

Management Discussion and Analysis for 2Q 2014 and First Half of 2014

1. Overall business performances

2Q 2014

MC GROUP reported a continued growth of its financial performances as it posted sales revenues of THB 815 million in 2Q 2014, equivalent to a 27% increase from the same quarter last year. This was largely due to the Company's strategy to expand points of sales for consumers to better reach its products as well as the consolidation of sales revenue of THB 96 million from Time Deco Corporation Limited ("Time Deco") that the Company acquired in November 2013.

However, due to political instability that lasted until late May, a subsequent announcement of martial laws, shorter operating hours due to curfew and lackluster consumer's spending in provincial areas, same stores sales fell 5% compared to the same period the previous year.

In 2Q 2014, MC GROUP announced a gross profit of THB 434 million, representing a 16% increase thanks to the growth of sales revenues as mentioned earlier. This accounted for a consolidated gross profit margin of 53.2%. Due to contraction of domestic consumption, MC GROUP used active sales promotional campaigns to stimulate consumer's spending which led gross profit margin of the clothing retail business during 2Q 2014 to be 54.5% comparing to 58.1% from the same period in the prior year; while the gross profit margin of Time Deco was at 43.6%.

Earnings before interest, taxes, depreciation and amortization (EBITDA) rose 4% to THB 221 million. Consolidated EBITDA margin stood at 26.8%. The clothing retail business reported EBITDA margin of 28.4%, declining from 32.5% in 2Q 2014 due to investment in new brands launched in 2013 resulting in 1% increase in SG&A, in addition to the aforementioned promotion programs. Time Deco reported EBITDA margin of 15.4%.

The Company's net profit rose 6% to THB 174 million mainly as a result of the growth of sales revenues and interest incomes earned on deposits from its IPO proceeds. The clothing retail business's net profit margin during 2Q 2014 stood at 23% while that of Time Deco's was at 7.8%. The consolidated net profit margin was 20.8% in this quarter.

First Half of 2014

MC GROUP saw its sales surged 27% during the first half of 2014, compared to the same period last year. This was due to the consolidation of Time Deco's financial results, the business which it had acquired in late 2013, together with continued expansion of the Company's points of sale. As at end of June 2014, MC GROUP had a total of 757 points of sales which represented an increase of 63 additional points of sales from end of 2013, details of which are as follows:

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- 52 new domestic points of sales consisting of
 - 32 new free standing shops, resulting in a total of 219 point of sales;
 - 20 new points of sales in modern trade, making modern trade points of sales to reach 516 sites
- 8 new points of sales in overseas market to total 18
- 3 new mobile units to total of 4 at present

However, the political tensions and slowdown in domestic economic activity took its toll on consumer spending across the industry, causing same store sales growth during the first half of the year to fell 3% from the same period previous year.

Thanks to above mentioned sales growth, the first six month's gross profit of 2014 rose 19.3%, leading the consolidated gross profit margin to stay at 54.3%. For the clothing retail business, gross profit margin was at 55.4% down from 57.8% as a result of promotional sales campaigns conducted to boost consumer spending during the economic slowdown and discount events organized to manage inventory in 1Q 2014. For Time Deco, gross profit margin during the first half of 2014 was at 45.7%.

Earnings before interest, taxes, depreciation and amortization (EBITDA) during the first half of 2014 increased 10.5% with consolidated EBITDA margin of 28.4%. The clothing retail business reported EBITDA margin of 30% from 32.8% in 1H 2013 as a result of promotional campaigns mentioned above and higher SG&A from investment for business expansions as introduction of the new brands. Meanwhile, Time Deco reported EBITDA margin of 16.2%.

MC GROUP recorded net profit during the first half of 2014 of THB 380 million or a 10% increase. The clothing retail business and Time Deco net profit margin was at 24.6% and 8.5% respectively. The consolidated net profit margin was at 22.2%.

Financial Position Analysis

Assets

As of June 30, 2014, MC GROUP held a total asset of THB 4,599 million compared to THB 4,652 million as of December 31, 2013. A decrease of THB 53 million caused mainly by the followings:

1. A significant decrease in account receivables totaling THB 229 million which corresponded to the nature of the retail business where consumers usually spent the most during the peak season of 4Q, causing its account receivables to increase around end of year before gradually coming down in subsequent quarters.
2. A reduction of inventory by THB 80 million as part of the Company's initiative to better manage its inventory.
3. An increase of intangible assets totaling THB 65 million following an investment in the Information Technology (IT) infrastructure to enhance operational efficiency.

