2013.



1.2 Top 10 Countries contribution to total revenue (2013)



Mega is focused on high growth, developing countries. Mega's revenue has continuously outpaced the GDP growth in respective countries.

Australia shows a de growth because of temporary stoppage of production due to plant relocation. Nigeria shows a de growth due to discontinuance of third party distribution business; however Mega We Care™ brands grew at 21.0%.

Southeast Asia⁴ and Indochina⁵ contribute 84.8% and 79.7% of the consolidated operating revenue in year 2013

1.3 Segmental Revenue Analysis - Mega We Care™ brands:

Revenues from sales of products under Mega We Care™ branded products business was THB 3,403.3 mn in 2013, an increase of THB 703.0 mn or 26.0% over 2012. Majority of growth in revenue came from volume growth in existing products. New products contributed THB 192 mn or 6.8% to the growth.

Southeast Asia and Indochina contribute 78.6% and 68.7% of the Mega We Care™ branded products business revenue in year 2013

3. Based on IMF, WEO Database, April 2013

4. Thailand, Myanmar, Vietnam, Cambodia, Malaysia, Philippines, Indonesia and Singapore.

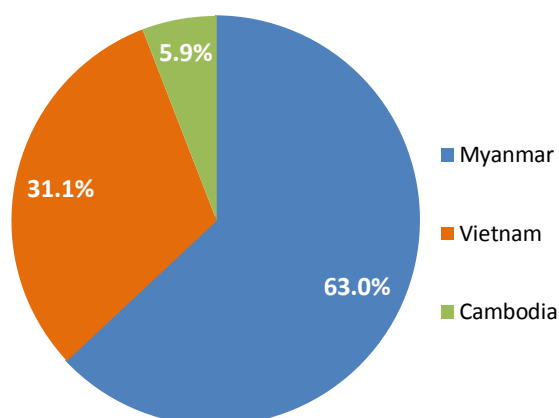
5. Thailand, Myanmar, Vietnam and Cambodia.

All key markets have continued to grow significantly in 2013. The low per capita consumption and penetration levels for our products in these markets as compared to developed markets enabled us to sustain the good growth rates by expanding the user base.

1.4 Segmental Revenue Analysis - Maxxcare™ distribution business:

Maxxcare™ distribution business revenue was THB 3,157.2 mn in 2013, an increase of 390.5 mn or 14.1% over 2012.

Revenue by geography



Myanmar is the largest market for Maxxcare™ distribution business, contributing 63.0% of the total business in 2013.

The revenue growth of 14.1% between 2012 to 2013 is impacted by the change in distribution model with one of our principal in Myanmar

Other factors which impacted growth in 2013 were that the revenue from new principals added is yet to stabilize and these incremental revenues couldn't fully compensate the discontinuance of certain principals in Nigeria & Vietnam

As at December 31, 2013, we provided distribution services to 31 principals in Myanmar (including 13 FMCG principals), 17 principals in Vietnam and 10 principals in Cambodia.

1.5 Segmental Revenue Analysis OEM:

OEM revenue was THB 473.0 mn, a decrease of THB 24.7 mn or (5.0%). Decrease in revenue was a result of temporary suspension of production owing to relocation of the manufacturing plant in Australia during the year

