

Date: 12 May 2016  
 Subject: 1Q16 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 31 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 1Q16

### Consolidated Income Statement

- **Overall operating revenue** of THB 1,957mn in 1Q16, up by 8.5% YoY.
- **Gross profit** of THB 767mn in 1Q16, up by 3.4% YoY.
- **EBITDA** of THB 189mn in 1Q16, up by 15.4% YoY.
- **Net profit** of THB 114mn, up by 7% YoY.

### Key points:

- **Overall operating revenue** in 1Q16 was THB 1,957.4mn, up 8.5% YoY.
  - Mega We Care™ revenue was up by 5.1% YoY at THB 887.3mn.
  - Maxxcare™ revenue was up by 15.6% YoY at THB 989.5mn.
  - OEM revenue was THB 80.6mn, down by 22.6% YoY.
- **Overall gross margin** in 1Q16 was 39.2% of the operating revenue compared to 41.1% in 1Q15. Reduction in the overall gross margin was mainly a result of lower gross margins in Mega We Care™ business arising from lower output and change in revenue mix, given the higher proportion of Maxxcare™ revenue in the overall operating revenue of 1Q16. We expect Mega We Care™ gross margins to improve during the year.
- **Selling and administrative expenses (SG&A)** in absolute terms remained flat. As a percentage to operating revenue it was 30.5% in 1Q16 compared to 33.3% in 1Q15. We expect the SG&A for FY16 to remain close to 33% of our operating revenue.

SG&A spending in 1Q16 included THB 1.9mn towards new projects.

- **Net profit** in 1Q16 came in at THB 114mn, up 7% YoY. Increase in net profits was mainly a result of growth in revenue and stable SG&A expenses. Net profits in 1Q16 were slightly impacted by higher income tax charge of 22.9% compared to the rate of 16% for FY15; the tax rates for FY16 are expected to remain close to FY15 levels.

Net profits in 1Q16 at tax charge of 16% would have been THB 124mn, up by 17% YoY.

MEGA remains focused on further cementing our leadership position in Indochina and deepening our presence in the Sub-Saharan African countries. With a healthy pipeline of new products and operations in 31 growth markets, MEGA is concentrating all efforts towards doubling our revenue and net profit over the next 5 years.

**Income Statement<sup>1</sup>**

<i>Figures in THB mn</i>	1Q15	1Q16	YoY Gr.
Operating Revenue	1,804.8	1,957.4	8.5%
Gross profits	741.9	767.3	3.4%
<i>Gross margin (%)</i>	<i>41.1%</i>	<i>39.2%</i>	
Selling and Admin. exp (SGA)	600.9	596.9	(0.7%)
<i>SGA (% to Operating revenue)</i>	<i>33.3%</i>	<i>30.5%</i>	
EBITDA	163.6	188.8	15.4%
Profit before tax	125.7	147.9	17.7%
Net Profit	106.5	114.0	7.0%
Add: SGA for new projects	-	1.9	na
Adjusted net profit	106.5	115.9	8.9%

**1. Overall Revenue**

Overall operating revenue in 1Q16 was THB 1,957.4mn, up 8.5% YoY. Revenue growth was mainly driven by Maxxcare™ which was up by 15.6% YoY. Mega We Care™ grew by 5.1% YoY but OEM was down by 22.6%.

Southeast Asia<sup>2</sup> and Indochina<sup>3</sup> contributed 86.0% and 81.7% of our operating revenues in 1Q16.

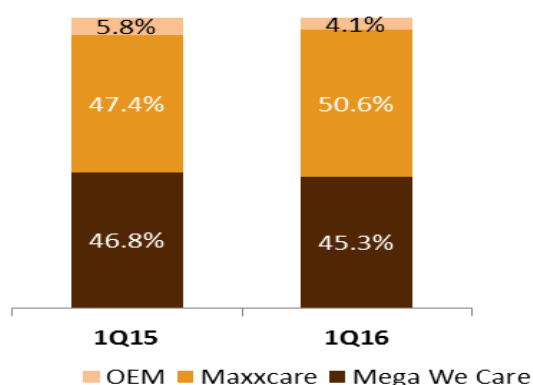
The following table represents the revenue generated under each operating segments.

