

Date: 15 May 2014  
Subject: 1Q14 Management Discussion and Analysis  
To: The President of the Stock Exchange of Thailand

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## 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, and
3. **OEM business:** In addition to manufacturing our own branded products, our manufacturing facilities in Thailand and Australia accept various production orders from third-party customers.

## Analysis of Financial Status and Performance 1Q14

### Consolidated Income Statement

For 1Q14, MEGA reported operating revenue of THB 1,705.3 mn (up 11.5% YoY) and gross profits of THB 663.3 mn (up 3.1% YoY), while earnings before interest, tax, depreciation and amortization (EBITDA) and net profits came in at THB 92.4 mn (down 40.4% YoY) and THB 56.5 mn (down 50.1% YoY), respectively.

### Key points:

- Operating revenue climbed 11.5% YoY to THB 1,705.3 mn, given a 25.7% YoY growth in Maxxcare™ distribution revenue and a moderate growth of 1.9% YoY in Mega We Care™ branded products revenue; OEM revenue declined by 14% YoY.
- Individual segment gross margins remained relatively intact, with Mega We Care™ branded products, Maxxcare™ distribution, and OEM business realized 64.7%, 20.3%, and 9.5% gross margins, respectively, in 1Q14.
- Overall gross margin narrowed to 38.9% in 1Q14 from 42.1% in 1Q13, largely a result of changes in revenue mix as growth in Maxxcare™ distribution revenue outpaced that of higher-margin Mega We Care™ branded products revenue.
- Driven by revenue growth, gross profits grew 3.1% YoY to THB 663.3 mn despite a lower overall gross margin.
- Selling and administrative expenses (SGA) increased by 13.1% YoY to THB 586.7 mn, representing 34.4% of operating revenue in 1Q14, due to higher planned marketing spending for Mega We Care™ branded products in certain markets and business expansion activities in Africa. This is expected to normalize as the year progresses.
- With the doubling of capacity in Thailand and the new plant in Australia, overall manufacturing overheads were higher. This is expected to normalize as capacity utilization gradually increases.
- Net unrealized forex loss in 1Q14 was THB 20.1 mn, an increase of 16.8 mn YoY.
- As a result, net profits declined 50.1% YoY to THB 56.5 mn during the quarter.

MEGA remains focused on further cementing our leadership position in Indochina and deepening our presence in the African, CIS and Latin American countries. With a healthy pipeline of new products and operations in 29 growth markets, MEGA is concentrating all efforts towards doubling our revenue and net profit over the next 5 years.

### Income Statement

| <i>Figures in THB mn</i>            | 1Q13    | 4Q13    | 1Q14    | YoY Gr. | 1Q14 vs. 1Q13   |
|-------------------------------------|---------|---------|---------|---------|---|
| Operating Revenue                   | 1,529.5 | 1,962.9 | 1,705.3 | 11.5%   | <ul style="list-style-type: none"> <li>Maxxcare™ revenue grew at higher pace than Mega We Care™</li> </ul>  |
| Gross profits                       | 643.4   | 809.6   | 663.3   | 3.1%    |   |
| <i>Gross margin (%)</i>             | 42.1%   | 41.2%   | 38.9%   |         |   |
| Selling and Admin. exp (SGA)        | 518.9   | 615.4   | 586.7   | 13.1%   | <ul style="list-style-type: none"> <li>Change in revenue growth mix. Segment gross margins remain steady</li> </ul>                                       |
| <i>SGA (% to operating revenue)</i> | 33.9%   | 31.4%   | 34.4%   |         |   |
| EBITDA                              | 155.1   | 250.8   | 92.4    | -40.4%  | <ul style="list-style-type: none"> <li>SGA spent higher in 1Q14 but in line with plan</li> <li>Impact due to higher planned SGA spent in 1Q14.</li> </ul> |
| EBIT                                | 130.6   | 223.6   | 61.0    | -53.3%  |   |
| Net Profit                          | 113.3   | 177.2   | 56.5    | -50.1%  |   |

### 1. Overall Revenue

Operating revenue climbed 11.5% YoY to THB 1,705.3 mn, driven by a 25.7% YoY growth in Maxxcare™ distribution revenue and a moderate growth of 1.9% YoY in Mega We Care™ branded products revenue; OEM revenue declined by 14% YoY.