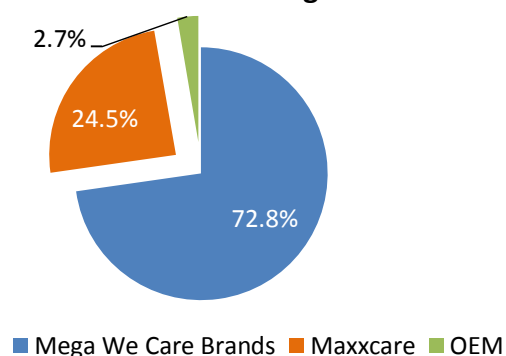
2 Overall Gross Margin Analysis

2.1 Consolidated Gross Margins

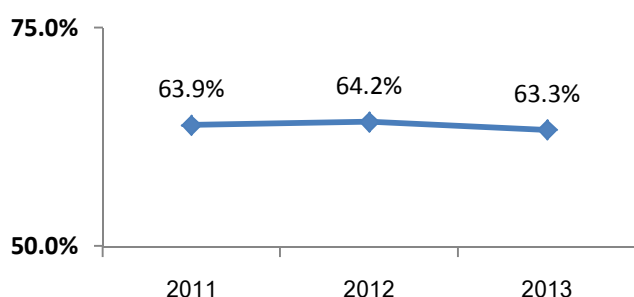
Consolidated Gross margin was THB 2,959.4 mn in 2013, an increase of THB 326.1 mn over 2012. Reported Gross margin slightly declined from 44.1% in 2012 to 42.1% in 2013 mainly due to the change in business model for one of our Principals in Myanmar as well as the additional overheads incurred in Australia due to the temporary stoppage of production for shifting to the newly constructed plant. On a normalized⁶ basis the overall gross margin remained intact as follows:

All figures in THB mn	2013	2012
Operating Revenue	7,033.5	6,266.9
Cost of goods sold	4,044.1	3,633.6
Normalized Gross Margin (GM)	2,989.4	2,633.3
<i>% of GM to operating revenue</i>	<i>42.5%</i>	<i>42.0%</i>

Segment wise total Gross Margin contribution (2013)



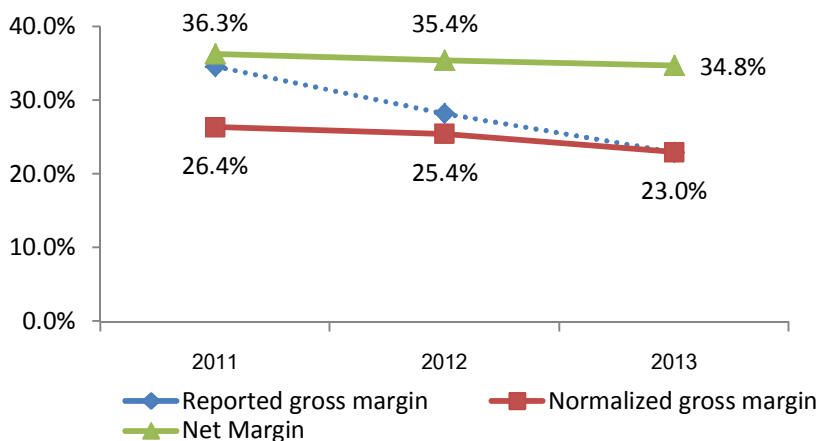
2.2 Mega We Care™ branded products business Gross Margin



Mega We Care™ branded products Gross margin remained steady reflecting our ability to maintain prices and control costs.

6. 2012 operating revenue and COGS are adjusted for change in business model in Myanmar; 2013 COGS is adjusted for additional overheads in Australia

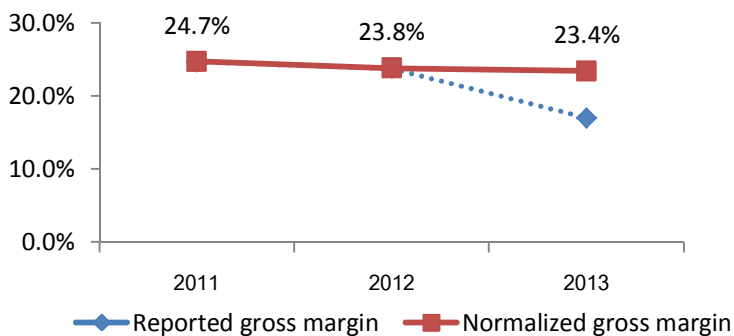
2.3 Maxxcare™ distribution business Gross Margin:



- ▲ Net margin (reflecting the gross fee earned by the distribution business net off distribution expenses) has remained steady over the years.
- ▲ Normalized Gross margin reflects the Gross fee earned by distribution business adjusted for the impact of change in business model for one of our principals in Myanmar. Change in normalized Gross margin reflects change in product/principal mix.

2.4 OEM Gross Margins

In 2013 OEM Gross margin declined to 17.0% from 23.8% due to temporary stoppage of production in Australia for shifting to the newly constructed plant.