**Revenue\* by Business Segment**

<i>Figures in THB mn</i>	1Q15	1Q16	YoY Gr.
Mega We Care™ branded products business	844.5	887.3	5.1%
Maxxcare™ distribution business	856.2	989.5	15.6%
OEM	104.1	80.6	(22.6%)
<b>Total</b>	<b>1,804.8</b>	<b>1,957.4</b>	<b>8.5%</b>

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

**Revenue mix by segments (%)**



- Mega We Care™ revenue as a % to total operating revenue was 45.3% in 1Q16 compared to 46.8% in 1Q15; while Maxxcare™ revenue was 50.6% of the total operating revenue in 1Q16 compared to 47.4% in 1Q15.
- Proportion of Maxxcare™ to total operating revenue has increased in 1Q16 as compared to 1Q15.

1. Certain previous year cost elements between cost of goods sold and SG&A have been re-classified in our audited financial statement resulting in difference between the numbers reported in this MDA and our earlier MD&As'.

2. Thailand, Myanmar, Vietnam, Cambodia, Malaysia, Philippines, Indonesia and Singapore. 3. Thailand, Myanmar, Vietnam and Cambodia.

**Mega We Care™ Branded Products Revenue**

Revenue from sale of products under Mega We Care™ branded products business was THB 887.3mn in 1Q16, up by 5.1% YoY. Though Thailand and Myanmar were sluggish in 1Q16; but we expect these markets to pick up during the year. Despite slowdown in Nigeria, Africa was up given growth in other African markets.

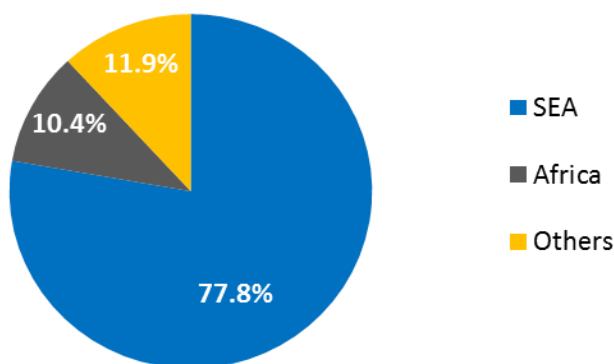
Revenue growth from others (as depicted below) was higher in 1Q16 mainly because of higher primary sales in Peru which is expected to normalize during the year.

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

<i>Figures in THBmn</i>	1Q15	1Q16	YoY Gr.
Southeast Asia	683.2	689.9	1.0%
Africa	90.3	92.1	2.0%
Others	71.1	105.3	48.2%
<b>Total</b>	<b>844.5</b>	<b>887.3</b>	<b>5.1%</b>

Others include Commonwealth of Independent States (CIS), Latin America, Middle East and other countries.

**Mega We Care™ Branded Products Revenue by Geography (1Q16)**

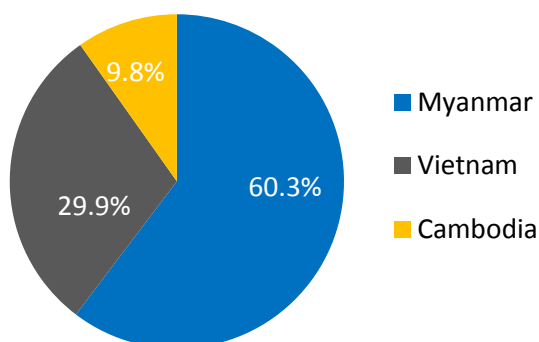


- Southeast Asia contributed 77.8%, while Indochina contributed 68.3% of the Mega We Care™ branded products business revenue.
- Africa, the second largest market contributed 10.4% of the Mega We Care™ branded products business revenue.

**Maxxcare™ Distribution Revenue**

Maxxcare™ distribution business revenue was THB 989.5mn in 1Q16, an increase of 15.6% YoY. Growth was driven by Vietnam and well complimented by Myanmar and Cambodia.

**Maxxcare™ Distribution Revenue by Geography (1Q16)**



Myanmar continues to be the largest market for Maxxcare™ distribution business, contributing over 60% of the total Maxxcare™ revenue in 1Q16.

**OEM Business Revenue**

OEM revenue was THB 80.6mn in 1Q16, down by 22.6% YoY. Decline was mainly a result of slowdown in Thailand business and lower order book from export customers given better sales in 4Q15. We expect to see the revenues picking up during the year.

