Malee Group Public Company Limited and Its Subsidiaries
Management Discussion and Analysis
For the First Quarter Ended 31 March 2018

1. Q1/2018 Highlights

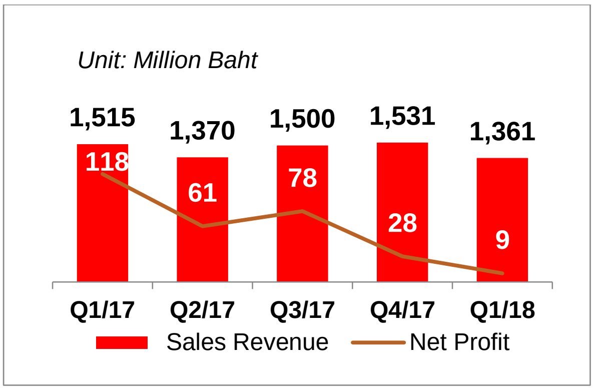


Figure 1: Quarterly results

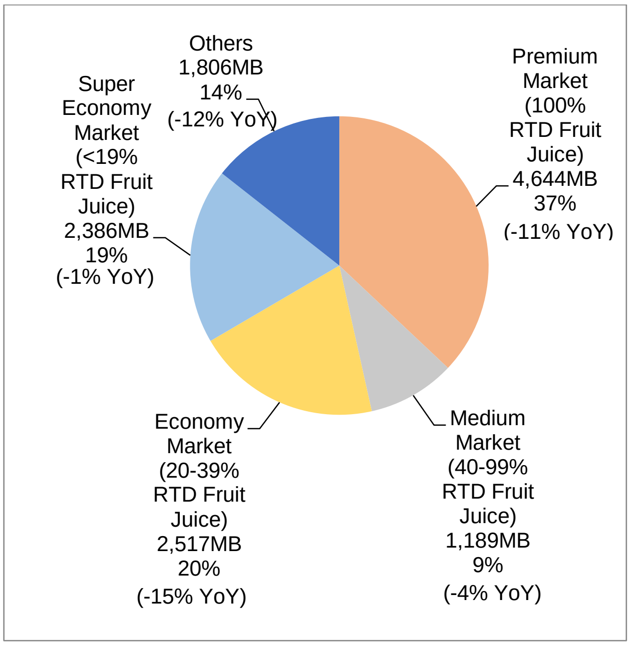
- In Q1/2018, the Company and its subsidiary recorded total sales of Baht 1,361 million, a decrease of 10% YoY, following a drop in export CMG and export branded. However, domestic CMG grew outstandingly from new products as well as growth from some exiting products. Domestic branded was quite maintained.
- Net profit in Q1/2018 was Baht 9 million, a decrease of 92% YoY due to 1) lower sales contribution of export pressuring net profit margin 2) higher depreciation resulted from additional investments in plant, machinery, and office renovations to improve production efficiency and reduce production cost, in order to prepare for an increased level of production and the Company's growth from 2018 onwards; 3) cost from trial runs and start-up of a new production line for some products, driving higher yield loss and cost from relocating some product from the old production line to the new one; 4) higher excise tax as well as sugar tax following the Excise Act, B.E. 2560, effective since 16 September 2017; 5) higher R&D expenses; and 6) higher finance costs due to higher borrowings as a result of additional investments in machinery and joint ventures both in Thailand and overseas.
- EBITDA in Q1/2018 was Baht 75 million, a decrease of 62% YoY, but an increase of 19% QoQ.
- On 27 April 2018, the Company has completed its acquisition of 65% ownership in Long Quan Safe Food JSC (LQSF), a major beverage producer in Vietnam. LQSF has cost competitiveness and will enhance the Company's production base for emerging markets in Southeast Asia, while LQSF's wide-coverage distribution that reaches almost all regions of Vietnam will help expand the Company's business in Vietnam.

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

In Q1/2018, domestic RTD fruit juice market continued to decrease 10% YoY and 8% QoQ, since fundamental factors supporting the overall purchasing power remained soft and did not cover all areas, especially in the low income consumers, although overall private consumption was seen improving.