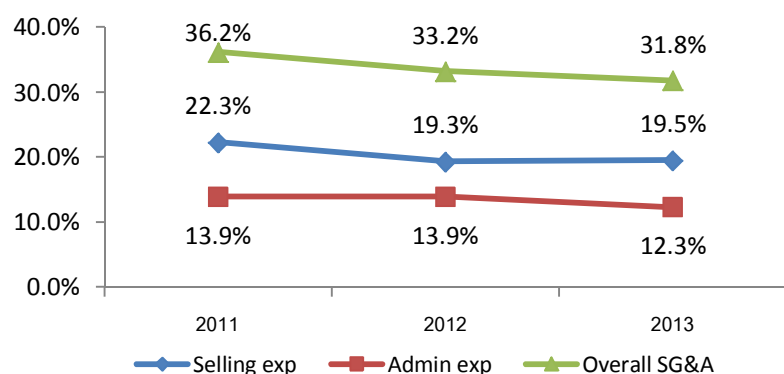


On a normalized⁷ basis the OEM Gross margins were as follows:

All figures in THB mn	2013	2012
Operating Revenue	473.0	497.7
Cost of goods sold	362.4	379.4
Normalized Gross Margin (GM)	110.6	118.3
<i>% of GM to operating revenue</i>	<i>23.4%</i>	<i>23.8%</i>

7. 2013 COGS is adjusted for additional overheads in Australia due to the production stoppage for shifting to the newly constructed plant

3. Consolidated Selling and Administration expenses (SGA)



On an overall basis, selling and administrative expenses has continuously declined reflecting economies of scale

4. Consolidated Profit after tax and minority interest (PATMI):

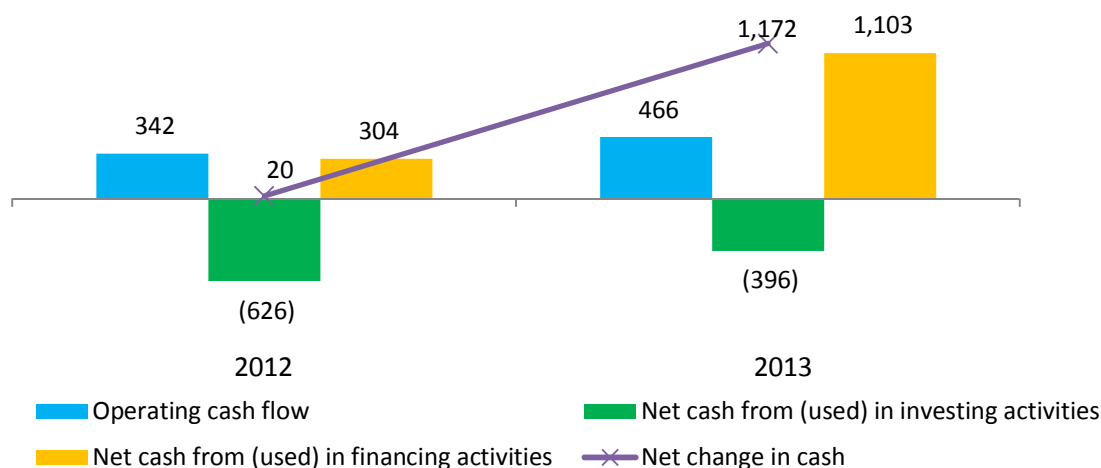
The company adopted Thai Accounting Standard for deferred tax (TAS 12) in 2013 with retrospective effect. The company also incurred higher costs in Australia due to temporary stoppage of production from shifting to the new plant and certain expenses relating to IPO, which are one time in nature. Comparison of PATMI before and after deferred tax impact and the normalized PATMI after adjusting for non-regular expenses are as follows:

<i>All figures in THB mn</i>	2013	2012	%Gr
Normalized PATMI before deferred tax adjustment	662.0	555.6	19.1%
PATMI before deferred tax adjustment	631.9	555.6	13.7%
Reported PATMI	624.0	577.7	8.0%

5. Cash Flow and Balance Sheet Analysis:

5.1 Cash Flow Analysis

(Figures in THB mn)



Operations continued to generate strong operating cash flows. Net cash from operations increased by 36.1% to THB 465.8 mn in 2013.