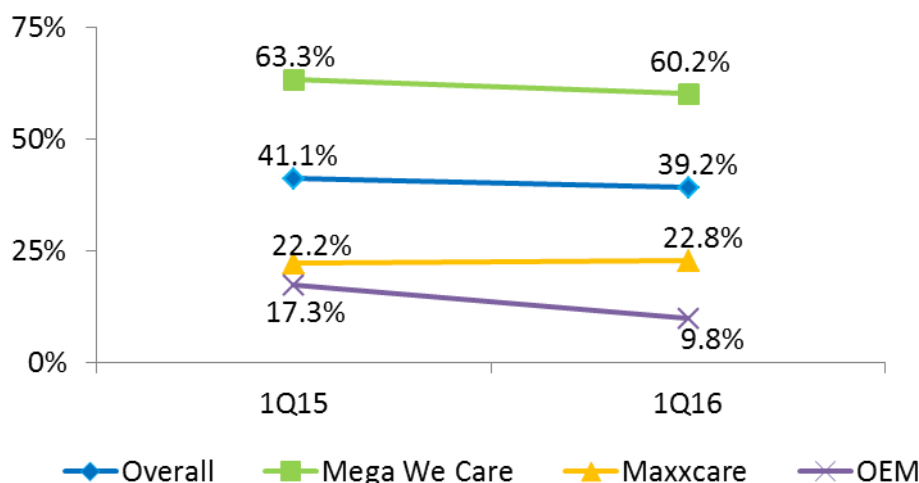
**2. Gross Profits**

**Consolidated Gross Margin and Gross Profits**

Consolidated gross profits were THB 767.4mn in 1Q16, an increase of THB 25.4mn or 3.4% YoY. Overall gross margins in 1Q16 was 39.2% compared to 41.1% in 1Q15.

Reduction in the overall gross margin was mainly a result of lower gross margins in Mega We Care™ (from 63.3% in 1Q15 to 60.2% in 1Q16) arising from lower output and change in revenue mix, given proportion of Maxxcare™ revenue in the overall operating revenue increased from 47.4% in 1Q15 to 50.6% in 1Q16.

**Segmental gross profit (%) to segmental operating revenue**



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

Mega We Care™ branded products gross margin was 60.2% in 1Q16 compared to 63.3% in 1Q15. Lower gross margin in 1Q16 was mainly a result of lower output given the availability of stocks and expected offtakes in markets during the quarter. We expect the gross margins to improve during the year as the demand for the product increase.

**Maxxcare™ Distribution Business Gross Profit**

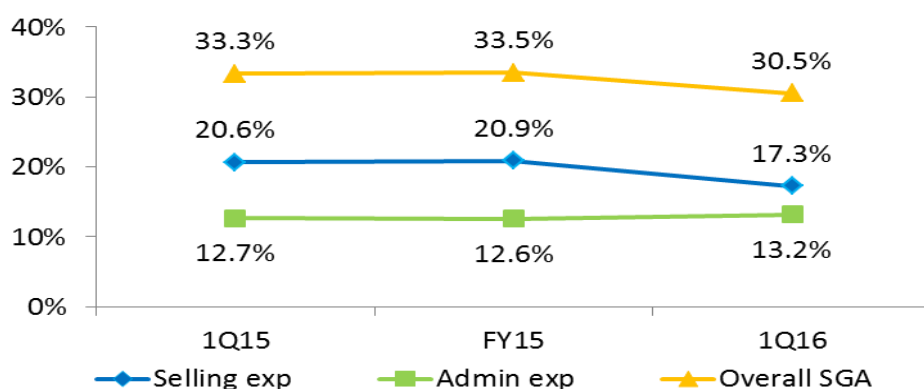
Maxxcare™ distribution business gross margin remained largely maintained at 22.8% in 1Q16 compared to 22.2% in 1Q15. Gross margins are influenced by change in principle and service mix.

**OEM Business Gross Profit**

OEM business gross margin was 9.8% in 1Q16 compared to 17.3% in 1Q15. Decline in gross margin was mainly a result of lower sales.

#### 4. Consolidated Selling and Administration Expenses (SG&A)

SG&A as a (%) to operating revenue



SG&A in absolute terms remained flat in 1Q16. It was 30.5% of operating revenue in 1Q16 as compared to 33.3% in 1Q15. Given spending in the ensuing quarters; we expect FY16 SG&A to remain close to the levels of 33%. SG&A spending in 1Q16 included THB 1.9mn towards new projects.

