



**Malee Group Public Company Limited and Its Subsidiaries
Management Discussion and Analysis
For the Second Quarter and Six-Month Period Ended 30 June 2017**

1. Q2/2017 Highlights

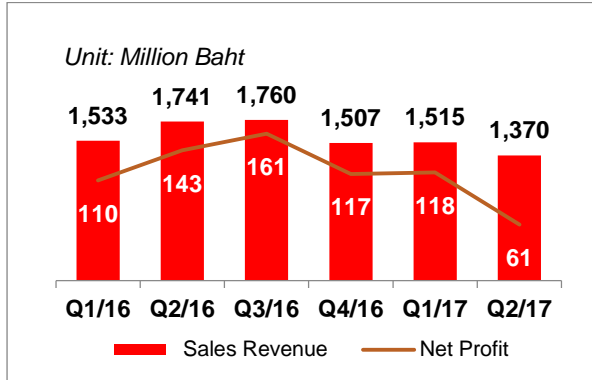


Figure 1: Quarterly results

- In Q2/2017, the Company and its subsidiary recorded total sales of Baht 1,370 million, a decrease of 21% YoY due to the slowdown in domestic sales and CMG business. However, Branded export sales continued to grow well by c.20%.
- Net profit in Q2/2017 was Baht 61 million, a decrease of 57% YoY due to 1) higher cost per unit resulted from lower capacity utilization; 2) higher depreciation resulted from additional investment in machinery to improve production efficiency, reduce production cost, and prepare for increased level of production; 3) lower sales proportion in Branded domestic sales which contribute high gross margin; 4) marketing activities to help dry stock at trade stores and prepare for new packaging launch in Q3; and 5) increased administrative expenses from higher personnel expenses to prepare for the Company's upcoming leaping growth in the future.

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

In Q2/2017, domestic RTD fruit juice market decreased 15% YoY due to the slowdown in domestic consumption.

Moving Annual Total (MAT) June 2017 of domestic RTD fruit juice market was Baht 13,311 million, a decrease of 6% YoY following the slowdown in domestic consumption which reflected in sluggish spending in fast moving consumer goods (FMCG). Proportion of each market segment and growth is as shown in figure 2.

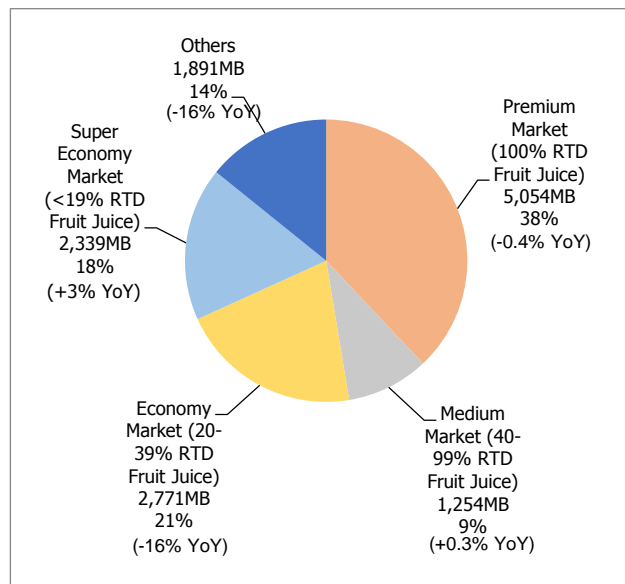
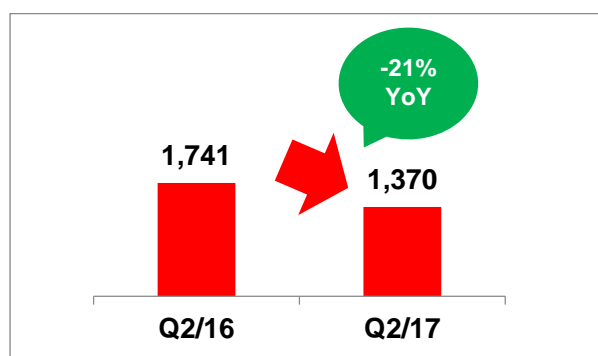