Southeast Asia<sup>1</sup> and Indochina<sup>2</sup> contributed 85.3% and 80.1% of our operating revenue in 1Q14, respectively.

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

### Revenue\* by Business Segment

| <i>Figures in THB mn</i>                | 1Q13           | 4Q13           | 1Q14           | YoY Gr.      |
|---|----------------|----------------|----------------|--------------|
| Mega We Care™ branded products business | 724.2          | 964.5          | 738.1          | 1.9%         |
| Maxxcare™ distribution business         | 691.9          | 872.0          | 869.6          | 25.7%        |
| OEM                                     | 113.4          | 126.4          | 97.5           | -14.0%       |
| <b>Total</b>                            | <b>1,529.5</b> | <b>1,962.9</b> | <b>1,705.3</b> | <b>11.5%</b> |

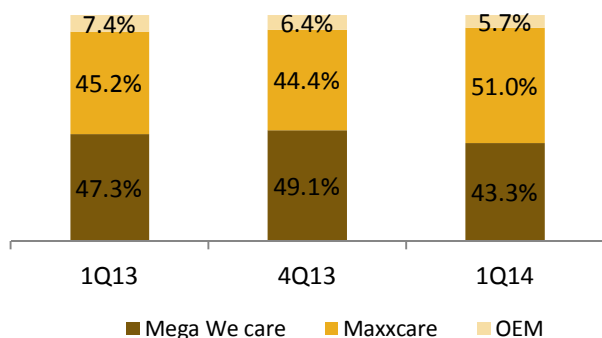
\*Revenue is net of inter segment charges & eliminations relating to consolidation

Out of total increase in operating revenue of THB 175.8 mn in 1Q14 over 1Q13, THB 177.7 mn came from Maxxcare™ distribution business.

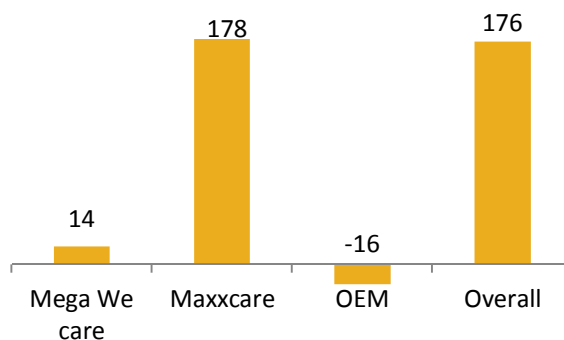
1. Thailand, Myanmar, Vietnam, Cambodia, Malaysia, Philippines, Indonesia and Singapore.

2. Thailand, Myanmar, Vietnam and Cambodia.

Revenue Mix by Segments



Revenue increase 1Q14 over 1Q13



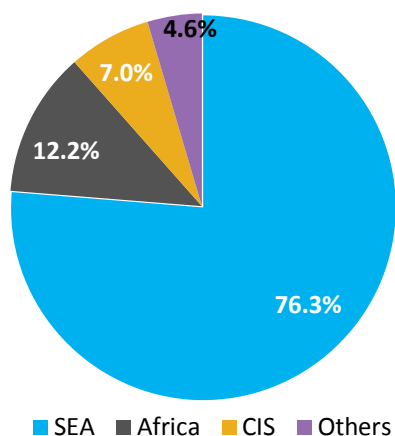
**Mega We Care™ Branded Products Revenue**

Revenue from sales of products under Mega We Care™ branded products business was THB 738.1 mn in 1Q14, an increase of THB 13.9 mn or 1.9% YoY. The moderate growth in the quarter was a result of slow-down in Thailand, Myanmar and Ukraine.