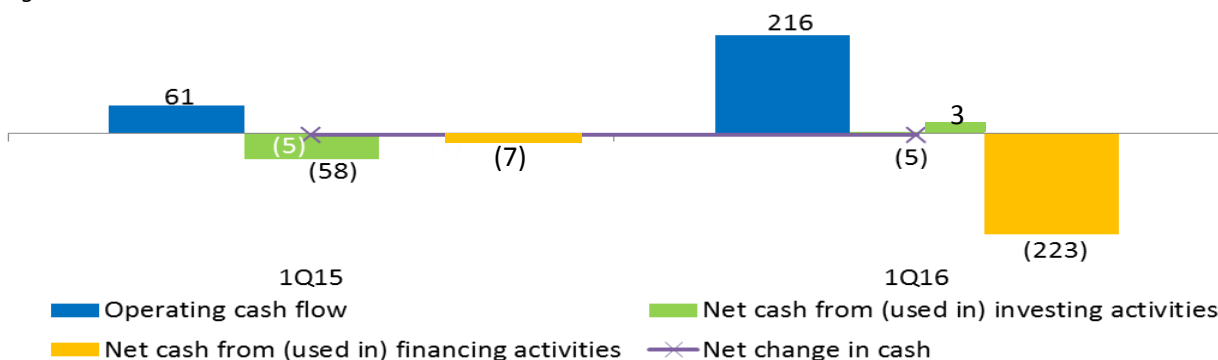
#### 4. Consolidated Net Profit

Net profit in 1Q16 was THB 114mn, up 7% YoY. Increase in net profits was mainly a result of growth in revenue and stable SG&A expenses. Net profits in 1Q16 were slightly impacted by higher income tax charge of 22.9% compared to the rate of 16% for FY15; the tax rates for FY16 are expected to remain close to FY15 levels.

Net profits in 1Q16 at tax charge of 16% would have been THB 124mn, up by 17% YoY.

#### 5. Cash Flows<sup>4</sup>

Figures in THBmn



4 a) Cash and bank balances as at balance sheet dates includes term deposits with banks.

b) Movement (investments/redemption) in non-restricted term deposits with banks has not been considered as investing activity in the above cash flow graph.

#### Operating Activities

Operating activities generated THB 215.5mn of cash in 1Q16 compared to THB 60.6mn in 1Q15. Improvement in operating cash was a result of improvement in working capital and lesser tax payouts.

**Working Capital**

	For the period ending		
	Dec'14	Dec'15	Mar'16
Average receivable days	88	97	90
Average inventory days	130	147	136
Average payable days	96	115	99
<b>Cash cycle (days)</b>	<b>121</b>	<b>129</b>	<b>127</b>

Cash cycle for the period ending Mar'16 was 127 days compared to 129 days as at Dec'15. Improvement in receivable and inventory days was partly offset by reduction in trade payable days.

Out of 136 days of Inventory as at Mar'16, inventory of finished goods and raw material at factory accounted for 32 days.

**Investing Activities**

In 1Q16, net cash inflow from investing activities was THB 2.8mn. THB 14.1mn was used towards acquisition of property, plant and equipment mainly consisting of THB 8.6mn towards maintenance and improvement capex for Thailand manufacturing facility and THB 1.4mn towards upcoming Wellness We Care Centre; this outflow was offset by receipt of interest on term deposits of THB 16.7mn.

**Capex plan:**

We expect to acquire a new land as part of future expansion plan which has just become available very next to our existing Bangpu manufacturing facility in Thailand. We expect a net cash outflow of THB 70mn for this acquisition in medium term as the existing land gets sold. We had a capex plan of THB 70mn for Wellness We Care center; we have already spent THB 30mn till date and the remaining amount will be spent in due course. These capex will be in addition to the normal maintenance and improvement capex required for the year.

MEGA is exploring opportunities to construct its own warehouse and office space on leased land in Myanmar. The proposal is subject to clearance from respective regulatory authorities. Once the approval is available; an approximate outlay of THB 540mn would be spent in 2 years.

**Financing Activities**

In 1Q16, net cash outflow in financing activities was THB 223mn mainly arising from repayment of, working capital loans of THB 197.1mn and long term loans of THB 19.2mn.

**6. Balance Sheet**

**Current Assets**

Cash and bank balance (consisting of cash and cash equivalents and term deposits with bank) was THB 1,460.6mn as at 31 March 2016, a decrease of THB 6.2mn from 31 December 2015.