Figure 2: MAT Jun 2017 RTD Fruit Juice Market Value breakdown by Market Segment

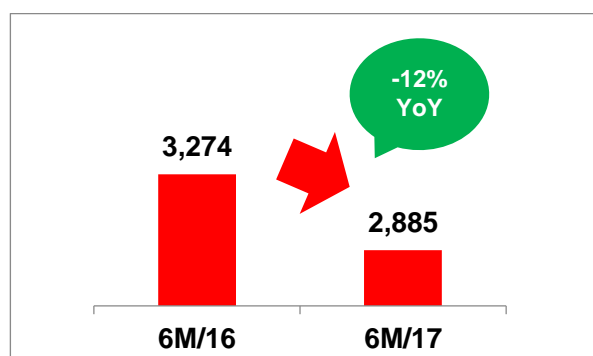
3. Results of Operations and Profitability



Q2/2017 Sales Revenue

The Company and its subsidiaries recorded sales revenue of Baht 1,370 million, a decrease of 21% YoY, with details as follows:

- Branded domestic sales declined by c.30% due to:
 - Contraction in domestic spending
 - Branded domestic sales of canned fruit dropped by over 40% 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 delayed and just started in the end of Q2/2017
 - Branded domestic sales of fruit juices dropped by c.30% due to the Company's less sell-in to reduce inventory at trade stores. This was resulted from the Company's preparation to launch products in new packaging in Q3. However, the Company has gained more market share in the premium fruit juice segment from the previous quarter due to higher sell-out to consumers, compared with competitors in the market.
- Contract Manufacturing Business (CMG) domestic sales fell by c.20% as a result of shrinking domestic spending
- CMG export sales decreased by c.20% since the Company has implemented new preventive measures to control the quality of coconut water throughout the supply chain to ensure that the coconut water products manufactured by the Company will have no quality problems in the future. The new preventive measures will also come with traceability, enhancing the ability to trace back the route of the product. The Company is accelerating collaboration with its sources of coconut water in order to develop more qualified coconut water through the new quality check, which should be completed by the end of 2016. We expect that the situation will be back to normal next year.



6M/2017 Sales Revenue

The Company and its subsidiaries recorded sales revenue of Baht 2,885 million, a decrease of 12% YoY, with details as follows:

- Branded domestic sales declined by c.20% due to:
 - Contraction in domestic spending
 - Branded domestic sales of canned fruit dropped by c.40% due to the delayed new crop as earlier explained
 - Branded domestic sales of fruit juices dropped by c.15% as the Company sold in less to reduce inventory at trade stores and prepare to launch products in new packaging in Q3 as earlier explained.
- CMG domestic sales fell by c.20% as a result of shrinking domestic spending
- CMG export sales decreased by c.2% due to the implementation of the preventive measures to control the quality of coconut water throughout the supply chain as earlier explained.

However, Branded export sales continued to grow outstandingly by c.25% as a result of the Company's successful marketing strategy in each focused country as earlier explained.

Sales breakdown by business and geography are as follows:

Sales Breakdown by Business:

- Brand: Baht 1,308 million, down 13% YoY
- CMG: Baht 1,577 million, down 11% YoY
- Sales ratio of Brand: CMG was 45:55, compared with 46:54 in the same period last year.

Sales Breakdown by Geography:

- Domestic: Baht 1,672 million, down 20% YoY
- Export: Baht 1,213 million, up 4% YoY
- Sales ratio of Domestic: Export was 58:42, compared with 64:36 in the same period last year.

