

Management Discussion and Analysis

(for 4th quarter 2014 and 2014 annual performance ending 31 December 2014)

1. Overall business performances

4Q 2014

MC GROUP reported 4Q 2014 sales revenue of THB 1,047 mn, a 4.7% increase from the same period last year. With the economy remains sluggish, the growth for this quarter is driven primarily by the consolidation of performance from Time Deco Corporation Limited (“Time Deco”) which the Company acquired in November 2013.

As a consequence of the late winter and slowdown in consumption which has not shown clear signs of recovery, overall same store sales for 4Q 2014 fell 15.5% from the same period last year.

Considering sales revenue by channel, sales through company-owned free standing shop rose 18.8% YOY and now is made up to 47.6% of the total sales revenue, up from 41.9% in 4Q 2013. An increase in free standing shop sales contribution is driven by MC GROUP’s strategic plan to emphasize growth through free standing shop expansion given its advantages from flexibility to introduce new brands which help enhance store productivity. Modern trade sales is accounted for 47.6% in this quarter, comparing to 56.7% in 4Q 2013

MC GROUP announced gross profit of THB 570 mn for the quarter, equivalent to a 2.6% increase. This accounted for a consolidated gross profit margin of 54.4%. Due to contraction of domestic consumption, MC GROUP used active sales promotional campaigns to stimulate consumer’s spending which led gross profit margin of its clothing retail business during 4Q 2014 to be 55.1% comparing to 56.4% from the same period in the prior year; while the gross profit margin of Time Deco stood at 49.3%.

Earnings before interest, taxes, depreciation and amortization (EBITDA) came in at THB 243 mn, 5.2% drop YOY with consolidated EBITDA margin of 23.2%. In addition to promotional sales activities introduced during the quarter to boost consumer spending; investment in new brands launched in 2013, slight increase in selling expenses from sales channel expansion while overall sales were affected by the slowdown in consumption and extraordinary expense related to relocation of the new warehouse resulted in an increase in SG&A to sales revenue ratio to 34.2% in 4Q 2014 from 33.2% in the same quarter last year. Thus, the clothing retail business reported EBITDA margin of 24.7%, declining from 26.6% in 4Q 2013. Time Deco reported EBITDA margin of 10.5%.

The Company reported net profit of THB 195 mn, down 7.2% from same period last year due to the aforementioned factors. Clothing retail business’ net profit margin was at 20.5% down from 21.2%. Time Deco net profit was at 4.6%. Consolidated net profit margin was at 18.5%

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Year 2014

For 2014, sales revenue grew by 16.7% to THB 2,423 mn from the consolidation of Time Deco's financial results, the business the Company acquired in late 2013, together with continued efforts to strengthen its footprints. As at end of December 2014, MC GROUP had a total of 819 points of sales which represented an increase of 125 additional points of sales from end of 2013, details of which are as follows:

- 114 new domestic points of sales to total of 798 locations. Consisting of:
 - 64 new free standing shops, resulting in a total of 251 point of sales;
 - 46 new points of sales in modern trade, making modern trade points of sales to reach 542 sites
 - 4 new mobile units and other to total of 5 at present
- 11 new points of sales in overseas market to total of 21

However, the slowdown in domestic economic activity took its toll on consumer spending across the industry, causing same store sales growth for 2014 to fell 8.1%.

For the year, MC GROUP's gross profit rose 12.1% to THB 1,888 mn, leading the consolidated gross profit margin to be at 54.4%. For the clothing retail business, gross profit margin was at 55.4% down from 57.0% after increasing promotional activity to drive shopper spending during the economic slowdown. For Time Deco, gross profit margin stood at 47.1%.

Earnings before interest, taxes, depreciation and amortization (EBITDA) rose 0.9% with consolidated EBITDA margin stood at 25.7%. The clothing retail business EBITDA margin dipped to 27.0% from 30.2% as a result of promotional campaigns mentioned above, increase selling expenses from shop expansion while performance was affected by the slowdown in consumption, and one-time expense related to relocation of warehouse of THB 20 mn resulted in a temporary increase in SG&A to sales revenue ratio. Meanwhile, Time Deco reported EBITDA margin of 15.6%.

MC GROUP recorded net profit for the year 2014 of THB 712 mn, reflecting a 3% drop. The clothing retail business net profit margin was at 22.2% while Time Deco net profit margin was at 8%, bringing the consolidated net profit margin to be at 20.1%

Financial Position Analysis

Assets

As of December 31, 2014, MC GROUP held a total asset of THB 4,857 mn compared to THB 4,652 million as of December 31, 2013. An increase of THB 205 million caused mainly by the followings:

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- 1) An increase in inventory of THB 173 mn to support more points of sales as well as a slowdown in domestic consumption.
- 2) An increase of intangible assets totaling THB 105 mn following an investment in the Information Technology (IT) infrastructure to enhance operational efficiency.
- 3) A decrease of THB 92 mn in account receivables from change in revenue structure where modern trade channel experiences slowdown in sales while free-standing store channel has been growing.