Moving Annual Total (MAT) March 2018 of domestic RTD fruit juice market was Baht 12,542 million, a decrease of 10% YoY. Meanwhile, the overall domestic beverage market slowed down by 2% YoY, going at the same direction of the slowdown in food and beverage segment. Proportion of each market segment and growth of domestic RTD fruit juice market is as shown in figure 2 *(Source: Nielsen)*.

For 2018, the Company is planning to launch new products into new categories besides ready-to-drink fruit juice. The focus is mainly on health products but also able to reach the mass market, which will extend the Company's expansion into new segments in the future, starting from the end of Q2/2018, while more new products will fully penetrate in Q3/2018.



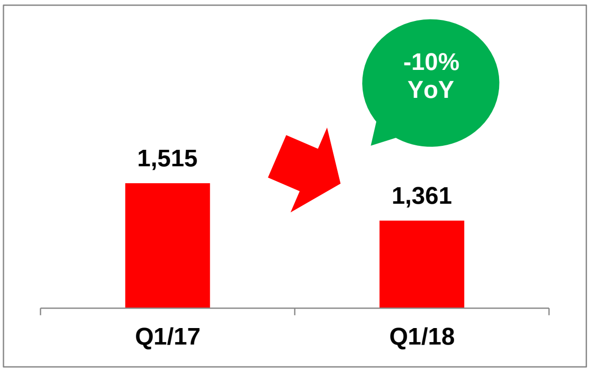
<u>Figure 2</u>: MAT Mar 2018 RTD Fruit Juice Market Value breakdown by Market Segment

3. Results of Operations and Profitability

<u>Q1/2018 Sales Revenue</u>

The Company and its subsidiaries recorded sales revenue of Baht 1,361 million, a decrease of 10% YoY, with details as follows:

- Domestic branded sales slightly declined by c.1% YoY.
- Export branded sales dropped by c.20% YoY, as last year there were sales of coconut water with annual contract, which already expired. In addition, Thai baht strengthened to nearly 10% against the US dollar compared with the same period last year also had an impact on sales. However, if considering only normal sales, sales in the Company's major focused countries still could continue to grow.
- Export CMG sales decreased by c.45% YoY, since there was some customer ending the distribution contract with some retailer which resulted in reduced sales volume since Q4/2017. Meanwhile there was some customer changing the sales format from overseas to domestic. Baht strengthening also had a partial impact on customers' costs and sales volume.

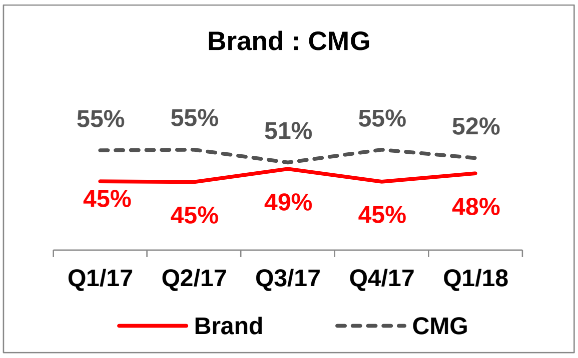


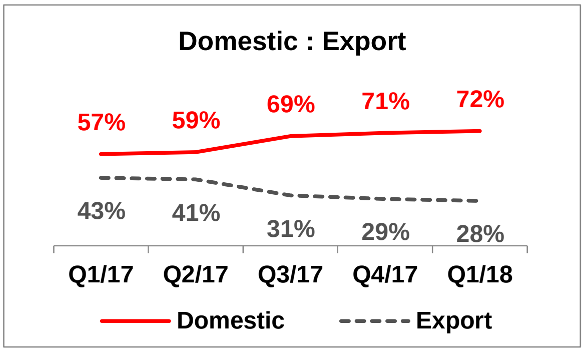
- Domestic Contract Manufacturing (CMG) sales increased by c.35% YoY, supported by new products launch, growth from some existing products as well as change of the sales platform of some CMG customer from abroad to domestic.

Sales breakdown by business and geography are as follows:

Sales Breakdown by Business:
- Brand: Baht 649 million, down 6% YoY
- CMG: Baht 711 million, down 14% YoY
- Sales ratio of Brand: CMG was 48:52, compared with 45:55 in Q1/2017.

