

Date: 13 August 2014  
Subject: 2Q14 Management Discussion and Analysis  
To: The President of the Stock Exchange of Thailand

## 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 2Q14

### Consolidated Income Statement

For 2Q14, MEGA reported operating revenue of THB 1,958.8 mn (up 11.0% YoY and 14.9% QoQ) and gross profits of THB 753.6 mn (down 0.5% YoY but up 13.6% QoQ), while earnings before interest, tax, depreciation and amortization (EBITDA) and net profits came in at THB 186.9 mn (down 27.0% YoY but up 92.6% QoQ) and THB 129.1 mn (down 28.4% YoY but up 128.2% QoQ), respectively.

For 1H14, MEGA reported operating revenue of THB 3,664.0 mn (up 11.3% YoY) and gross profits of THB 1,416.9 mn (up 1.1% YoY), while EBITDA and net profits were THB 283.9 mn (down 31.1% YoY) and THB 185.7 mn (down 36.8% YoY), respectively.

### Key points:

- Overall operating revenue climbed 11.0% YoY and 14.9% QoQ in 2Q14 to THB 1,958.8 mn, taking 1H14 operating revenue to THB 3,664.0 mn, up 11.3% YoY.
  - Maxxcare™ revenue increased 25.8% YoY and 12.0% QoQ to THB 973.6 mn in 2Q14, taking 1H14 revenue to THB 1,843.2 mn, up 25.7% YoY.
  - Mega We Care™ 2Q14 revenue of THB 863.9 mn was down 1.1% YoY but up 17.0% QoQ, taking 1H14 revenue to THB 1,602.0 mn, up 0.2% YoY.
  - OEM revenue climbed 4.6% YoY and 24.4% QoQ in 2Q14 to THB 121.3 mn, taking 1H14 revenue to THB 218.8 mn, down 4.6% YoY.
- Overall gross margin was 38.5% YoY in 2Q14, compared to 38.9% in 1Q14 and 42.9% in 2Q13. For 1H14, overall gross margin was 38.7%, compared to 42.5% in 1H13. While individual segmental gross margins remained steady, the change in revenue mix contributed to the YoY drop.
- Selling and administrative expenses (SGA) were 31.1% of operating revenue in 2Q14, compared to 30.8% in 2Q13. In 1H14, SGA was 32.6% of operating revenue, compared to 32.2% in 1H13.
- Net profits declined by 28.4% YoY to THB 129.1 mn in 2Q14, given the flat growth in Mega We Care™ branded products revenue, extra overheads from the capacity expansion and net forex loss of THB 16.2 mn.

In 1H14, net profits declined by 36.8% YoY to THB 185.7 mn, largely a result of the flat growth in Mega We Care™ branded products revenue, extra overheads from the capacity expansion, spending in new markets and to expand logistics resources in Myanmar, and net forex loss of THB 33.1 mn

- With a marked QoQ improvement in net profits in 2Q14 and a stronger Mega We Care™ branded products revenue expected in 2H14, we look for net profits to fare better in remaining quarters of 2014.

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

Figures in THB mn	2Q13	1Q14	2Q14	YoY Gr.	1H13	1H14	YoY Gr.
Operating Revenue	1,764.0	1,705.3	1,958.8	11.0%	3,293.5	3,664.0	11.3%
Gross profits	757.5	663.3	753.6	(0.5%)	1,401.0	1,416.9	1.1%
Gross margin (%)	42.9%	38.9%	38.5%		42.5%	38.7%	
Selling and Admin. exp (SGA)	543.0	586.7	608.2	12.0%	1,061.9	1,194.9	12.5%
SGA (% to operating revenue)	30.8%	34.4%	31.1%		32.2%	32.6%	
EBITDA	256.1	97.0	186.9	(27.0%)	411.9	283.9	(31.1%)
Profit before tax	225.4	60.7	148.6	(34.1%)	349.4	209.4	(40.1%)
Net Profit	180.4	56.6	129.1	(28.4%)	293.7	185.7	(36.8%)

### 1. Overall Revenue

In 2Q14, operating revenue climbed 11.0% YoY to THB 1,958.8 mn, driven by a 25.8% YoY growth in Maxxcare™ distribution revenue. Mega We Care™ branded products revenue saw a slight decline of 1.1% YoY but an improvement of 17.0% QoQ, resulting in a flat growth for 1H14. As the demand in Thailand has been picking up, we expect a better growth for Mega We Care™ branded products revenue in 2H14. OEM revenue grew by 4.6% YoY during the quarter.

