

CBG 052/2017

14 November 2017

Subject Management discussions and analysis for the 3-month and 9-month periods ending 30 September 2017

To President
The Stock Exchange of Thailand

We, Carabao Group Public Company Limited (the “**Company**” or “**CBG**”), are pleased to submit management discussion and analysis regarding consolidated financial performance and position of the Company and subsidiaries (the “**Group**”) for the 3-month and 9-month periods ending 30 September 2017 as follows:

Consolidated financial performance of the Group for the 3-month and 9-month periods ending 30 September 2017 in comparison with the corresponding period last year ending 30 September 2016

We have committed ourselves to strategies that emphasized on building up strong fundamentals in order to drive our businesses towards a sustainable growth organization. Our domestic performance has been strengthened by the product strategies that are not only limited to rolling out branded products under Carabao trademark, ranging from Drinking Water launched since the 1st quarter of 2016 to 3-in-1 and RTD Coffee marketed since the 2nd half of 2016. These new products will play a vital role in the Group’s domestic expansion in the future, particularly 3-in-1 Coffee and RTD Coffee of which the combined generated sales of THB 219 million and THB 597 million for the 3-month and 9-month periods ending 30 September 2017, respectively. Apart from launching new products, our product strategies also include the shaping up additional revenue stream from distribution of diversified set of 3rd party products in both food and non-food categories. Following this, revenue from 3rd party products for distribution derived to THB 205 million and THB 513 million for the 3-month and 9-month periods ending 30 September 2017, respectively

Our domestic market growth is also supported by our cash van strategies which have extended our distribution capability to cover approximately 300,000 retailers nationwide via our 31 distribution centers and a sizable fleet of 334 cash vans, as of 30 September 2017. Revenue from sales through our cash van route contributed to THB 550 million and THB 1,557 million in 3-month and 9-month periods ending 30 September 2017, respectively. Of which, sales of our branded products and 3rd party products for distribution accounted for the ratio of approximately 70:30 during the corresponding period.

Overseas businesses continue to grow in both our existing export markets and those new ones, which operated by our domestic subsidiary, namely Carabao Tawandang Company Limited (“**CBD**”), and our overseas subsidiary, namely Intercarabao Limited (“**ICUK**”). Revenue from sales of our energy drinks under Carabao trademark to existing export markets amounted to THB 968 million and THB 2,740 million, increased by THB 129 million or 15.4% and up by THB 416 million or 17.9% for the 3-month and 9-month periods ending 30 September 2017, respectively. The rise was due to increasing purchase orders from our energy drinks under Carabao trademark in both bottle and non-carbonated can formats principally in CLMV countries. Further to the existing markets, pursuant to the Board of Directors’ meeting No. 4/2560 held on 25 April 2017 to approve our withdrawal from the Greater China Investment Project, the Group nevertheless benefits from manufacturing and exporting our products to the People’s Republic of China for marketing for the purpose of further selling and distributing to our target consumers all over several key provinces in the People’s Republic of China. Operations in the People’s Republic of China are led under active marketing policies of the JV Group’s management. Consequently, CBD generated revenue from sales of energy drinks under Carabao trademark to new export market i.e. the People’s Republic of China amounted in a total of

THB 407 million and THB 1,019 million for the 3-month and 9-month periods ending 30 September 2017, respectively.

ICUK continues to gain positive momentum in terms of sales. The sales volume of energy drinks under Carabao trademark in the United Kingdom improved quarterly, up from the average monthly sales volume of 368k cans in the 2nd quarter of 2017 to 868k cans in the 3rd quarter of 2017. This improvement is a result of our strategy to focus on extensive distribution coverage, particularly in modern trades, as ICUK was able to penetrate into three of the leading modern trade channels in the 3rd quarter of 2017. Coupled with this, such progress is supported by our distinguishing position of official sponsor to Chelsea Football Club Limited and English Football League and product differentiation strategy, especially the Green Apple flavored energy drinks under Carabao trademark, which are getting more recognition from customers. Nevertheless, ICUK does realize the dynamics and competitive setting of energy drink market as well as the relatively high bargaining power of reputable modern trade operators that these altogether could cause us a longer than expected lead time to initiate, go through their approval process and list our products to the shelves based on their conditions. Therefore, ICUK's business plans aim to entail further penetrations in more modern trades, careful allocation of marketing and promotional budgets to spur growth through priority channels, strong push of product sampling experiences among the target group to attract the trials for future sales and cost reductions particularly in redundant procedures to deliver appropriate rate of return on sales.