Figures in THB mn

| Mega We Care™ revenue by geography | 1Q13         | 4Q13         | 1Q14         | YoY Gr.     |
|------------------------------------|--------------|--------------|--------------|-------------|
| <b>Southeast Asia</b>              | 550.5        | 791.5        | 563.1        | 2.3%        |
| Indochina                          | 477.9        | 693.7        | 479.7        | 0.4%        |
| <b>Africa</b>                      | 74.4         | 87.4         | 89.9         | 20.8%       |
| <b>CIS</b>                         | 63.4         | 58.3         | 51.6         | -18.6%      |
| <b>Others</b>                      | 35.9         | 27.2         | 33.6         | -6.3%       |
| <b>Total</b>                       | <b>724.2</b> | <b>964.5</b> | <b>738.1</b> | <b>1.9%</b> |

**Mega We Care™ Branded Products Revenue by Geography**



Southeast Asia contributed 76.3% of the Mega We Care™ branded products business revenue in 1Q14 (Indochina contributed 65.0%).

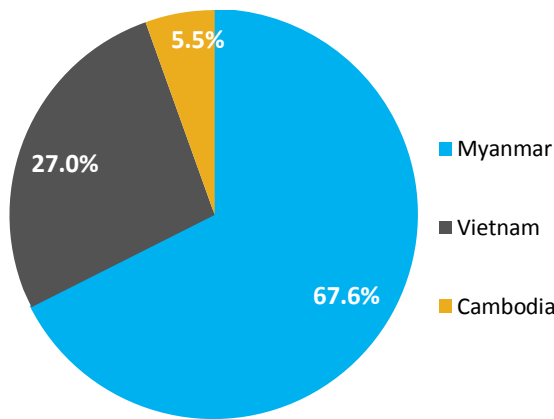
Historically, operating revenues generated in the second half of the year accounted for 55% of full-year operating revenues. We expect the slowdown in Thailand and Myanmar to be temporary while the ongoing unrest in Ukraine poses a challenge in the medium term.

**Maxxcare™ Distribution Revenue**

Maxxcare™ distribution business revenue was THB 869.6 mn in 1Q14, an increase of 177.1 mn or 25.7% over 1Q13, mainly driven by higher demand for our third-party principals products in Myanmar.

Myanmar continues to be the largest market for Maxxcare™ distribution business, contributing 67.6% of the total Maxxcare™ revenue in 1Q14.

Maxxcare™ Distribution Revenue by Geography



As at March 31, 2014, we provided distribution services to 32 principals in Myanmar (including 13 FMCG principals), net addition of 1 principal from 31-Dec-2013, 17 principals in Vietnam and 10 principals in Cambodia.

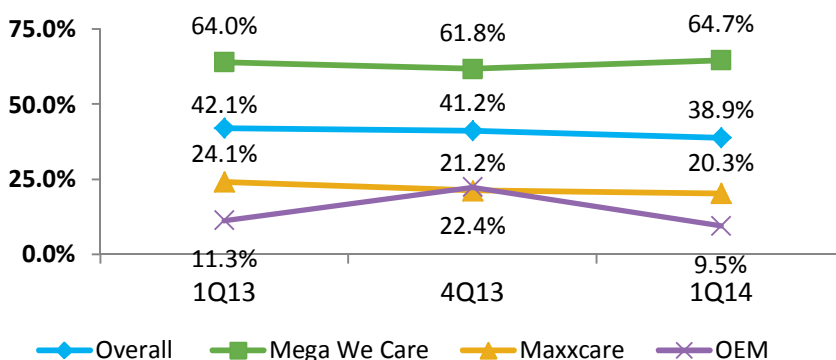
**OEM Business Revenue**

OEM revenue was THB 97.5 mn in 1Q14, a decrease of THB 15.8 mn or 14.0% YoY. The decline was mainly due to the lower order book of our third-party OEM principals in Thailand. With the added capacity, we are on the lookout for more OEM clients to fill up capacity in the short term while branded products grow to take up more capacity.