Southeast Asia<sup>1</sup> and Indochina<sup>2</sup> contributed 85.7% and 80.6% of our operating revenue in 2Q14, respectively.

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

### Revenue\* by Business Segment

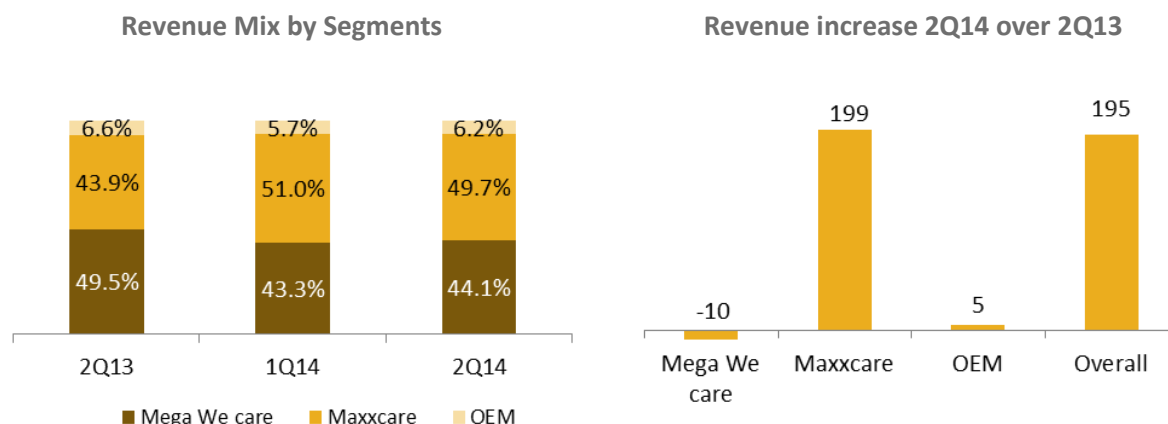
Figures in THB mn	2Q13	1Q14	2Q14	YoY Gr.	1H13	1H14	YoY Gr.
Mega We Care™ branded products business	873.9	738.1	863.9	(1.1%)	1,598.1	1,602.0	0.2%
Maxxcare™ distribution business	774.1	869.6	973.6	25.8%	1,466.1	1,843.2	25.7%
OEM	116.0	97.5	121.3	4.6%	229.3	218.8	(4.6%)
<b>Total</b>	<b>1,764.0</b>	<b>1,705.3</b>	<b>1,958.8</b>	<b>11.0%</b>	<b>3,293.5</b>	<b>3,664.0</b>	<b>11.3%</b>

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

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

2. Thailand, Myanmar, Vietnam and Cambodia.

Operating revenue increased by THB 194.7 mn in 2Q14 YoY, contributed by Maxxcare™ distribution business.

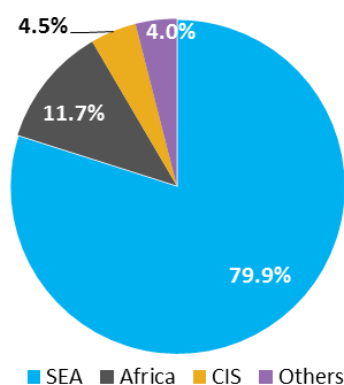


### Mega We Care™ Branded Products Revenue

Revenue from sales of products under Mega We Care™ branded products business was THB 863.9 mn in 2Q14, a decrease of THB 10.0 mn or 1.1% YoY, largely a result of a continued slowdown in Ukraine. This took 1H14 growth to a relatively flat 0.2% YoY, mainly due to a slowdown in Thailand and Ukraine. With Thailand showing signs of recovery, we expect Mega We Care™ branded products revenue growth to pick up in 2H14.