Trade receivables were THB 2,083.4mn as at 31 March 2016, a decrease of THB 169.9mn or 7.5% compared to THB 2,253.4mn as at 31 December 2015. Inventories were THB 1,934.9mn as at 31 March

2016, a decrease of THB 131.7mn from the levels of 31 December 2015.

As at 31 March 2016, Current ratio was at 2.2 times.

### **Non-current Assets**

Non-current assets were THB 1,464.1mn as at 31 March 2016, an increase of THB 20.8mn or 1.4% from 31 December 2015. The increase was driven by advance paid towards acquisition of Land at Bangpoo Industrial Estate, Bangkok.

### **Current Liabilities**

Current liabilities were THB 2,721.7mn as at 31 March 2016, a decrease of THB 373.6mn or 12.1% compared to 31 December 2015. Decrease was driven by reduction in trade payables and short term loans consequent to their payment.

Trade payables were THB 1,313mn as at 31 March 2016, a decrease of THB 291.2mn or 18.2% from 31 December 2015. The decrease was in line with reduction in receivables and inventory.

### **Non-current Liabilities**

Non-current liabilities were THB 154.8mn as at 31 March 2016, a decrease of THB 27.9mn or 15.3%, compared to 31 December 2015, as long term loans declined following the debt repayment.

As at 31 March 2016, Interest-bearing debt to Equity ratio was 0.11 times and Debt to Equity ratio was 0.64 times.

### **Shareholders' Equity**

Shareholders' equity was THB 4,462.1mn as at 31 March 2016, an increase of THB 127.4mn compared to 31 December 2015, mainly driven by 1Q16 net profits.

## **Progress on new projects :**

**Wellness We Care Center :** It will focus on helping people to prevent & reverse chronic diseases such as heart diseases, diabetes, obesity and hypertension, with changes in food & lifestyle under supervision of team of experts. First center is coming up in Muaklek, Thailand. Infrastructure building is in progress. Expect to start our services by 4Q16.