**2. Gross Profits**

**Consolidated Gross profits and Gross margins**

Consolidated gross profits were THB 663.3 mn in 1Q14, an increase of THB 19.8 mn over 1Q13 or 3.1%. Overall gross margin declined from 42.1% in 1Q13 to 38.9% in 1Q14, mainly due to change in revenue mix, while individually the segmental gross margins remained steady.



The decline in overall gross margin and lower growth in absolute terms was because of change in revenue mix. The proportion of Maxxcare™ distribution revenue to total operating revenue increased from 45.2% in 1Q13 to 51.0% in 1Q14 and the proportion of Mega We Care™ branded product revenue, which has higher gross margins, decreased from 47.3% of operating revenue in 1Q13 to 43.3% in 1Q14.

As gross margin in Maxxcare™ business is lower than Mega We Care™ branded products business, any increase in Maxxcare™ revenues without proportionate increase in Mega We Care™ branded products revenue tends to result in a lower overall gross margin.

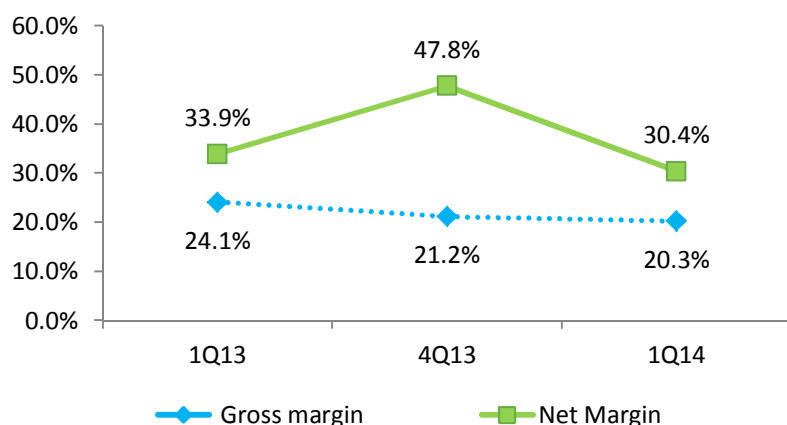
With planned scale up in Mega We Care™ revenue in the remaining quarters of 2014, we expect the overall gross margin to improve for the year as whole.

### Mega We Care™ Branded Products Business Gross Profit

Mega We Care™ branded products gross margin remained steady reflecting our ability to maintain prices and control costs and we expect it to stay stable during the year.

Gross profits for 1Q14 were THB 477.5 mn, in comparison to THB 463.7 mn in 1Q13, an increase of THB 13.8 mn or 3.0% YoY, largely due to revenue growth.

### Maxxcare™ Distribution Business Gross margins

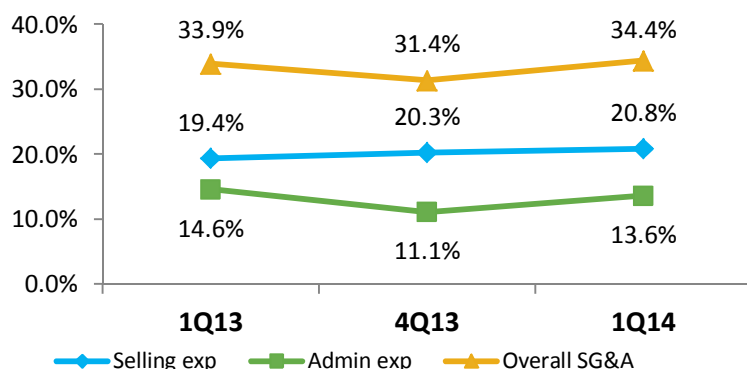


Net Margin (reflecting gross fee earned by the distribution business, net of distribution expenses) has remained steady over 30%. Actual gross profits in 1Q14 were THB 53.7 mn in comparison to THB 56.6 mn in 1Q13, a decrease of THB 2.9 mn or 5.2% YoY, the decrease was a result of higher SGA spending in 1Q14, to strengthen distribution infrastructure to meet the increased demand in business. These costs are expected to get leveraged during the year.