ICUK also continued to bear fruit from increasing sales of our energy drinks under Carabao trademark quarter on quarter outside the UK, up from the monthly average of 0.7 million cans in the 2nd quarter of 2017 to 1.8 million cans in the 3rd quarter of 2017. The Group believes such window of business opportunities is opened up by our bolstering visibility of energy drinks under Carabao trademark in the global spotlight, thanks to our sponsorships to Chelsea Football Club Limited and English Football League expected to serve as a key to future growth in overseas businesses. Recently, we decided to enter into the deed of variation in respect of rights and fees to the sponsorship agreement with Chelsea Football Club Limited. The amendments allow the Group to extend sponsorship period from a three-year term ending 30 June 2019 to a five-year term ending on 30 June 2021, whereby the Group shall bear an extra cost of GBP 3 million throughout this entire arrangement. However, should the first three years come to end, our sponsorship status will be automatically changed from "Principal Partner" to "Global Partner" in the next following two years.

1 Revenue from sales

For the Q3/2017, our revenue from sales amounted to THB 3,528 million, up by THB 840 million or 31.2% on the back of both domestic and overseas sales.

Revenue from sales	3-month period ending		Change		9-month period ending		Change		
	Unit: THB million	30 Sep 16	30 Sep 17	Amount	(%)	30 Sep 16	30 Sep 17	Amount	(%)
Branded products by our own manufacture ^{1/}		1,730	1,609	(121)	(7.0%)	4,591	4,525	(66)	(1.4%)
Branded products by 3 rd party manufacture ^{2/}		58	243	184	n/m	110	675	565	n/m
3rd party products for distribution		62	205	144	n/m	82	544	462	n/m
Others		0	0	0	n/m	0	32	32	n/m
Revenue from domestic sales		1,850	2,057	207	11.2%	4,783	5,776	993	20.8%
Branded products		838	1,471	633	75.5%	2,324	3,927	1,603	69.0%
Others		0	0	0	n/m	0	20	20	n/m
Revenue from overseas sales		838	1,471	633	75.5%	2,324	3,947	1,624	69.9%
Total revenue from sales		2,689	3,528	840	31.2%	7,107	9,724	2,617	36.8%

Note: 1/ Energy Drinks and Sport Drinks

2/ Drinking Water, 3-in-1 Coffee and RTD Coffee

Revenue from domestic sales amounted to THB 2,057 million, up by THB 207 million or 11.2% driven by two individual product groups: (i) revenue from sales of branded products by 3rd party manufacture increased by THB 184 million thanks to the sales of 3-in-1 Coffee and RTD Coffee, which were launched in the second half of 2016, derived to a total of THB 187 million in 3-month period ending 30 September 2017, and (ii) revenue from 3rd party products for distribution increased by THB 144 million due to the growing number of 3rd party products for distribution i.e. up from 10 products as of 30 September 2016 to 21 products as of 30 September 2017. Whereas, revenue from sales of branded products by our own manufacture decreased by THB 121 million or 7.0% due to the drop in sales of both domestic energy drinks of THB 101 million and sport drinks of THB 20 million.

For overseas businesses, revenue from sales of branded products amounted to THB 1,471 million, up by THB 633 million or 75.5 % due to (i) the rise in export to the People's Republic of China market which contributed to THB 407 million as a part of our marketing strategy to endorse the People's Republic of China as a strategic country for marketing in Asia region and (ii) surging demands for our bottled and canned energy drinks in the CLMV region, of which sales was up by THB 217 million or 36% from the corresponding period.