Sales Breakdown by Geography:
- Domestic: Baht 978 million, up 12% YoY
- Export: Baht 383 million, down 41% YoY
- Sales ratio of Domestic: Export was 72:28, compared with 57:43 in Q1/2017.





<u>Q1/2018 Cost of Goods Sold</u>

The Company and its subsidiaries recorded cost of goods sold of Baht 1,022 million. Cost of goods sold to sales increased to 75.1% from 68.7% in Q1/2017, as a result of higher depreciation resulted from additional investments in machinery to improve production efficiency and reduce production cost, in order to prepare for an increased level of production from 2018 onwards; cost from trial runs and start-up of a new production line for some products, driving higher yield loss; cost from relocating some product from the old production line to the new one; and higher excise tax as well as sugar tax following the Excise Act, B.E. 2560 which was effective since 16 September 2017.

However, cost increase is mainly due to investments to build the foundation for future business growth, while some investments cannot generate revenue immediately, and some investments are not fully utilized or have not reached the optimal level yet. Therefore, cost per unit was higher at this point, which should continue to impact the Company's performance for the short term. However, the Company's operating performance is expected to rise from Q3/2018 onwards.

<u>Q1/2018 Gross Profit</u>

The Company and its subsidiaries recorded gross profit of Baht 339 million, a decrease of 28% YoY. This represented gross profit margin of 24.9%, a decline from 31.3 % in Q1/2017 as a result of higher cost of goods sold as earlier explained.

Q1/2018 Selling Expenses

The Company and its subsidiaries recorded selling expenses of Baht 204 million, quite unchanged YoY. Selling expenses to sales was 15.0%, an increase from 13.4% in Q1/2017 due to lower sales.

Q1/2018 Finance Costs

The Company and its subsidiaries recorded finance costs of Baht 12 million, an increase of 119% YoY due to higher borrowings as a result of additional investments in machinery to improve production efficiency and reduce production cost, in order to prepare for an increased level of production in the future. In addition, the Company has gradually invested in an overseas joint venture. Capitalization period for capitalized interest on investment in buildings, plants, and machinery ceases when the asset is ready for use (interest expense incurred during ongoing construction is eligible for capitalization).

Q1/2018 EBITDA

The Company and its subsidiaries recorded EBITDA of Baht 75 million, a decrease of 62% YoY but improved 19% QoQ. EBITDA margin was 5.5%, a decrease from 12.7% in Q1/2017 but improved from 4.1% in Q4/2017. This was mainly due to higher depreciation and finance costs from the Company's investments previously, which has affected the Company's performance since Q4/2016. However, EBITDA was seen recovered in Q1/2018, and other performance indicators should also be seen from Q3/2018 onwards.

Q1/2018 Administrative Expenses

The Company and its subsidiaries recorded administrative expenses of Baht 127 million, a decrease of 8% YoY. Administrative expenses to sales increased to 9.3%, a slight increase from 9.1% in Q1/2017, resulted from lower sales.

Q1/2018 Net Profit

The Company and its subsidiaries recorded net profit of Baht 9 million, a decrease of 92% YoY, representing a net profit margin of 0.7%, reducing from 7.7% in Q1/2017 due to 1) lower sales contribution of export pressuring net profit margin 2) higher depreciation resulted from additional investments in plant, machinery, and office renovations to improve production efficiency and reduce production cost, in order to prepare for an increased level of production and the Company’s growth from 2018 onwards; 3) cost from trial runs and start-up of a new production line for some products, driving higher yield loss and cost from relocating some product from the old production line to the new one; 4) higher excise tax as well as sugar tax following the Excise Act, B.E. 2560, effective since 16 September 2017; 5) higher R&D expenses; and 6) higher finance costs due to higher borrowings as a result of additional investments in machinery and joint ventures, both in Thailand and overseas.

However, the increase in costs is mainly due to investments to build the foundation for future business growth, while some investments cannot generate revenue immediately, and some investments are not fully utilized or have not reached the optimal level yet. Therefore, cost per unit was higher at this point, which should continue to impact the Company’s performance for the short term. The Company’s operating performance is expected to rise from Q3/2018 onwards.