### OEM Business Gross Profit

In 1Q14, gross profits from OEM business were THB 9.3 mn in comparison to THB 12.9 mn in 1Q13, a decrease of THB 3.6 mn or 27.9% YoY, due to lower OEM revenue in Thailand. With the added capacity, we are on the lookout for more OEM clients to fill up capacity in the short term while branded products grow to take up more capacity.

### 3. Consolidated Selling and Administration expenses (SGA)



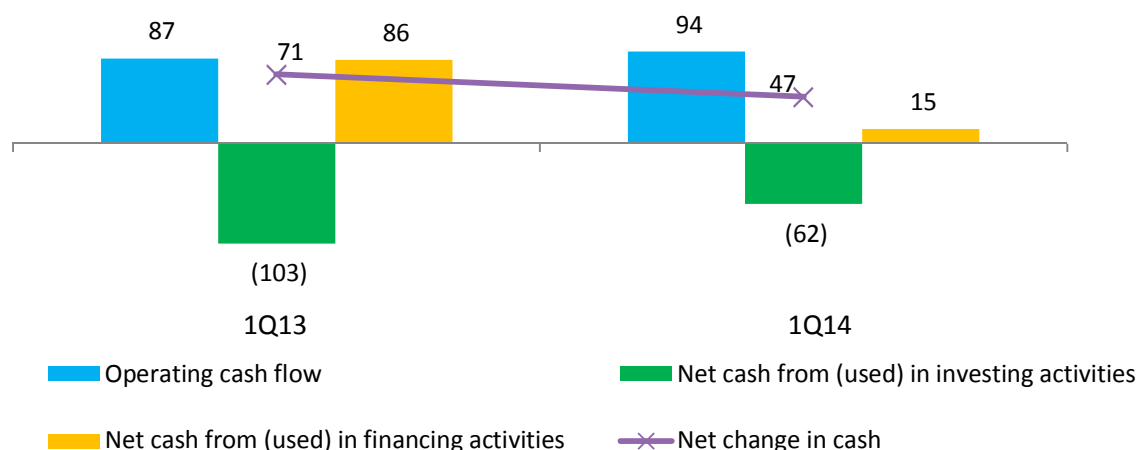
Selling and administrative expenses (SGA) increased by 13.1% YoY to THB 586.7 mn, representing 34.4% of operating revenue in 1Q14, due to higher planned marketing spending for Mega We Care™ branded products in certain markets and business expansion activities in Africa. This is expected to normalize as the year progresses.

### 4. Consolidated Net Profit

Net profit in 1Q14 was THB 56.5 mn in comparison to THB 113.3 mn in 1Q13, a decrease of THB 56.8 mn YoY. Lower net profit was mainly due to higher planned SGA spending. With expected growth in high-margin Mega We Care™ branded revenue and normalized SGA for the remaining of the year, we continue to expect a healthy net profit for 2014.

### 5. Cash Flow

(Figures in THB mn)



### Operating Activities

Operations continued to generate strong operating cash flows. Net cash from operations was THB 94.1 mn in 1Q14, an increase of THB 6.8 mn compared to 1Q13 and approximately 1.7 times of net profit.

**Working Capital**

|                          | 2012       | 2013       | 1Q14       |
|--------------------------|------------|------------|------------|
| Average receivable days  | 81         | 77         | 87         |
| Average inventory days   | 127        | 138        | 155        |
| Average payable days     | 84         | 85         | 112        |
| <b>Cash cycle (days)</b> | <b>123</b> | <b>131</b> | <b>130</b> |

Cash cycle witnessed a marginal improvement from 131 days in 2013 to 130 days in 1Q14 as an increase in receivable days and inventory days was offset by higher payable days. Inventory as at 31 Mar 2014 was 155 days, up mainly from growth in Maxxcare™ distribution business; out of which inventory of finished goods and raw material at factory accounted for 25 days.