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

Figures in THB mn	2Q13	1Q14	2Q14	YoY Gr.	1H13	1H14	YoY Gr.
Southeast Asia	676.0	563.1	690.3	2.1%	1,226.6	1,253.4	2.2%
Africa	82.5	89.9	100.7	22.0%	156.9	190.5	21.4%
CIS	51.4	51.6	38.6	(24.9%)	114.7	90.2	(21.4%)
Others	64.0	33.6	34.3	(46.4%)	99.8	67.9	(32.0%)
<b>Total</b>	<b>873.9</b>	<b>738.1</b>	<b>863.9</b>	<b>(1.1%)</b>	<b>1,598.1</b>	<b>1,602.0</b>	<b>0.2%</b>



Southeast Asia contributed 79.9% of the Mega We Care™ branded products business revenue in 2Q14 (Indochina contributing 69.5%).

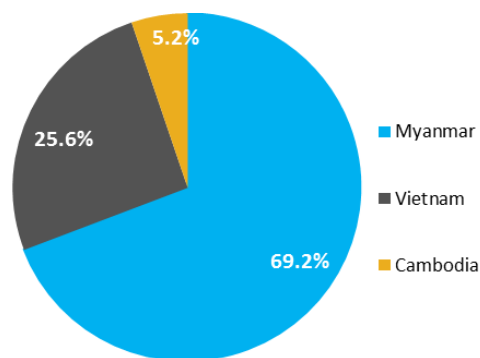
Historically, operating revenues generated in the second half of the year accounted for 55% of full-year operating revenues.

### Maxxcare™ Distribution Revenue

Maxxcare™ distribution business revenue was THB 973.6 mn in 2Q14, an increase of 199.4 mn or 25.8% YoY, primarily driven by Myanmar.

Myanmar continues to be the largest market for Maxxcare™ distribution business, contributing 69.2% of the total Maxxcare™ revenue in 2Q14.

### Maxxcare™ Distribution Revenue by Geography



As at 30 June, 2014, we provided distribution services to 33 principals in Myanmar (including 14 FMCG principals), net addition of 2 principals from 31 December 2013. In 4Q14, we expect to see one new principal replace an existing one. This change will affect the top line in the short term, with limited impact on the bottom line.

In Vietnam and Cambodia, the number of principals remained unchanged at 17 and 10 principals, respectively, as at 30 June 2014.

### OEM Business Revenue

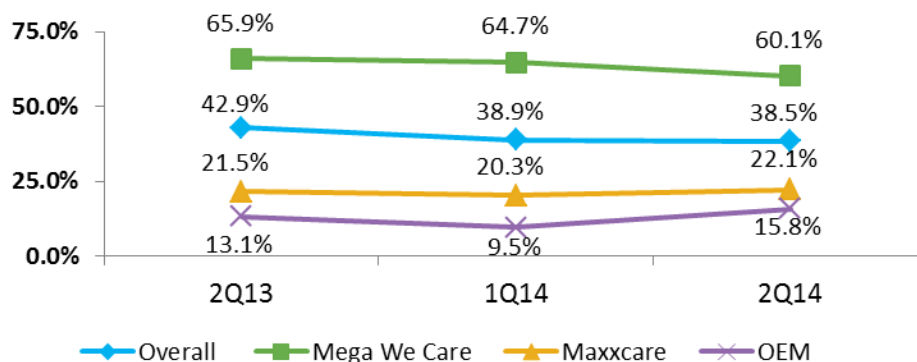
OEM revenue was THB 121.3 mn in 2Q14, an increase of THB 5.3 mn or 4.6% YoY, mainly driven by Australia. With the added capacity, we are on the lookout for more OEM clients to fill up capacity in the short term while branded products grow to take up more capacity.

## 2. Gross Profits

### Consolidated Gross Margin and Gross Profits

Consolidated gross profits were THB 753.6 mn in 2Q14, a decrease of THB 3.9 mn or 0.5% YoY. Overall gross margin declined from 42.9% in 2Q13 to 38.5% in 2Q14, mainly due to the change in revenue mix and lower gross margins reported by Mega We Care™ branded products.

