

## Malee Group Public Company Limited and Its Subsidiaries Management Discussion and Analysis For the First Quarter Ended 31 March 2017

### 1. Q1/2017 Highlights

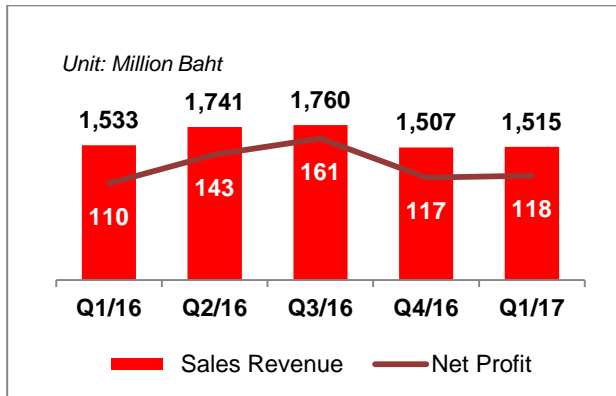


Figure 1: Quarterly results

- In Q1/2017, the Company and its subsidiary recorded total sales of Baht 1,515 million, a slight decrease of 1% YoY. However, export sales continued to perform outstandingly, both in Brand and CMG.
- Net profit was recorded at Baht 118 million, an increase of 8% YoY.
- On 15 March 2017, the Company's joint venture in the Philippines (MMBC) launched its second product, the jelly drink, under the brand of "Jelly Vit" with a good feedback from the market.

### 2. Overview of Domestic Economy and Ready-to-Drink Fruit Juice Market

In Q1/2017, domestic RTD fruit juice market decreased 3% YoY due to the slowdown in domestic consumption.

Moving Annual Total (MAT) March 2017 of domestic RTD fruit juice market was Baht 13,903 million, a slight decrease of 0.3% YoY due to the slowdown in domestic consumption. Proportion of each market segment and growth are as shown in figure 2.

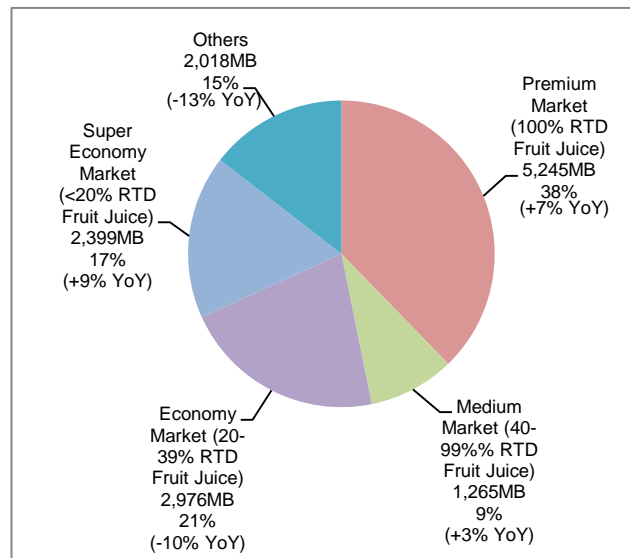


Figure 2: MAT March 2017 RTD Fruit Juice Market Value breakdown by Market

### 3. Results of Operations and Profitability

#### Q1/2017 Sales Revenue

The Company and its subsidiaries recorded sales revenue of Baht 1,515 million, a slight decrease of 1% YoY due to the slowdown of domestic sales in Contract Manufacturing Business (CMG) and Branded Business (Brand), especially from over 30% drop of domestic sales in canned fruit, since the crop of the Company's major agricultural raw materials such as rambutan, longan and lychee were declining last year, while a new crop season has not yet come. The harvest season usually starts in the second quarter to the third quarter of each year.