**Consolidated Balance Sheet**

<i>Figures in THB mn</i>	31-Mar-16		31-Dec-15		Change	
	Amount	%	Amount	%	Amount	%
<b>Current Assets</b>						
Cash and bank balances <sup>5</sup>	1,460.6	19.9%	1,466.8	19.3%	(6.2)	(0.4%)
Trade accounts receivable	2,083.4	28.4%	2,253.4	29.6%	(169.9)	(7.5%)
Inventories	1,934.9	26.4%	2,066.6	27.1%	(131.7)	(6.4%)
Other current assets	395.5	5.4%	382.5	5.0%	13.1	3.4%
<b>Total Current Assets</b>	<b>5,874.4</b>	<b>80.0%</b>	<b>6,169.2</b>	<b>81.0%</b>	<b>(294.8)</b>	<b>(4.8%)</b>
<b>Non-Current Assets</b>						
Property, plant and equipment	1,019.6	13.9%	1,031.5	13.5%	(11.9)	(1.2%)
Intangible assets	231.4	3.2%	232.7	3.1%	(1.3)	(0.6%)
Deferred tax asset	106.3	1.4%	105.7	1.4%	0.6	0.5%
Other non-current assets	106.8	1.5%	73.4	1.0%	33.4	45.5%
<b>Total Non-Current Assets</b>	<b>1,464.1</b>	<b>20.0%</b>	<b>1,443.3</b>	<b>19.0%</b>	<b>20.8</b>	<b>1.4%</b>
<b>Total Assets</b>	<b>7,338.5</b>	<b>100.0%</b>	<b>7,612.5</b>	<b>100.0%</b>	<b>(274.0)</b>	<b>(3.6%)</b>
<b>Current Liabilities</b>						
Bank overdrafts & short-term Loans	338.0	4.6%	543.3	7.1%	(205.3)	(37.8%)
Trade accounts payable	1,313.0	17.9%	1,604.2	21.1%	(291.2)	(18.2%)
Other payables	440.4	6.0%	331.0	4.3%	109.4	33.0%
Current portion of long-term loans	80.6	1.1%	82.5	1.1%	(1.9)	(2.3%)
Current portion of finance Lease liability	9.1	0.1%	8.4	0.1%	0.7	8.0%
Income tax payable	102.9	1.4%	80.1	1.1%	22.8	28.4%
Accrued expenses	437.7	6.0%	445.6	5.9%	(7.9)	(1.8%)
<b>Total Current Liabilities</b>	<b>2,721.7</b>	<b>37.1%</b>	<b>3,095.2</b>	<b>40.7%</b>	<b>(373.6)</b>	<b>(12.1%)</b>
<b>Non-Current Liabilities</b>						
Long-term loans	46.2	0.6%	68.0	0.9%	(21.7)	(32.0%)
Finance lease liabilities	14.8	0.2%	16.3	0.2%	(1.5)	(9%)
Deferred tax liability	0.8	0.0%	1.3	0.0%	(0.5)	(37.2%)
Employees benefits obligation	90.3	1.2%	94.4	1.2%	(4.1)	(4.4%)
Other non-current liabilities	2.6	0.0%	2.6	0.0%	(0.0)	(0.6%)
<b>Total Non-Current Liabilities</b>	<b>154.8</b>	<b>2.1%</b>	<b>182.6</b>	<b>2.4%</b>	<b>(27.9)</b>	<b>(15.3%)</b>
<b>Total Liabilities</b>	<b>2,876.4</b>	<b>39.2%</b>	<b>3,277.9</b>	<b>43.1%</b>	<b>(401.4)</b>	<b>(12.2%)</b>
<b>Equity</b>						
Issued and paid-up share capital	432.6	5.9%	432.6	5.7%	-	0.0%
Premium on ordinary shares	2,138.1	29.1%	2,138.1	28.1%	-	0.0%
Retained earnings:						
Appropriated	97.3	1.3%	92.5	1.2%	4.8	5.2%
Unappropriated	1,953.2	26.6%	1,839.8	24.2%	113.4	6.2%
Other components of equity	(159.1)	-2.2%	(168.3)	-2.2%	9.2	(5.4%)
<b>Owners Equity</b>	<b>4,462.0</b>	<b>60.8%</b>	<b>4,334.7</b>	<b>56.9%</b>	<b>127.3</b>	<b>2.9%</b>
Non-controlling interests	0.1	0.0%	(0.0)	0.0%	0.1	(491.3%)
<b>Total Equity</b>	<b>4,462.1</b>	<b>60.8%</b>	<b>4,334.7</b>	<b>56.9%</b>	<b>127.4</b>	<b>2.9%</b>
<b>Total Liabilities and Equity</b>	<b>7,338.5</b>	<b>100.0%</b>	<b>7,612.5</b>	<b>100.0%</b>	<b>(274.0)</b>	<b>(3.6%)</b>

5. Cash and bank balances as at 31 March 2016 and 31December 2015 includes term deposits with banks.



**Consolidated Income Statement**

<i>Figures in THB mn</i>	1Q15	1Q16	YoY Gr.
Operating Revenue	1,804.8	1,957.4	8.5%
Other income	15.3	7.4	(51.6%)
<b>Total Income</b>	<b>1,820.2</b>	<b>1,964.8</b>	<b>7.9%</b>
Cost of goods sold	1,062.9	1,190.0	12.0%
<b>Gross profits</b>	<b>741.9</b>	<b>767.3</b>	<b>3.4%</b>
<i>Gross margin (%)</i>	41.1%	39.2%	
Selling expense	372.2	338.3	(9.1%)
Administrative expense	228.7	258.6	13.1%
<b>Selling &amp; Administrative exp (SGA)</b>	<b>600.9</b>	<b>596.9</b>	<b>(0.7%)</b>
<i>SGA (% to operating revenue)</i>	33.3%	30.5%	
Net foreign exchange loss/(gain)	28.2	26.5	
<b>EBITDA</b>	<b>163.6</b>	<b>188.8</b>	<b>15.4%</b>
<i>% of EBITDA to operating revenue</i>	9.1%	9.6%	
Depreciation & Amortization	35.4	37.5	5.8%
Earning before interest & tax (EBIT)	128.2	151.3	18.1%
Finance cost	2.5	3.4	38.2%
Profit before tax	125.7	147.9	17.7%
Tax expense	19.2	33.8	76.0%
<b>Net Profit</b>	<b>106.5</b>	<b>114.0</b>	<b>7.0%</b>
<i>% of Net profit to operating revenue</i>	5.9%	5.8%	
Earning per share	0.12	0.13	7.0%

**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.