**Investing Activities**

In 1Q14, net cash used in investing activities was THB 61.8 mn, out of which THB 33.8 mn was spent towards expansion of manufacturing facilities in Thailand; THB 5.3 mn was incurred towards improvement in information systems.

**Financing Activities**

In 1Q14, net cash inflow from financing activities was THB 15.1 mn, mainly coming from the usage of credit lines for business requirements

**6. Balance Sheet****Current Assets**

Cash and cash equivalents were THB 1,584.1 mn as at 31 Mar 2014, an increase of THB 43.9 mn over 31 Dec 2013, a result of net accruals from business.

Trade receivables were THB 1,576.3 mn, a decrease of 148.0 mn from 31 Dec 2013, given lower sales in 1Q14.

Inventories were THB 1,915.1 mn as at 31 Mar 2014, an increase of THB 230.2 mn or 13.7% over 31 Dec 2013. The increase was mainly on account of increase in Maxxcare™ distribution business.

Current ratio remained stable at 1.9 times.

**Non-current Assets**

Non-Current assets were THB 1,377.0 mn as at 31 Mar 2014, up THB 66.4 mn from 31 Dec 2013. The increase was driven by investment in property plant and equipment and deferred tax assets.

**Current Liabilities**

Current liabilities were THB 2,840.9 mn as at 31 Mar 2014, an increase of THB 293.5 mn or 11.5% compared to 31 Dec 2013. The increase was driven largely by a THB 307.8 mn rise in trade payables, commensurate with growth in inventory.

**Non-current Liabilities**

Non-current liabilities were THB 279.5 mn as at 31 Mar 2014, a decrease of THB 16.3 mn or 5.5%, compared to 31 Dec 2013, as long term loan declined following the debt repayment.

Interest-bearing debt to Equity ratio remained stable at 0.3 times while Debt to Equity ratio stood at 0.8 times.

**Shareholders' Equity**

Shareholders' equity were THB 3,753.9 mn as at 31 Mar 2014, an increase of THB 61.4 mn or 1.7%, compared to 31 Dec 2013, following the increase in retained earnings from this quarter's net profit.