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4. THB 108 million of goodwill resulted from an investment in Time Deco.

Liabilities

As of June 30, 2014, the Company recorded a total liability of THB 694 million, down THB 257 million from THB 951 million as at December 31, 2013. This was mainly due to repayment of THB 162 million of account payables and a reduction of other current liabilities totaling THB 105 million.

Shareholders' Equity

As of June 30, 2014, the Company registered a shareholders' equity totaling Baht 3.905 billion compared to Baht 3.701 billion as at December 31, 2013, which represents an increase of Baht 204 million as a result of Baht 380 million worth of consolidated net profit during the first half of 2014 and Baht 184 million dividend payment.

2. Liquidity and Financial Ratios

Cash Flow

During the first six months of 2014, the Company's cash and equivalents increased THB 226 million as a result of:

1. Operational cash flow totaling THB 443 million which resulted mainly from a steady operational growth after the Company recorded a net profit of THB 388 million together with cash received from debtors of THB 229 million which drastically reduced account receivable. Most cash was spent to repay trade creditors and other current liabilities totaling THB 162 million.
2. Cash flow spent in investment activities totaling THB 40 million – Part was spent on buildings, factory equipment and decorative items for production and distribution channel expansion of THB 153 million and in tangible assets of THB 69 million, offset with cash received from short-term investment of THB 168 million.
3. Cash flow spent on financing activities of THB 176 million, most of which was paid out as dividend totaling THB 184 million to shareholders.

Financial Ratios

Despite a steady growth of the group's business as witnessed through a 10% net profit increase during the first half of the year compared to the same period a year earlier, the fact that MC GROUP raised THB 3,000 million baht from its IPO during June 2013 caused its average assets and shareholders' equity for 1H 2014 to significantly increase compared to the same period in 2013. This

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led to a drop in the Company's Return on Equity (ROE) to 20% from 30.6% and Return on Assets (ROA) to decline to 16.4% from 19.6%.

For the first half of 2014, the Company's average days in inventory totaled 286 days. The clothing retail business's average day in inventory increased to 253 days from 221 days during the same period in 2013 due to weakening consumer's spending that had started in mid-2013 and that affected inventory levels during the past year. However, MC GROUP's effort to improve its supply chain management while implementing a stricter inventory management policy has brought down its 2Q 2014 inventory level to fall by as much as THB 80 million.

Key Financial Ratios

Financial Ratios			
Liquidity Ratios		30 Jun 2014	31 Dec 2013
Current Ratio	times	5.8	4.4
		1H 2014	1H 2013
Average Days Receivable	days	66	75
Average Days in Inventory	days	286	242
Average Days Payable	days	85	101
Cash Cycle	days	267	216
Profitability Ratios		1H 2014	1H 2013
Gross Profit Margin	%	54.3	57.8
- Clothing retail business	%	55.4	57.8
- Time Deco	%	45.7	
Net Profit Margin	%	22.2	26.1
- Clothing retail business	%	24.6	26.1
- Time Deco	%	8.5	
Return on Equity (Annualized)	%	20.0	30.6
Efficiency Ratios		1H 2014	1H 2013
Return on Assets (Annualized)	%	16.4	19.6
Leverage Ratios		30 Jun 2014	31 Dec 2013
Debt to Equity Ratio	times	0.18	0.26

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Future Outlook

With easing political tension in late May 2014 that led to an implementation of several measures to resolve economic problems which among a few included payments under the rice-pledging program and expediting government spending under the 2014 fiscal year budget, we expect the overall economic outlook and consumer's confidence to gradually improve during the latter half of the year.

MC GROUP will continue implementing its plan to strengthen the foundation of its business. Aside from strengthening its footprint, the Company also focuses at offering consumers the right products, enhancing consumer's experiences and improving our own IT infrastructure for a more efficient operation so that business fundamentals and factors that made us succeed in the past will continue to let us grow sustainably in the future.