5.1.1 Working Capital

	2013	9m 2013	2012
Average receivable days	77	76	81
Average inventory days	138	146	127
Average payable days	85	85	84
Cash cycle	131	137	123

Cash cycle increased from 123 days in 2012 to 131 days in 2013; Increase was driven by the increase in inventory days, this increase was in line with the business growth. Inventory of 2013 was 138 days, out of which, inventory of finished goods and raw material at factory accounted for 34 days.

5.1.2 Investing Activities

In 2013, net cash used in investing activities was THB 396.2 mn. The spent was for Investment in new property, plant, and equipment of THB 352.0 mn which mainly includes the expansion of production lines at our manufacturing facilities in Thailand which accounted for approximately THB 256.7 mn and the expansion of manufacturing facilities in Australia which accounted for THB 43.2 mn

5.1.3 Financing activities

Proceeds from IPO of THB 2.27 billion in 2013 by issue of 129.79 mn ordinary shares @ THB 17.5 per share. Part of IPO proceeds were used for the repayment of term loans and working capital loans from financial institutions amounting to THB 1.14 billion.

5.2 Balance Sheet Analysis

5.2.1 Current Assets

Cash and cash equivalents were THB 1,540 mn as at 31 December 2013, an increase of THB 1,186.5 mn over 2012. This increase was result of IPO proceeds in 2013 and net cash accruals from business.

Trade receivables were THB 1,724.2 mn as at 31 December 2013, an increase of 436.3 mn over 2012. The average receivable days decreased from 81 days in 2012 to 77 days in 2013.

Inventories were THB 1,684.9 mn as at 31 December 2013, an increase of THB 242.9 mn or 16.8% over 2012 which was in line with the business growth.

5.2.2 Non-Current Assets:

Non-Current assets were THB 1,310.6 mn as at 31 December 2013, an increase of THB 260.8 mn over 2012. The increase was driven by investment in property plant and equipment and intangible assets.

5.2.3 Current Liabilities:

Current liabilities were THB 2,547.4 mn as at 31 December 2013, an increase of THB 344.6 mn or 15.6% over 2012. The increase was driven by increase in trade payables of THB 375.8 mn; this increase was commensurate with business growth.

5.2.4 Non -Current Liabilities:

Non-Current liabilities were THB 295.9 mn as at 31 December 2013, a decrease of THB 122.5 mn. The decrease was driven by reduction in long term loan of THB 134.7 mn over 2012.

5.2.5 Equity:

Issued and paid-up capital increased from THB 67.1 mn to THB 432.6 mn as at 31 December 2013 mainly from the issue of new shares as part of the IPO and issue of stock dividend.

Un-appropriated profit in 2013 was THB 1,212.7 mn, a decrease of THB 531.2 mn over 2012. Issues of stock dividend of THB 300 mn and dividend payout were the reason for such decrease.

6. Consolidated Income Statement

<i>Figures in THB mn</i>	2013	2012	% Gr.
Operating Revenue	7,033.5	5,964.8	17.9%
Other income	62.0	68.5	(9.6%)
Total Income	7,095.5	6,033.3	17.6%
Cost of goods sold	4,074.1	3,331.5	22.3%
Gross margin (GM)	2,959.4	2,633.3	12.4%
<i>% of GM to operating revenue</i>	42.1%	44.1%	
Selling expense	1,372.6	1,153.0	19.0%
Administrative expense	863.1	827.0	4.4%
Selling & Administrative exp (SGA)	2,235.8	1,980.0	12.9%
<i>% of SGA to operating revenue</i>	31.8%	33.2%	
Earning before interest & tax (EBIT)	785.6	721.8	8.8%
Depreciation & Amortization	98.9	76.4	29.4%
EBIDTA	884.5	798.3	10.8%
<i>% of EBIDTA to operating revenue</i>	12.6%	13.4%	
Finance cost	28.2	23.5	19.9%
Profit before tax	757.4	698.3	8.5%
Current tax	125.5	141.2	(11.1%)
Deferred tax	7.9	(22.1)	(135.6%)
Profit after tax (PAT)	624.0	579.2	7.7%
Minority interest (MI)	0.0	1.5	(99.3%)
Profit after tax & MI (PATMI)	624.0	577.7	8.0%