However, export sales continued to grow outstandingly, both in Brand and CMG. Especially, export sales in Brand which grew by 30%. This was resulted from the Company's strategy in setting up strategic plans for each focused country, such as emerging countries in ASEAN as well as China. Sales breakdown by business and geography are as follows:

#### Sales Breakdown by Business:

- Brand: Baht 688 million, down 4% YoY
- CMG: Baht 827 million, up 1% YoY
- Sales ratio of Brand: CMG was 45:55, compared with 47:53 in Q1/2016.

#### Sales Breakdown by Geography:

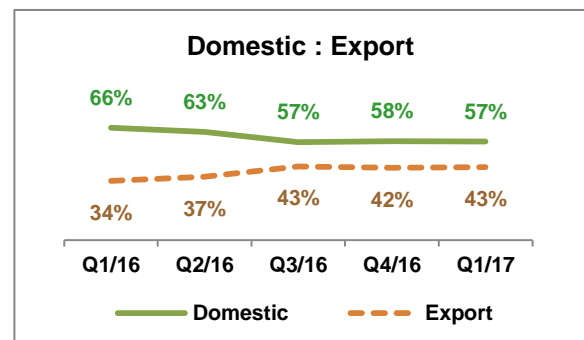
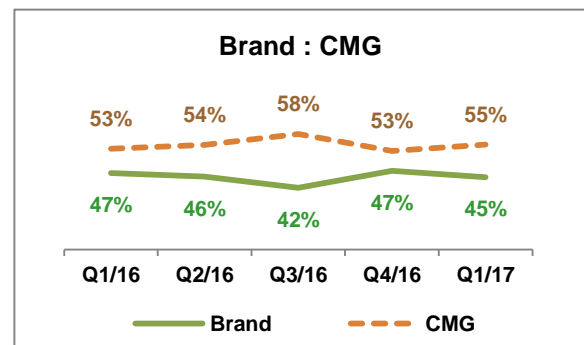
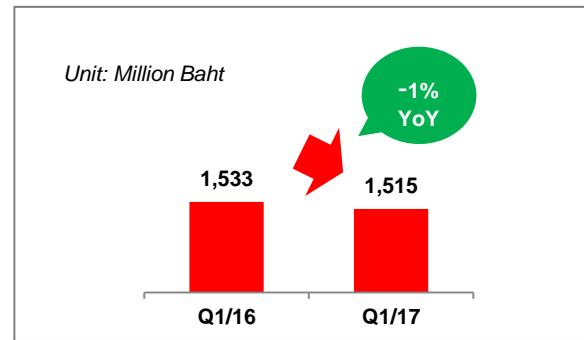
- Domestic: Baht 870 million, down 13% YoY
- Export: Baht 645 million, up 22% YoY
- Sales ratio of Domestic: Export was 57:43, compared with 66:34 in Q1/2016. The ratio agreed with the Company's strategy to increase the proportion of export sales.

#### Q1/2017 Cost of Goods Sold

The Company and its subsidiaries recorded cost of goods sold of Baht 1,041 million, a decrease of 3% YoY following lower sales but at a faster pace than sales growth. Cost of goods sold to sales reduced to 68.7% from 69.9% in Q1/2016 as a result of improved production efficiency.

#### Q1/2017 Gross Profit

The Company and its subsidiaries recorded gross profit of Baht 474 million, an increase of 3% YoY. This represented gross profit margin of 31.3%, an improvement from 30.1% in Q1/2016.



## Q1/2017 Selling Expenses

The Company and its subsidiaries recorded selling expenses of Baht 203 million, a decrease of 9% YoY. Selling expenses to sales revenue reduced to 13.4% from 14.6% in Q1/2016, as a result of the group's cost control policy and increased sales ratio of CMG.

## Q1/2017 Finance Costs

The Company and its subsidiaries recorded finance costs of Baht 6 million, down 9% YoY, as a result of better interest rate as well as improved management of revolving loan.

## Q1/2017 Administrative Expenses

The Company and its subsidiaries recorded administrative expenses of Baht 138 million, an increase of 33% YoY due to higher personnel expenses following the group's policy to prepare for the upcoming growth in the future as well as gradual improvement of employee benefits to enhance competitiveness compared to the industry.