For 1H14, overall gross profits amounted to THB 1,416.9 mn, an increase of THB 15.9 mn or 1.1% YoY. Overall gross margin was 38.7%, down from 42.5% in 1H13, also mainly due to the change in revenue mix and lower gross margins reported by Mega We Care™ branded products.



With the expected improvement in Mega We Care™ revenue in the remaining quarters of 2014, as witnessed by the 17.0% QoQ growth in 2Q14, we expect the overall gross margins to improve for the year as whole.

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

Mega We Care™ branded products gross margin was 60.1% in 2Q14 and 62.2% for 1H14 in comparison to 65.9% in 2Q13 and 63.6% for FY2013. The YoY decline in 2Q14 was mainly due to additional overheads from the capacity expansion and the flat revenue growth. We expect these gross margins to improve along with the demand for the branded products in 2H14.

Gross profits for 2Q14 was THB 519.4 mn, in comparison to THB 575.6 mn in 2Q13, a decrease of THB 56.3 mn or 9.8% YoY.

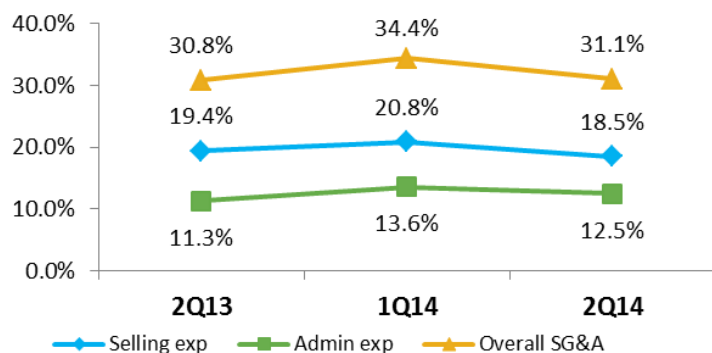
### Maxxcare™ Distribution Business Gross Profit

In 2Q14, gross margins from Maxxcare™ distribution business improved to 22.1% from 21.5% in 2Q13. Gross profits were THB 215.1 mn in comparison to THB 166.6 mn in 2Q13, an increase of THB 48.4 mn or 29.1% YoY, driven by revenue growth in Myanmar.

### OEM Business Gross Profit

In 2Q14, gross margins from OEM business improved to 15.8% from 13.1% in 2Q13. Gross profits were THB 19.1 mn in comparison to THB 15.2 mn in 2Q13, an increase of THB 3.9 mn or 25.5% YoY, driven by revenue growth in Australia.

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



Selling and administrative expenses (SGA) was THB 608.2 mn, in line with the annual operating plan. The amount represented 31.1% of operating revenue in 2Q14, compared to 30.8% in 2Q13. Spending towards marketing for Mega We Care™ branded products in certain markets, business expansion activities in Africa and expansion of logistics resources in Myanmar continued in 2Q14. We expect SGA for FY2014 to be in line with FY2013 levels, at around 32% of operating revenue.

#### 4. Consolidated Net Profit

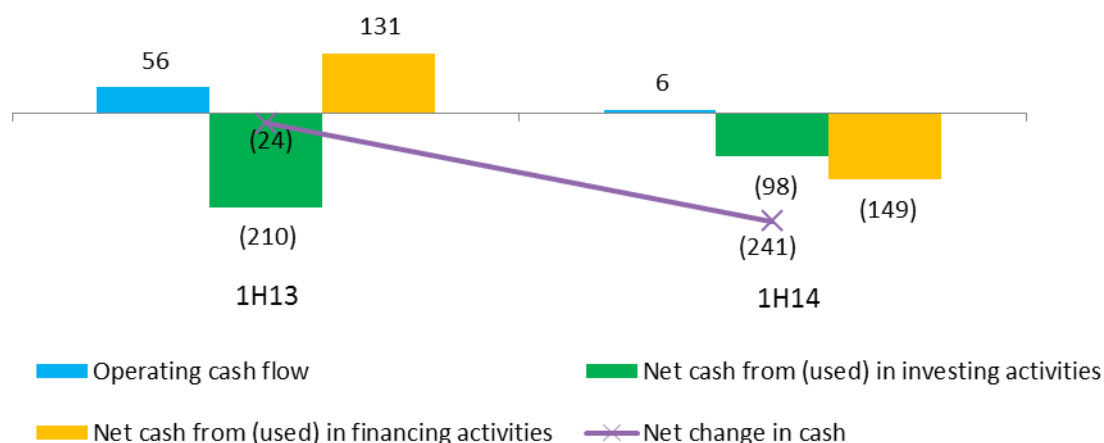
Net profit in 2Q14 was THB 129.1 mn in comparison to THB 180.4 mn in 2Q13, a decrease of THB 51.3 mn or 28.4% YoY, given the flat growth in Mega We Care™ branded products revenue, additional overheads from the capacity expansion, and net forex loss of THB 16.2mn