4. Financial Position of the Company and its Subsidiaries

(Unit: Baht Million)	31 March 2018	31 December 2017	% Change
Cash and cash equivalents	426	100	+324%
Trade receivables	826	781	+6%
Inventories	879	1,044	-16%
Other current assets	184	180	+2%
Total current assets	*2,315*	*2,106*	*+10%*
Property, plant and equipment	2,034	2,071	-2%
Investments in joint venture	53	53	-
Other non-current assets	160	160	-
Total non-current assets	*2,246*	*2,284*	*-2%*
Total Assets	**4,562**	**4,390**	+4%
Bank overdrafts and short-term loans from financial institutions	1,642	1,328	+24%
Trade payables	324	473	-31%
Current portion of long-term loans	214	128	+67%
Current portion of liabilities under financial lease agreements	37	40	-8%
Other non-current liabilities	314	342	-8%
Total Current Liabilities	*2,531*	*2,309*	*+10%*
Long-term loans, net of current portion	289	246	+17%
Liabilities under financial lease agreements	78	85	-9%
Other non-current liabilities	149	137	+9%
Non-current Liabilities	*516*	*469*	*+10%*
Total Liabilities	**3,046**	**2,778**	+10%
Authorized share capital	140	140	-
Issued and fully paid-up share capital	140	140	-
Share premium	6	6	-0.0%
Retained earnings	1,276	1,270	+0.5%
Other components of equity	196	196	-0%
Deduct: Treasury stock	(114)	-	-
Total equity of parent Company's shareholders	**1,503**	**1,612**	-7%
Non-controlling interests	12	0	-
Total Shareholders' Equity	**1,515**	**1,612**	-6%
Total Liabilities and Shareholders' Equity	**4,562**	**4,390**	+4%

Assets

As at 31 March 2018, the Company and its subsidiaries had total assets of Baht 4,562 million, an increase of 4% from Baht 4,390 million as at 31 December 2017. This was mainly due to increased cash and cash equivalents prepared for investment in subsidiary and joint ventures. Trade receivables were also higher due to higher sales contribution of domestic whose collection period is longer than export.

Liabilities

As at 31 March 2018, the Company and its subsidiaries had total Liabilities of Baht 3,046 million, an increase of 10% from Baht 2,778 million as at 31 December 2017, mainly due to an increase in loans from financial institutions for the Company's working capital and investments.

Shareholders' Equity

As at 31 March 2018, the Company and its subsidiaries had total equity of parent Company's shareholders of Baht 1,503 million, a decrease of 7% from Baht 1,612 million as at 31 December 2017, due to the recorded transaction of treasury shares from shareholders' equity for financial management of 4 million shares, with total buyback amount of Baht 114 million.

5. Liquidity and Capital Resources

Current Ratio

As at 31 March 2018, the Company and its subsidiaries recorded current ratio of 0.91x, unchanged from the end of last year. Current assets were higher resulted from increased cash and cash equivalents in preparation for investment in subsidiary and joint ventures. Trade receivables were also higher due to higher sales contribution of domestic whose collection period is longer than export. Meanwhile, current liabilities were also higher mainly due to an increase in bank overdrafts and short-term loans from financial institutions and current portion of long-term loan for use of the Company's working capital.

Cash Flow

(Unit: Baht Million)	3M/2018	3M/2017	% Change
Profit (loss) from operating activities before changes in operating assets and liabilities	84	194	-57%
Profit (loss) from changes in operating assets and liabilities	(60)	(19)	-225%
Net Cash flows from (used in) operating activities	**24**	**175**	**-87%**
Acquisition of property, plant and equipment	(36)	(169)	+79%
Net Cash flows from other investing activities	23	22	+4%
Net Cash flows from (used in) investing activities	**(13)**	**(147)**	+91%
Increase (decrease) in bank overdraft and short - term loans from financial institutions	318	(5)	-
Increase (decrease) in long-term loans from financial institutions	200	(6)	-
Repayment of long-term loans from financial institutions	(71)	0	-
Cash paid to liabilities under finance lease agreement	(11)	(8)	-41%
Treasury shares	(114)	0	-
Finance costs paid	(6)	(5)	-8%
Dividend paid	(0)	(3)	+100%
Net Cash flows from (used in) financing activities	**316**	**(26)**	**+1323%**
Net increase (decrease) in cash and cash equivalents	326	3	-
Cash and cash equivalents at beginning of periods	100	92	+9%
Cash and cash equivalents at end of periods	426	95	+350%