## Q1/2017 Net Profit

Despite a slight decrease of total sales, the Company and its subsidiaries recorded net profit of Baht 118 million, an increase of 8% YoY, representing a net profit margin of 7.7%, an improvement from 7.1% in Q1/2016, in accordance with the Company's strategy and internal management for efficiency enhancement and cost reduction. Net profit has included loss recognition of Baht 7 million from Monde Malee Beverage Corporation (MMBC), the Company's joint venture in the Philippines, as MMBC has launched its second product, the jelly drink, under the brand of "Jelly Vit" since the mid of March 2017, and the feedback was well received feedback. MBCC loss was foreseen and going consistent with the Company's plan, while the loss was considered as a normal level for the business at the beginning stage launching new products into the market which requires high spending.

The Company also recognized profit of Baht 7 million from the disposal of investment in its subsidiary, Lanchang Farm Company Limited (LCF), which is the reversal of impairment of goodwill in LCF in Q4/2016.

## 4. Financial Position of the Company and its Subsidiaries

(Unit: Baht Million)	31 March 2017	31 December 2016	% Change
Cash and cash equivalents	95	92	+3%
Trade receivables	800	731	+9%
Inventories	786	812	-3%
Other current assets	123	96	+29%
<i>Total current assets</i>	<i>1,804</i>	<i>1,731</i>	<i>+4%</i>
Property, plant and equipment	1,846	1,781	+4%
Investments in joint venture	5	5	-1%
Other non-current assets	147	123	+20%
<i>Total non-current assets</i>	<i>1,998</i>	<i>1,909</i>	<i>+5%</i>
<b>Total Assets</b>	<b>3,802</b>	<b>3,640</b>	<b>+4%</b>
Bank overdrafts and short-term loans from financial institutions	1,038	1,047	-1%
Trade payables	398	323	+23%
Current portion of long-term liabilities	0	7	-100%
Current portion of liabilities under financial lease agreements	34	33	+1%
Other non-current liabilities	414	416	-0%
<i>Total Current Liabilities</i>	<i>1,884</i>	<i>1,826</i>	<i>+3%</i>
Long-term loans, net of current portion	0	7	-100%
Liabilities under financial lease agreements	83	91	-9%
Other non-current liabilities	147	138	+7%
<i>Non-current Liabilities</i>	<i>230</i>	<i>235</i>	<i>-2%</i>
<b>Total Liabilities</b>	<b>2,114</b>	<b>2,061</b>	<b>+3%</b>
Authorized share capital	140	140	+0%
Issued and fully paid-up share capital	140	140	+0%
Share premium	6	6	-0%
Retained earnings	1,348	1,229	+10%
Other components of equity	194	199	-3%
<b>Total equity of parent Company's shareholders</b>	<b>1,687</b>	<b>1,575</b>	<b>+7%</b>
Non-controlling interests	0	5	-100%
<b>Total Shareholders' Equity</b>	<b>1,687</b>	<b>1,579</b>	<b>+7%</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>3,802</b>	<b>3,640</b>	<b>+4%</b>

### Assets

As at 31 March 2017, the Company and its subsidiaries had total assets of Baht 3,802 million, an increase of 4% from Baht 3,640 million as at 31 December 2016. This was mainly due to higher trade receivables as well as additional investment in machinery to improve production efficiency and prepare for increased level of production.

### Liabilities

As at 31 March 2017, the Company and its subsidiaries had total Liabilities of Baht 2,114 million, an increase of 3% from Baht 2,061 million as at 31 December 2016, mainly due to higher trade payables resulted from the preparation of packing materials for the upcoming crop season for the canned fruit production in Q2/2017.

## Shareholders' Equity

As at 31 March 2017, the Company and its subsidiaries had total equity of parent Company's shareholders of Baht 1,687 million, an increase of 7% from Baht 1,575 million as at 31 December 2016, as a result of operating profit during the year.