Liabilities

As of December 31, 2014, the Company recorded a total liability of THB 932 mn, down THB 19 mn from THB 951 million as at December 31, 2013. This was mainly due to reduction of other current liabilities totaling THB 39 mn and deferred tax liabilities of THB 76 mn; offset by an increase in account payables of 50 mn baht following the expansion of sales network and increase in short-term loans from related-parties of THB 47 mn.

Shareholders' Equity

As of December 31, 2014, the Company registered a shareholders' equity totaling THB 3,925 mn compared to THB 3,701 mn as at December 31, 2013, which represents an increase of THB 223 mn as a result of THB 728 mn worth of consolidated net profit for the year 2014 and THB 504 million dividend payments.

2. Liquidity and Financial Ratios

Cash Flow

For the year 2014, the Company's cash and equivalents decreased THB 113 mn as a result of:

- 1) Cash flow received from operating activities of THB 651 mn driven mainly from the Company net profit of THB 728 mn with cash profit of THB 889 mn. Most of the cash was used to support the business expansion which led to an increase of in inventory of THB 161 mn.
- 2) Cash flow spent in investment activities totaling THB 306 mn – Part was spent on equipments for factory, distribution center and distribution channel expansion of THB 239 mn and in tangible assets of THB 109 mn following an investment in the Information Technology (IT) infrastructure to enhance operational efficiency.
- 3) Cash flow spent on financing activities totaling THB 458 mn - most of which was paid out as dividend totaling THB 504 mn to shareholders offset by proceeds from short-term loans from related-parties of THB 47 mn.

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Financial Ratios

MC GROUP's IPO proceed of THB 3,000 mn raised during June 2013 caused its average assets and shareholders' equity for the year to significantly increase compared to the same period in 2013. This led to a drop in the Company's Return on Equity (ROE) to 19.2% from 33.2% and Return on Assets (ROA) to decline to 15.0% from 22%.

For the year 2014, the Company's average days in inventory totaled 302 days. The clothing retail business's average day in inventory increased to 265 days from 236 days in 2013 due to the support for sales channel expansion together with the weak consumer spending that affected inventory levels during the past year.

Income Statement:

(THB millions)	4Q'14	4Q'13	%chg	FY'14	FY'13	%chg
Sales revenue	1,047	1,000	4.7%	3,470	2,973	16.7%
Total revenue	1,056	1,018	3.7%	3,538	3,017	17.3%
COGS	477	445	7.3%	1,582	1,288	22.8%
Selling expenses	223	192	16.0%	779	569	36.8%
Administrative expenses	141	138	2.1%	372	332	11.9%
Finance cost	1	1	N/M	6	17	N/M
EBT	214	242	(11.8%)	799	810	(1.4%)
Income tax expenses	16	31	(49.6%)	71	77	(7.9%)
Net income	198	211	(6.2%)	728	732	(0.7%)
Non-controlling interest	3	1	N/M	16	(1)	N/M
Net income to the firm	195	210	(7.2%)	712	733	(3.0%)

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Balance Sheet:

<i>(THB millions)</i>	31-Dec-14	31-Dec-13	% chg
Cash and cash equivalent	1,699	1,792	(5.2%)
Account receivables	634	726	(12.7%)
Inventory	1,536	1,363	12.7%
Other assets	988	772	28.0%
Total assets	4,857	4,652	4.4%
Account payables	491	441	11.2%
Interest-bearing liabilities	155	114	36.6%
Other liabilities	286	396	(27.8%)
Total liabilities	932	951	(2.0%)
Equity attributable to the firm	3,819	3,614	5.7%
Non-controlling interest	106	88	21.0%
Shareholders' equity	3,925	3,701	6.0%

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Key Financial Ratios:

Financial Ratios			
<u>Liquidity Ratios</u>		31-Dec-14	31-Dec-13
Current Ratio	times	4.49	4.38
		FY 2014	FY 2013
Average Days Receivable	days	71	83
Average Days in Inventory	days	302	271
Average Days Payable	days	106	102
Cash Cycle	days	267	252
<u>Profitability Ratios</u>		FY 2014	FY 2013
Gross Profit Margin	%	54.4	56.7
- Clothing business	%	55.4	57.0
- Time Deco	%	47.1	43.8 *
Net Profit Margin	%	20.1	24.3
- Clothing business	%	22.2	24.8
- Time Deco	%	8.0	3.2 *
Return on Equity (Annualized)	%	19.2	33.2
<u>Efficiency Ratios</u>		FY 2014	FY 2013
Return on Assets (Annualized)	%	15.0	22.0
<u>Leverage Ratios</u>		31-Dec-14	31-Dec-13
Debt to Equity Ratio	times	0.24	0.26

Note: * Reflecting 2 months performance during November and December