However, Branded export sales continued to grow strongly by c.20%, since the Company has been working closely with its distributors and partners in each country in cooperatively setting up strategic plans to select the right products and marketing strategy for each focused country, such as emerging countries in ASEAN as well as China.

year. The ratio agreed with the Company's strategy to increase the proportion of export sales.

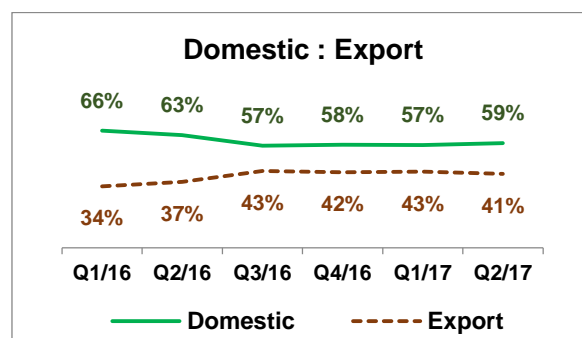
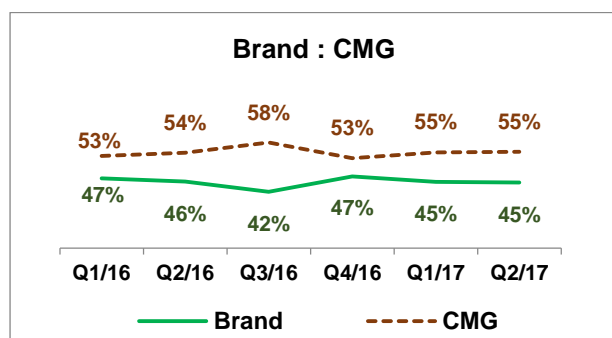
Sales breakdown by business and geography are as follows:

Sales Breakdown by Business:

- Brand: Baht 620 million, down 22% YoY
- CMG: Baht 750 million, down 21% YoY
- Sales ratio of Brand: CMG was 45:55, compared with 46:54 in Q2/2016.

Sales Breakdown by Geography:

- Domestic: Baht 802 million, down 27% YoY
- Export: Baht 568 million, down 12% YoY
- Sales ratio of Domestic: Export was 59:41, compared with 63:37 in Q2/2016. The ratio agreed with the Company's strategy to increase the proportion of export sales.



Q2/2017 Cost of Goods Sold

The Company and its subsidiaries recorded cost of goods sold of Baht 992 million, a decrease of 17% YoY following lower sales. Cost of goods sold to sales increased to 72.4% from 68.4% in Q2/2016 as a result of higher cost per unit due to lower capacity utilization as well as higher depreciation resulted from additional investment in machinery to improve production efficiency, reduce production cost, and prepare for increased level of production in the future.

6M/2017 Cost of Goods Sold

The Company and its subsidiaries recorded cost of goods sold of Baht 2,033 million, a decrease of 10% YoY following lower sales. Cost of goods sold to sales increased to 70.5% from 69.1% in the same period last year as a result of higher cost per unit due to lower capacity utilization as well as higher depreciation resulted from additional investment in machinery to improve production efficiency, reduce production cost, and prepare for increased level of production in the future.

Q2/2017 Gross Profit

The Company and its subsidiaries recorded gross profit of Baht 378 million, a decrease of 31% YoY. This represented gross profit margin of 27.6%, a decline from 31.6% in Q2/2016 as a result of higher cost per unit due to lower utilization as well as lower sales proportion in Branded domestic sales which contribute high gross margin as the Company sold in less to help dry stock at trade stores and prepare for new packaging launch in Q3.

Q2/2017 Selling Expenses

The Company and its subsidiaries recorded selling expenses of Baht 196 million, a decrease of 24% YoY. Selling expenses to sales reduced to 14.3% from 14.8% in Q2/2016, as a result of the group's cost control policy and increased sales ratio of CMG.