Net profit in 1H14 was THB 185.7 mn in comparison to THB 293.7 mn in 1H13, a decrease of THB 108.0 mn or 36.8% YoY, largely a result of the flat growth in Mega We Care™ branded products revenue, additional overheads from the capacity expansion, spending in new markets and to expand logistics resources in Myanmar, and net forex loss of THB 33.1 mn

With a marked QoQ improvement in net profits in 2Q14 and a stronger Mega We Care™ branded products revenue expected in 2H14, we look for net profits to fare better in remaining quarters of 2014.

#### 5. Cash Flows

Figures in THB mn



#### Operating Activities

THB 6.1 mn cash was generated from operating activities in 1H14 in comparison to THB 55.6 mn in 1H13. Lower cash inflow in 1H14 was a result of lower net profits.

#### Working Capital

	2012	2013	1Q14	1H14
Average receivable days	81	77	87	82
Average inventory days	127	138	155	142
Average payable days	84	85	112	96
<b>Cash cycle (days)</b>	<b>123</b>	<b>131</b>	<b>130</b>	<b>128</b>

Cash cycle witnessed a marginal improvement from 131 days in 2013 to 128 days in 1H14 as the increase in receivable days and inventory days were offset by higher payable days. Inventory as at 30 June 2014 was 142 days, out of which inventory of finished goods and raw material at factory accounted for 33 days. The increase in inventory was in line with business requirements.

### **Investing Activities**

In 1H14, net cash used in investing activities was THB 97.9 mn. Out of this amount, THB 61.5 mn was for expansion and maintenance capex for manufacturing facilities in Thailand, THB 12.8 mn was for leasehold improvement and fixtures in Myanmar and THB 10.7 mn was towards improvement in information systems.

### **Financing Activities**

In 1H14, net cash outflow from financing activities was THB 149.0 mn, mainly due to payout of dividends, amounting to THB 156 mn, declared for financial year 2013.

## **6. Balance Sheet**

### **Current Assets**

Cash and cash equivalents were THB 1,300.3 mn as at 30 June 2014, a decrease of THB 240.0 mn over 31 December 2013, resulting from investment in assets and dividend payout for financial year 2013.

Trade receivables were THB 1,624.3 mn, a decrease of 99.9 mn from 31 December 2013, in line with business movements.

Inventories were THB 1,864.0 mn as at 30 June 2014, an increase of THB 179.0 mn or 10.6% over 31 December 2013, in line with business requirements.

As at 30 June 2014, Current ratio remained stable at 2.0 times

### **Non-current Assets**

Non-current assets were THB 1,409.2 mn as at 30 June 2014, up THB 98.6 mn from 31 December 2013. The increase was driven by investment in property plant and equipment and deferred tax assets.

### **Current Liabilities**

Current liabilities were THB 2,554.2 mn as at 30 June 2014, an increase of THB 6.8 mn or 0.3% compared to 31 December 2013.

### **Non-current Liabilities**

Non-current liabilities were THB 264.1 mn as at 30 June 2014, a decrease of THB 31.8 mn or 10.8%, compared to 31 December 2013, as long term loan declined following the debt repayment.