7. Consolidated Balance Sheet

<i>Figures in THB mn</i>	31-Dec-13		31-Dec-12		Change	
	Amount	%	Amount	%	Amount	%
Current Assets						
Cash and cash equivalents	1,540.3	23.6%	353.8	8.2%	1,186.5	335.4%
Trade accounts receivable	1,724.2	26.4%	1,288.0	29.7%	436.3	33.9%
Inventories	1,684.9	25.8%	1,442.0	33.3%	242.9	16.8%
Other current assets	275.8	4.2%	198.0	4.6%	77.8	39.3%
Total Current Assets	5,225.3	79.9%	3,281.8	75.8%	1,943.5	59.2%
Non-Current Assets						
Prepayment for trademark	-	0.0%	185.4	4.3%	(185.4)	(100.0%)
Restricted deposits with Banks	10.6	0.2%	17.6	0.4%	(7.0)	(39.6%)
Property, plant and equipment	969.5	14.8%	733.2	16.9%	236.3	32.2%
Intangible assets	213.0	3.3%	8.9	0.2%	204.1	2286.4%
Deferred tax asset	79.2	1.2%	84.9	2.0%	(5.7)	(6.7%)
Other non-current assets	38.2	0.6%	19.8	0.5%	18.4	93.1%
Total Non-Current Assets	1,310.6	20.1%	1,049.8	24.2%	260.8	24.8%
Total Assets	6,535.9	100.0%	4,331.6	100.0%	2,204.3	50.9%
Current Liabilities						
Bank overdrafts & short-term Loans	709.4	10.9%	771.2	17.8%	(61.8)	(8.0%)
Trade accounts payable	1,144.7	17.5%	768.9	17.8%	375.8	48.9%
Other payables	201.8	3.1%	192.3	4.4%	9.5	4.9%
Current portion of long-term loans	75.0	1.1%	79.8	1.8%	(4.7)	(5.9%)
Current portion of finance Lease liability	0.2	0.0%	0.5	0.0%	(0.3)	(50.9%)
Income tax payable	52.9	0.8%	89.9	2.1%	(37.0)	(41.1%)
Accrued expenses	363.3	5.6%	300.3	6.9%	63.0	21.0%
Total Current Liabilities	2,547.4	39.0%	2,202.9	50.9%	344.6	15.6%
Non-Current Liabilities						
Long-term loans	211.8	3.2%	346.5	8.0%	(134.7)	(38.9%)
Finance lease liabilities	0.4	0.0%	0.3	0.0%	0.1	33.0%
Deferred tax liability	3.0	0.0%	0.7	0.0%	2.2	296.4%
Employees benefits obligation	78.6	1.2%	68.6	1.6%	10.0	14.6%
Other non-current liabilities	2.1	0.0%	2.2	0.0%	(0.1)	(3.0%)
Total Non-Current Liabilities	295.9	4.5%	418.3	9.7%	(122.5)	(29.3%)
Total Liabilities	2,843.3	43.5%	2,621.2	60.5%	222.1	8.5%
Equity						
Issued and paid-up share capital	432.6	6.6%	67.1	1.5%	365.6	545.2%
Share premium	2,138.1	32.7%	-		2,138.1	
Retained earnings					-	
Legal reserve	49.1	0.8%	13.1	0.3%	36.0	274.3%
Unappropriated	1,212.7	18.6%	1,743.9	40.3%	(531.2)	(30.5%)
Other components of equity	(140.0)	-2.1%	(137.1)	-3.2%	(2.9)	2.1%
Equity attributable to owners						
Owners Equity	3,692.6	56.5%	1,687.0	38.9%	2,005.5	118.9%
Non-controlling interests	0.0	0.0%	23.4	0.5%	(23.4)	(99.9%)
Total Equity	3,692.6	56.5%	1,710.4	39.5%	1,982.2	115.9%
Total Liabilities and Equity	6,535.9	100.0%	4,331.6	100.0%	2,204.3	50.9%