Q2/2017 Administrative Expenses

The Company and its subsidiaries recorded administrative expenses of Baht 122 million, an increase of 7% YoY. Administrative expenses to sales increased to 8.9% from 6.6% in Q2/2016 due to higher personnel expenses following the group's policy to prepare for the upcoming leaping growth in the future including additional employment in a newly established subsidiary, gradual improvement of employee benefits to enhance competitiveness compared to the industry as well as higher R&D expenses for new product development.

Q2/2017 Finance Costs

The Company and its subsidiaries recorded finance costs of Baht 5 million, down 22% YoY, as a result of better interest rate as well as improved management of revolving loan.

Q2/2017 Net Profit

The Company and its subsidiaries recorded net profit of Baht 61 million, a decrease of 57% YoY, representing a net profit margin of 4.4%, reducing from 8.2% in Q2/2016 due to higher cost per unit resulted from lower capacity utilization; higher depreciation resulted from additional investment in machinery to improve production efficiency, reduce production cost, and prepare for increased level of production; lower sales proportion in Branded domestic sales which contribute high gross margin; marketing activities to help dry stock at trade stores and prepare for new packaging launch in Q3; and increased administrative expenses from higher personnel expenses to prepare for the Company's upcoming leaping growth in the future

6M/2017 Gross Profit

The Company and its subsidiaries recorded gross profit of Baht 852 million, a decrease of 16% YoY. This represented gross profit margin of 29.5%, a decrease from 30.9% in the same period last year as a result of lower utilization as well as lower sales proportion in Branded domestic sales which contribute high gross margin as the Company sold in less to help dry stock at trade stores for new packaging launch in Q3 as earlier explained.

6M/2017 Selling Expenses

The Company and its subsidiaries recorded selling expenses of Baht 399 million, a decrease of 17% YoY. Selling expenses to sales reduced to 13.8% from 14.7% in the same period last year, as a result of the group's cost control policy and increased sales ratio of CMG.

6M/2017 Administrative Expenses

The Company and its subsidiaries recorded administrative expenses of Baht 260 million, an increase of 19% YoY. Administrative expenses to sales increased to 9.0% from 6.7% in the same period last year due to higher personnel expenses to prepare for the upcoming leaping growth in the future including additional employment in a newly established subsidiary, gradual improvement of employee benefits as well as higher R&D expenses as earlier explained.

6M/2017 Finance Costs

The Company and its subsidiaries recorded finance costs of Baht 11 million, down 16% YoY, as a result of better interest rate as well as improved management of revolving loan.

6M/2017 Net Profit

The Company and its subsidiaries recorded net profit of Baht 180 million, a decrease of 29% YoY, representing a net profit margin of 6.1%, reducing from 7.7% in the same period last year due to higher cost per unit resulted from lower capacity utilization; higher depreciation resulted from additional investment in machinery to improve production efficiency, reduce production cost, and prepare for increased level of production; lower sales proportion in Branded domestic sales which contribute high gross margin; marketing activities to help dry stock at trade stores and prepare for new packaging launch in Q3; and increased administrative expenses from higher personnel expenses to prepare for the Company's upcoming

as well as loss recognition of Baht 1 million from Monde Malee Beverage Corporation (MMBC), the Company's joint venture in the Philippines.

leaping growth in the future as well as loss recognition of Baht 8 million from MMBC. However, losses from MMBC loss was improving, foreseen, and undergoing following 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.