## Consolidated Balance Sheet

| Figures in THB mn                          | 31-Mar-14      |               | 31-Dec-13      |               | Change        |               |
|--|----------------|---------------|----------------|---------------|---------------|---------------|
|  | Amount         | %             | Amount         | %             | Amount        | %             |
| <b>Current Assets</b>                      |                |               |                |               |               |               |
| Cash and cash equivalents                  | 1,584.2        | 23.0%         | 1,540.3        | 23.6%         | 43.9          | 2.9%          |
| Trade accounts receivable                  | 1,576.3        | 22.9%         | 1,724.2        | 26.4%         | (148.0)       | (8.6%)        |
| Inventories                                | 1,915.1        | 27.9%         | 1,684.9        | 25.8%         | 230.2         | 13.7%         |
| Other current assets                       | 421.7          | 6.1%          | 275.8          | 4.2%          | 145.9         | 52.9%         |
| <b>Total Current Assets</b>                | <b>5,497.3</b> | <b>80.0%</b>  | <b>5,225.3</b> | <b>79.9%</b>  | <b>272.0</b>  | <b>5.2%</b>   |
| <b>Non-Current Assets</b>                  |                |               |                |               |               |               |
| Prepayment for trademark                   | -              | 0.0%          | -              | 0.0%          | -             |               |
| Restricted deposits with Banks             | 10.4           | 0.2%          | 10.6           | 0.2%          | (0.2)         | (1.8%)        |
| Property, plant and equipment              | 1,002.5        | 14.6%         | 969.5          | 14.8%         | 33.0          | 3.4%          |
| Intangible assets                          | 217.5          | 3.2%          | 213.0          | 3.3%          | 4.5           | 2.1%          |
| Deferred tax asset                         | 96.6           | 1.4%          | 79.2           | 1.2%          | 17.4          | 21.9%         |
| Other non-current assets                   | 50.0           | 0.7%          | 38.2           | 0.6%          | 11.9          | 31.1%         |
| <b>Total Non-Current Assets</b>            | <b>1,377.0</b> | <b>20.0%</b>  | <b>1,310.6</b> | <b>20.1%</b>  | <b>66.4</b>   | <b>5.1%</b>   |
| <b>Total Assets</b>                        | <b>6,874.3</b> | <b>100.0%</b> | <b>6,535.9</b> | <b>100.0%</b> | <b>338.5</b>  | <b>5.2%</b>   |
| <b>Current Liabilities</b>                 |                |               |                |               |               |               |
| Bank overdrafts & short-term Loans         | 760.5          | 11.1%         | 709.4          | 10.9%         | 51.1          | 7.2%          |
| Trade accounts payable                     | 1,452.6        | 21.1%         | 1,144.7        | 17.5%         | 307.8         | 26.9%         |
| Other payables                             | 131.6          | 1.9%          | 201.8          | 3.1%          | (70.1)        | (34.8%)       |
| Current portion of long-term loans         | 74.2           | 1.1%          | 75.0           | 1.1%          | (0.8)         | (1.1%)        |
| Current portion of finance Lease liability | 0.3            | 0.0%          | 0.2            | 0.0%          | 0.0           | 5.7%          |
| Income tax payable                         | 64.9           | 0.9%          | 52.9           | 0.8%          | 12.0          | 22.8%         |
| Accrued expenses                           | 356.8          | 5.2%          | 363.3          | 5.6%          | (6.6)         | (1.8%)        |
| <b>Total Current Liabilities</b>           | <b>2,840.9</b> | <b>41.3%</b>  | <b>2,547.4</b> | <b>39.0%</b>  | <b>293.5</b>  | <b>11.5%</b>  |
| <b>Non-Current Liabilities</b>             |                |               |                |               |               |               |
| Long-term loans                            | 190.9          | 2.8%          | 211.8          | 3.2%          | (20.9)        | (9.9%)        |
| Finance lease liabilities                  | 0.3            | 0.0%          | 0.4            | 0.0%          | (0.1)         | (25.8%)       |
| Deferred tax liability                     | 2.2            | 0.0%          | 3.0            | 0.0%          | (0.8)         | (27.0%)       |
| Employees benefits obligation              | 83.4           | 1.2%          | 78.6           | 1.2%          | 4.8           | 6.1%          |
| Other non-current liabilities              | 2.8            | 0.0%          | 2.1            | 0.0%          | 0.7           | 33.3%         |
| <b>Total Non-Current Liabilities</b>       | <b>279.5</b>   | <b>4.1%</b>   | <b>295.9</b>   | <b>4.5%</b>   | <b>(16.3)</b> | <b>(5.5%)</b> |
| <b>Total Liabilities</b>                   | <b>3,120.4</b> | <b>45.4%</b>  | <b>2,843.3</b> | <b>43.5%</b>  | <b>277.1</b>  | <b>9.7%</b>   |
| <b>Equity</b>                              |                |               |                |               |               |               |
| Issued and paid-up share capital           | 432.6          | 6.3%          | 432.6          | 6.6%          | -             | 0.0%          |
| Premium on ordinary shares                 | 2,138.1        | 31.1%         | 2,138.1        | 32.7%         | -             | 0.0%          |
| Retained earnings                          |                |               |                |               |               |               |
| Legal reserve                              | 49.1           | 0.7%          | 49.1           | 0.8%          | -             | 0.0%          |
| Unappropriated                             | 1,268.5        | 18.5%         | 1,212.7        | 18.6%         | 55.7          | 4.6%          |
| Other components of equity                 | (134.3)        | -2.0%         | (140.0)        | -2.1%         | 5.6           | (4.0%)        |
| <b>Equity attributable to owners</b>       |                |               |                |               |               |               |
| <b>Owners Equity</b>                       | <b>3,753.9</b> | <b>54.6%</b>  | <b>3,692.6</b> | <b>56.5%</b>  | <b>61.4</b>   | <b>1.7%</b>   |
| Non-controlling interests                  | (0.0)          | 0.0%          | 0.0            | 0.0%          | (0.0)         | (286.0%)      |
| <b>Total Equity</b>                        | <b>3,753.9</b> | <b>54.6%</b>  | <b>3,692.6</b> | <b>56.5%</b>  | <b>61.3</b>   | <b>1.7%</b>   |
| <b>Total Liabilities and Equity</b>        | <b>6,874.3</b> | <b>100.0%</b> | <b>6,535.9</b> | <b>100.0%</b> | <b>338.5</b>  | <b>5.2%</b>   |