As at 30 June 2014, 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 3,728.8 mn as at 30 June 2014, an increase of THB 36.3 mn or 1.0%, compared to 31 December 2013, change was impacted by 1H14 net profit and dividend payouts for financial year 2013.



## Consolidated Balance Sheet

Figures in THB mn	30-Jun-14		31-Dec-13		Change	
	Amount	%	Amount	%	Amount	%
<b>Current Assets</b>						
Cash and cash equivalents	1,300.3	19.9%	1,540.3	23.6%	(240.0)	(15.6%)
Trade accounts receivable	1,624.3	24.8%	1,724.2	26.4%	(99.9)	(5.8%)
Inventories	1,864.0	28.5%	1,684.9	25.8%	179.0	10.6%
Other current assets	349.4	5.3%	275.8	4.2%	73.6	26.7%
<b>Total Current Assets</b>	<b>5,137.9</b>	<b>78.5%</b>	<b>5,225.3</b>	<b>79.9%</b>	<b>(87.4)</b>	<b>(1.7%)</b>
<b>Non-Current Assets</b>						
Restricted deposits with Banks	10.4	0.2%	10.6	0.2%	(0.2)	(1.8%)
Property, plant and equipment	1,012.9	15.5%	969.5	14.8%	43.4	4.5%
Intangible assets	221.3	3.4%	213.0	3.3%	8.3	3.9%
Deferred tax asset	105.0	1.6%	79.2	1.2%	25.7	32.5%
Other non-current assets	59.6	0.9%	38.2	0.6%	21.4	56.0%
<b>Total Non-Current Assets</b>	<b>1,409.2</b>	<b>21.5%</b>	<b>1,310.6</b>	<b>20.1%</b>	<b>98.6</b>	<b>7.5%</b>
<b>Total Assets</b>	<b>6,547.1</b>	<b>100.0%</b>	<b>6,535.9</b>	<b>100.0%</b>	<b>11.3</b>	<b>0.2%</b>
<b>Current Liabilities</b>						
Bank overdrafts & short-term Loans	746.3	11.4%	709.4	10.9%	36.9	5.2%
Trade accounts payable	1,255.4	19.2%	1,144.7	17.5%	110.7	9.7%
Other payables	117.1	1.8%	201.8	3.1%	(84.6)	(42.0%)
Current portion of long-term loans	74.2	1.1%	75.0	1.1%	(0.8)	(1.1%)
Current portion of finance Lease liability	0.2	0.0%	0.2	0.0%	(0.0)	(3.6%)
Income tax payable	45.5	0.7%	52.9	0.8%	(7.4)	(14.0%)
Accrued expenses	315.4	4.8%	363.3	5.6%	(47.9)	(13.2%)
<b>Total Current Liabilities</b>	<b>2,554.2</b>	<b>39.0%</b>	<b>2,547.4</b>	<b>39.0%</b>	<b>6.8</b>	<b>0.3%</b>
<b>Non-Current Liabilities</b>						
Long-term loans	172.5	2.6%	211.8	3.2%	(39.3)	(18.6%)
Finance lease liabilities	0.3	0.0%	0.4	0.0%	(0.2)	(35.7%)
Deferred tax liability	1.8	0.0%	3.0	0.0%	(1.1)	(38.8%)
Employees benefits obligation	86.6	1.3%	78.6	1.2%	8.0	10.2%
Other non-current liabilities	2.9	0.0%	2.1	0.0%	0.8	36.9%
<b>Total Non-Current Liabilities</b>	<b>264.1</b>	<b>4.0%</b>	<b>295.9</b>	<b>4.5%</b>	<b>(31.8)</b>	<b>(10.8%)</b>
<b>Total Liabilities</b>	<b>2,818.3</b>	<b>43.0%</b>	<b>2,843.3</b>	<b>43.5%</b>	<b>(25.0)</b>	<b>(0.9%)</b>
<b>Equity</b>						
Issued and paid-up share capital	432.6	6.6%	432.6	6.6%	-	0.0%
Premium on ordinary shares	2,138.1	32.7%	2,138.1	32.7%	-	0.0%
Retained earnings						
Legal reserve	49.1	0.7%	49.1	0.8%	-	0.0%
Other reserves	1,242.8	19.0%	1,212.7	18.6%	30.0	2.5%
Other components of equity	(133.7)	-2.0%	(140.0)	-2.1%	6.3	(4.5%)
<b>Owners Equity</b>	<b>3,728.9</b>	<b>57.0%</b>	<b>3,692.6</b>	<b>56.5%</b>	<b>36.3</b>	<b>1.0%</b>
Non-controlling interests	(0.1)	0.0%	0.0	0.0%	(0.1)	(515.0%)
<b>Total Equity</b>	<b>3,728.8</b>	<b>57.0%</b>	<b>3,692.6</b>	<b>56.5%</b>	<b>36.3</b>	<b>1.0%</b>
<b>Total Liabilities and Equity</b>	<b>6,547.1</b>	<b>100.0%</b>	<b>6,535.9</b>	<b>100.0%</b>	<b>11.3</b>	<b>0.2%</b>