4. Financial Position of the Company and its Subsidiaries

(Unit: Baht Million)	30 June 2017	31 December 2016	% Change
Cash and cash equivalents	72	92	-22%
Trade receivables	676	731	-8%
Inventories	814	812	+0.2%
Other current assets	143	96	+48%
<i>Total current assets</i>	<i>1,705</i>	<i>1,731</i>	<i>-2%</i>
Property, plant and equipment	1,941	1,781	+9%
Investments in joint venture	8	5	+54%
Other non-current assets	155	123	+26%
<i>Total non-current assets</i>	<i>2,103</i>	<i>1,909</i>	<i>+10%</i>
Total Assets	3,808	3,640	+5%
Bank overdrafts and short-term loans from financial institutions	1,208	1,047	+15%
Trade payables	402	323	+25%
Current portion of long-term liabilities	0	7	-100%
Current portion of liabilities under financial lease agreements	34	33	+2%
Other non-current liabilities	370	416	-11%
<i>Total Current Liabilities</i>	<i>2,014</i>	<i>1,826</i>	<i>+10%</i>
Long-term loans, net of current portion	0	7	-100%
Liabilities under financial lease agreements	75	91	-17%
Other non-current liabilities	127	138	-8%
<i>Non-current Liabilities</i>	<i>203</i>	<i>235</i>	<i>-14%</i>
Total Liabilities	2,217	2,061	+8%
Authorized share capital	140	140	+0%
Issued and fully paid-up share capital	140	140	+0%
Share premium	6	6	-0%
Retained earnings	1,248	1,229	+2%
Other components of equity	197	199	-1%
Total equity of parent Company's shareholders	1,591	1,575	+1%
Non-controlling interests	0	5	-100%
Total Shareholders' Equity	1,591	1,579	+1%
Total Liabilities and Shareholders' Equity	3,808	3,640	+5%

Assets

As at 30 June 2017, the Company and its subsidiaries had total assets of Baht 3,808 million, an increase of 5% from Baht 3,640 million as at 31 December 2016. This was mainly due to investment in machinery to improve production efficiency, reduce production cost, and prepare for increased level of production in the future.

Liabilities

As at 30 June 2017, the Company and its subsidiaries had total Liabilities of Baht 2,217 million, an increase of 8% 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 crop season for the canned fruit production in Q2/2017 and Q3/2017 as well as an increase in short-term loans from financial institutions for the use of the Company's working capital.

Shareholders' Equity

As at 30 June 2017, the Company and its subsidiaries had total equity of parent Company's shareholders of Baht 1,591 million, an increase of 1% 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 30 June 2017, the Company and its subsidiaries recorded current ratio of 0.85x, a decrease from 0.95x as at 31 December 2016, resulted from lower trade receivables, higher trade payables as well as higher bank overdrafts and short-term loans from financial institutions for the use of the Company's working capital.

Cash Flow

(Unit: Baht Million)	6M/2017	6M/2016	% Change
Profit (loss) from operating activities before changes in operating assets and liabilities	325	445	-27%
Profit (loss) from changes in operating assets and liabilities	(16)	(60)	+74%
Net Cash flows from (used in) operating activities	309	385	-20%
Decrease (increase) in investments in joint venture	(17)	(38)	+57%
Acquisition of property, plant and equipment	(307)	(45)	-583%
Net Cash flows from other investing activities	23	8	+18%
Net Cash flows from (used in) investing activities	(301)	(76)	-298%
Increase (decrease) in bank overdraft and short - term loans from financial institutions	166	(205)	+181%
Increase (decrease) in long-term loans	(6)	(4)	-42%
Cash paid to liabilities under finance lease agreement	(15)	(7)	-106%
Finance costs paid	(11)	(13)	+14%
Dividend paid	(164)	(98)	-67%
Net Cash flows from (used in) financing activities	(29)	(327)	+91%
Net increase (decrease) in cash and cash equivalents	(20)	(18)	-15%
Cash and cash equivalents at beginning of periods	92	75	+23%
Cash and cash equivalents at end of periods	72	58	+25%

At the end of Q2/2017, the Company and its subsidiaries recorded ending cash of Baht 72 million, an increase from Baht 58 million at the Q2/2016, with details as follows:

- Net cash received from operating activities of Baht 309 million, consisting of (1) cash inflows from operation Baht 325 million, mainly resulted from operating profit and (2) cash outflows from net change in working capital of Baht 16 million mainly due to lower trade receivables and higher trade payables.
- Net cash used in financing activities of Baht 29 million, consisting of (1) an increase in bank overdrafts and short-term loans from financial institutions of Baht 166 million; (2) a decrease in long-term loan of Baht 6 million; (3) repayment to liabilities under financial lease agreement of Baht 15 million; (4) cash paid to finance costs of Baht 11 million; and (5) cash paid for dividend to the Company's shareholders of Baht 164 million.