## 5. Liquidity and Capital Resources

### Current Ratio

As at 31 March 2017, the Company and its subsidiaries recorded current ratio of 0.96x, a slight increase from 0.95x as at 31 December 2016, resulted from higher trade receivables, lower trades payable, lower Bank overdrafts and short-term loans from financial institutions as well as lower current portion of long-term liabilities.

### Cash Flow

(Unit: Baht Million)	3M/2017	3M/2016	% Change
Profit (loss) from operating activities before changes in operating assets and liabilities	194	205	-5%
Profit (loss) from changes in operating assets and liabilities	(19)	15	-222%
<b>Net Cash flows from (used in) operating activities</b>	<b>175</b>	<b>220</b>	<b>-20%</b>
Decrease (increase) in investments in joint venture	0	(38)	+100%
Acquisition of property, plant and equipment	(169)	(29)	-485%
Net Cash flows from other investing activities	22	3	+580%
<b>Net Cash flows from (used in) investing activities</b>	<b>(147)</b>	<b>(64)</b>	<b>-129%</b>
Increase (decrease) in short-term loans from financial institutions	(5)	(156)	+97%
Increase (decrease) in long-term loans	(6)	(2)	-125%
Cash paid to liabilities under finance lease agreement	(8)	4	-296%
Finance costs paid	(5)	(7)	+17%
Cash flows from other financing activities	(3)	0	N.A.
<b>Net Cash flows from (used in) financing activities</b>	<b>(26)</b>	<b>(161)</b>	<b>+84%</b>
Net increase (decrease) in cash and cash equivalents	3	(6)	+144%
Cash and cash equivalents at beginning of periods	92	75	+23%
Cash and cash equivalents at end of periods	95	69	+37%

At the end of Q1/2017, the Company and its subsidiaries recorded ending cash of Baht 95 million, an increase from Baht 69 million at the Q1/2016, with details as follows:

- Net cash received from operating activities of Baht 175 million, consisting of (1) cash inflows from operation Baht 194 million, mainly resulted from operating profit; and (2) cash outflows from net change in working capital of Baht 19 million as a result of an increase in inventories and a decrease in trade payables.
- Net cash used in investing activities of Baht 147 million, comprising of (1) cash outflows from investment in fixed assets of Baht 169 million; (2) proceeds from sale of fixed assets of Baht 4 million; and (3) cash inflows from other investing activities of Baht 18 million.
- Net cash used in financing activities of Baht 26 million, consisting of (1) a decrease in bank overdrafts and short-term loans from financial institutions of Baht 5 million; (2) a decrease in long-term loan of Baht 6 million; (3) repayment to liabilities under financial lease agreement of Baht 8 million; (4) cash paid to finance cost of Baht 5 million; and (5) cash paid for other financing activities of Baht 3 million.

## 6. Forward Looking

The Company is confident that it will be able to accomplish target sales growth of 10-15% in 2017 by maintaining growth of Brand and CMG businesses, both of which will grow domestically and internationally. Export sales growth tends to grow at a higher rate than domestic due to its greater opportunities. Furthermore, the Company has been working closely with its distributors or partners in each country in cooperatively setting up strategic plans to select the right product and marketing strategy for each focused country, such as emerging countries in ASEAN as well as China.

The Company is in the process of improving the plant facilities and machinery for production efficiency enhancement and cost reduction. The entire process will take approximately 3 years, starting from 2016, continuing to 2017, and expecting to complete in 2018. The machinery improvement will include the replacement of a new manufacturing line which is expected to be ready for production in Q4/2017. The new manufacturing line is currently the world's best technology and will allow the Company to produce a wider range of products with higher production efficiency and lower production cost. The greater production capability of the new machinery line will also create more prospects to gain new customers or new products from currently, thus improving the Company's sales, earnings as well as profitability margin, following the higher utilization rate of the production line.