At the end of Q1/2018, the Company and its subsidiaries recorded ending cash of Baht 426 million, an increase from Baht 95 million at the Q1/2017, with details as follows:

- Net cash received from operating activities of Baht 24 million, consisting of (1) cash inflows from operating activities before changes in operating assets and liabilities of Baht 84 million, mainly resulted from operating profit and (2) cash outflows from net change in working capital of Baht 60 million mainly due to higher inventories, trade receivables, and other receivables.

- Net cash used in investing activities of Baht 13 million, comprising of (1) cash outflows from investments in fixed assets of Baht 36 million; (2) cash received from non-controlling interests in subsidiary of Baht 12 million; (3) proceeds from sale of fixed assets of Baht 10 million; and (4) cash inflows from other investing activities of Baht 1 million.

- Net cash received in financing activities of Baht 316 million, consisting of (1) an increase in bank overdrafts and short-term loans from financial institutions of Baht 318 million; (2) an increase in long-term loans from financial institutions of Baht 200 million; (3) repayment to long-term loans from financial institutions of Baht 71 million; (4) repayment to liabilities under financial lease agreement of Baht 11 million; (5) cash paid for treasury shares of Baht 114 million; and (6) cash paid to finance costs of Baht 6 million;

Forward Looking

In Q1/2018, the Company's sales declined mainly due to export CMG and export branded business, while the Company's costs increased from investments to build the foundation for future business growth. Since some investments cannot generate revenue immediately, and some investments are not fully utilized or have not reached the optimal level yet; cost per unit was higher at this point, and should continue to impact the Company's performance for the short term. However, the Company's operating performance is expected to rise from Q3/2018 onwards, as the Company will be able to get more benefits from those investment projects.

In the past 3 years, the Company has been building its foundation and strengths for future business growth, i.e. investments in plant and machinery, aiming at higher production efficiency, reduced production cost, quality systems improvement, investments in research and development; adding the competent personnel; establishment of a new subsidiary; building business partnerships and establishing joint ventures in the Philippines, Indonesia, and Thailand; and the latest, an acquisition of 65% ownership in a beverage company in Vietnam which will enhance the Company to expand beverage business in emerging countries in Southeast Asia. Recent investment projects of the Company were following its regional networking strategy, planning to utilize the strengths of its partners in each country to build a strong regional network, which will in turn enhance the Company to strengthen its competitiveness to sustainably accelerate growth in the region.

The Company has completed its investment in the must-have projects which are necessary for driving sales. For the nice-to-have projects which will help enhance efficiency or reduce costs, the Company will hold those investments for the time being. After all invested projects are able to turn from cost to income, and the Company's operating performance is recovered and improving, then the Company will reconsider the adjourned projects again. In other words, the Company will not have major capex within this year.

The Company is putting its full efforts in order to achieve the sales target growth of 30% in 2018, where the strong growth will be seen in the second half of this year, according to the Company's business plan. The Company has different business plans for each business segment. For domestic branded business, the Company is planning to launch new products into new categories besides ready-to-drink fruit juice, mainly focusing on health products but also able to reach the mass market, which should be starting from end of Q2/2018 onwards. For export branded business, the Company will be able to start a beverage business in Vietnam as well as a joint venture business in Thailand distributing personal care products from end of Q2/2018 onwards. For joint venture business in Indonesia, it should be in operation in Q4/2018 onwards. For CMG business, the Company has been working with diversification strategy for more than one year, both in term of product groups and customers. Our new customers are undergoing their product's trial runs, while the more rounds of trial runs, the higher quality of products. However, this also takes longer period, thus there is lapping period that reduced sales from some product group could not be immediately fully covered by new sales orders which are gradually increasing. However, after the takeoff of new customers and new products from Q3/2018 onwards, sales of CMG business will be more stable. All of which mentioned above will help support the Company to achieve its growth target for 2018.