- Net cash used in investing activities of Baht 301 million, comprising of (1) cash outflows from investment in fixed assets of Baht 307 million; (2) cash outflows from investments in joint venture of Baht 17 million; (3) proceeds from sale of fixed assets of Baht 4 million; and (4) cash inflows from other investing activities of Baht 19 million.

6. Forward Looking

The Company expects that this year it will be able to achieve sales growth of c.5%, which is lower than its original projection of 10-15%. We anticipate that sales growth in the second half of this year will come from 1) Branded export sales which will continue to grow prominently; 2) Branded domestic sales recovery, driven by new marketing campaign and new packaging launch in Q3/2017 as well as new products launch in the second half of this year; 3) CMG sales, supported by new products and new customers following the Company's diversification strategy both in term of product and customer; and 4) a new manufacturing line which will 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.

Referring that the Company has implemented new preventive measures to control the quality of coconut water throughout the supply chain since Q2/2017 to ensure that the coconut water products manufactured by the Company will have no quality problems in the future, the new measures will also come with traceability, enhancing the ability to trace back the route of the product. The Company is accelerating collaboration with its sources of coconut water in order to develop more qualified coconut water through the new quality check, which should be completed by the end of 2016. We expect that the situation will be back to normal next year.

We are confident with our new mission in moving forward is to become a Health-Driven Global F&B firm through a 4R strategy that we have already started to implement as follows:

First R – Rebrand: The Company is changing its corporate brand identity to be more modern and reflect the Company's status as an international brand. The new corporate brand identity communicates the Company's uniqueness as a global producer of healthy food and beverages under its "Growing Well Together" concept, as the Company aims for sustainable growth along with its consumers, employees, farmers, and the environment. In addition, the Company will also continue to refresh its product portfolio including categorizing the current product group, redesigning packaging, and new product development in alignment with the Company's direction of focusing on health-driven products.

Second R – Reorganize: The Company is preparing for future growth with an organization-wide restructuring. Executives will be repositioned for more effective performance, while staff members will be selected and given responsibilities that best fit their competencies, positioning the Company to unlock the full potential of its workforce through a blend of skills and experience. In addition, staff development program will also be addressed to develop employees' skills and capabilities.

Third R – Renovate: Investment of over Baht 1,500 million during 2016-2018 to improve workplace, production facilities and machinery, and work processes including production processes based on breakthrough technology, advanced R&D tools, and a product quality control system, while also improving its back office systems for greater efficiency and effectiveness. This program also covers: 1) Modernizing the factory master plan to ensure greater efficiency and save costs; 2) Investing in the latest production facilities and machinery to increase annual production capacity from 300 to 330 million liters per annum; 3) Improving the Back Office by developing more comprehensive IT systems, a CRM system, and using data mining to enhance employees' working efficiency; and 4)

Renovating the headquarters to ensure employees' happiness at work under the concept of "making the office their second home.

Fourth R – Reconnect: The Company is reconnecting with consumer demands in different markets for variety and rapid change by strengthening and developing its collaboration with leading partners who have considerable expertise in different areas, such as new product development, R&D for production technology, and developing sales channels both domestic and international.

The Company expects that the 4R strategy that we have started to implement and will continue to move forward will successfully make Malee ramp up growth sustainably and be widely recognized as a 'Health-Driven Global F&B firm' by 2021, strengthening 'Malee' products position as the leading health products of choice among domestic and international consumers.