**Consolidated Income Statement**

<i>Figures in THB mn</i>	2Q13	1Q14	2Q14	YoY Gr.	1H13	1H14	YoY Gr.
Operating Revenue	1,764.0	1,705.3	1,958.8	11.0%	3,293.5	3,664.0	11.3%
Other income	4.7	9.1	10.3	117.6%	14.8	19.4	30.9%
<b>Total Income</b>	<b>1,768.7</b>	<b>1,714.3</b>	<b>1,969.1</b>	<b>11.3%</b>	<b>3,308.3</b>	<b>3,683.4</b>	<b>11.3%</b>
Cost of goods sold	1,006.5	1,042.0	1,205.2	19.7%	1,892.5	2,247.1	18.7%
<b>Gross profits</b>	<b>757.5</b>	<b>663.3</b>	<b>753.6</b>	<b>(0.5%)</b>	<b>1,401.0</b>	<b>1,416.9</b>	<b>1.1%</b>
<i>Gross margin (%)</i>	<i>42.9%</i>	<i>38.9%</i>	<i>38.5%</i>		<i>42.5%</i>	<i>38.7%</i>	
Selling expense	342.8	355.3	362.8	5.8%	639.0	718.1	12.4%
Administrative expense	200.2	231.4	245.4	22.6%	423.0	476.8	12.7%
<b>Selling &amp; Administrative exp (SGA)</b>	<b>543.0</b>	<b>586.7</b>	<b>608.2</b>	<b>12.0%</b>	<b>1,061.9</b>	<b>1,194.9</b>	<b>12.5%</b>
<i>SGA (% to operating revenue)</i>	<i>30.8%</i>	<i>34.4%</i>	<i>31.1%</i>		<i>32.2%</i>	<i>32.6%</i>	
Net foreign exchange loss (gain)	(13.8)	20.1	2.5		(10.5)	22.6	
<b>EBITDA</b>	<b>256.1</b>	<b>97.0</b>	<b>186.9</b>	<b>(27.0%)</b>	<b>411.9</b>	<b>283.9</b>	<b>(31.1%)</b>
<i>% of EBIDTA to operating revenue</i>	<i>14.5%</i>	<i>5.7%</i>	<i>9.5%</i>		<i>12.5%</i>	<i>7.7%</i>	
Depreciation & Amortization	23.1	31.5	33.7	46.0%	47.6	65.1	36.9%
Earning before interest & tax (EBIT)	233.0	65.5	153.2	(34.3%)	364.3	218.7	(40.0%)
Finance cost	7.6	4.8	4.5	(40.2%)	15.0	9.4	(37.3%)
Profit before tax	225.4	60.7	148.6	(34.1%)	349.4	209.4	(40.1%)
Tax expense	44.7	4.2	19.6	(56.2%)	54.9	23.7	(56.7%)
<b>Net Profit</b>	<b>180.4</b>	<b>56.6</b>	<b>129.1</b>	<b>(28.4%)</b>	<b>293.7</b>	<b>185.7</b>	<b>(36.8%)</b>
EPS	0.25	0.07	0.15		0.40	0.21	

**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.