**Consolidated Income Statement**

| <i>Figures in THB mn</i>                      | Q1 2014        | Q1 2013        | % Gr.          |
|---|----------------|----------------|----------------|
| Operating Revenue                             | 1,705.3        | 1,529.5        | 11.5%          |
| Other income                                  | 4.5            | 9.4            | (52.0%)        |
| <b>Total Income</b>                           | <b>1,709.7</b> | <b>1,538.8</b> | <b>11.1%</b>   |
| Cost of goods sold                            | 1,042.0        | 886.0          | 17.6%          |
| <b>Gross profits</b>                          | <b>663.3</b>   | <b>643.4</b>   | <b>3.1%</b>    |
| <i>Gross margin (%)</i>                       | <b>38.9%</b>   | <b>42.1%</b>   |                |
| Selling expense                               | 355.3          | 296.1          | 20.0%          |
| Administrative expense                        | 231.4          | 222.8          | 3.9%           |
| <b>Selling &amp; Administrative exp (SGA)</b> | <b>586.7</b>   | <b>518.9</b>   | <b>13.1%</b>   |
| <i>SGA (% to operating revenue)</i>           | <b>34.4%</b>   | <b>33.9%</b>   |                |
| Net foreign exchange loss                     | 20.1           | 3.3            | 514.5%         |
| Earning before interest & tax (EBIT)          | 61.0           | 130.6          | (53.3%)        |
| Depreciation & Amortization                   | 31.5           | 24.5           | 28.4%          |
| <b>EBITDA</b>                                 | <b>92.4</b>    | <b>155.1</b>   | <b>(40.4%)</b> |
| <i>% of EBIDTA to operating revenue</i>       | <b>5.4%</b>    | <b>10.1%</b>   |                |
| Finance cost                                  | 0.3            | 6.7            | (95.9%)        |
| <b>Profit before tax</b>                      | <b>60.7</b>    | <b>124.0</b>   | <b>(51.0%)</b> |
| Current tax                                   | 22.3           | 18.1           | 23.0%          |
| Deferred tax                                  | (18.2)         | (8.0)          | 126.3%         |
| <b>Profit after tax (PAT)</b>                 | <b>56.5</b>    | <b>113.9</b>   | <b>(50.3%)</b> |
| Minority interest (MI)                        | (0.0)          | 0.5            | (106.9%)       |
| <b>Profit after tax &amp; MI (PATMI)</b>      | <b>56.5</b>    | <b>113.3</b>   | <b>(50.1%)</b> |
| <b>EPS</b>                                    | <b>0.07</b>    | <b>0.16</b>    |                |

**Disclaimer**

The information contained in our analysis is intended solely for your personal reference only. In addition, such forward- looking statements reflect our current views with respect to future events and financial performance.

These views are based on assumptions subject to various risks and uncertainties. No assurance is given that future events will occur or that our assumptions are correct. Actual results may differ materially from those projected.