For the 9-month period of the year (9M/2017), the Group's total revenue from sales amounted to THB 9,724 million, up by THB 2,617 million or 36.8% from the corresponding period last year. This comprised of revenue from domestic sales amounting to THB 5,776 million, up by THB 993 million or 20.8% from the corresponding period last year, and revenue from overseas sales contributing to THB 3,947 million, raised by THB 1,624 million or 69.9%. The change in total revenue was resulted from (i) the increase in revenue from sales of branded products by 3rd party manufacture of THB 565 million, (ii) the growth in revenue from 3rd party products for distribution of THB 462 million as the Group has reached 31 owned distribution centers since the 1st quarter of 2017 as compared to the rising number from 9 to 29 distribution centers over the 9-month period of 2016 and launched 1 branded product by 3rd party manufacture which is RTD coffee since the 4th quarter of 2016, and (iii) the rise in revenue from overseas sales mainly contributed by our attempt in export to the People's Republic of China market of which sales comprised to THB 1,019 million or accounted for 25.8% of revenue from overseas sales.

Note that our newly installed machines will be a key factor in driving our production volume to satisfy demands for our energy drinks in the CLMV region, Afghanistan and Yemen as well as the People's Republic of China where is a sizable market and represents a high growth potential in the future.

2 Gross profits and gross profits margin

In Q3/2017, our gross profits amounted to THB 1,156 million, up by THB 194 million or 20.2%, and represented gross profit margin of 32.8%, down from 35.8% posted during the corresponding period last year. This comprised of gross profits from domestic sales and export sales of THB 648 million and THB 508 million, respectively, implying gross profit margins of 31.5% and 34.5%, respectively. In Q3/2017, the Company has realized the depreciation of new can filling lines since July 2017 approximately THB 4.5 million per month, which is a part of cost of goods sold for canned energy drinks under Carabao trademark that are exported by CBD.

Gross profits	3-month period ending		Change		9-month period ending		Change		
	Unit: THB million	30 Sep 16	30 Sep 17	Amount	(%)	30 Sep 16	30 Sep 17	Amount	(%)
Branded products by our own manufacture 1/		663	594	(69)	(10.4%)	1,796	1,690	(105)	(5.9%)
Branded products by 3 rd party manufacture 2/		10	32	22	n/m	19	88	69	n/m
3 rd party products for distribution		10	23	13	n/m	14	67	53	n/m

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Others	0	0	0	n/m	0	0	0	n/m
Gross profits from domestic sales	683	648	(35)	(5.1%)	1,828	1,846	18	1.0%
Branded products	279	508	229	82.1%	779	1,320	541	69.4%
Others	0	0	0	n/m	0	3	3	n/m
Gross profits from overseas sales	279	508	229	82.1%	779	1,324	544	69.8%
Total gross profits	962	1,156	194	20.2%	2,608	3,170	562	21.6%

Note: 1/ Energy Drinks and Sport Drinks
2/ Drinking Water, 3-in-1 Coffee and RTD Coffee

For 9M/2017, the Group's gross profits derived to THB 3,170 million, increased by THB 562 million or 21.6%, and represented gross profit margin of 32.6%, down from the gross profit margin of 36.7% in the corresponding period last year. This comprised of gross profits from domestic sales and gross profits from overseas sales amounted to THB 1,846 million and THB 1,324 million respectively, referring to gross profit margins of 38.2% and 33.5%, correspondingly. Such reduction in gross profit margin was caused by change in product mix, rise in production costs and increase in packaging cost purchased from external party.

Gross profits margin from domestic sales was lower to 32.0% from 38.2% in the corresponding period due to higher production costs i.e. sugar, packaging materials, energy cost and the employees' remuneration packages which increased as a result of our growing headcounts and upward adjustment of based compensations in accordance with our human resource policy. This was also resulted from the change in product mix due to the launch of new products, of which produced by our 3rd party manufacture which typically deliver lower gross profit margin, and a wider product variety of 3rd party products for distribution, which each offers different gross profit margins. Therefore, such significant rise in sales from these two categories lowered the average gross profit margin from domestic sales.

Gross profits margin	3-month period ending		9-month period ending	
	30 Sep 16	30 Sep 17	30 Sep 16	30 Sep 17
Branded products by our own manufacture 1/	38.3%	36.9%	39.1%	37.4%
Branded products by 3rd party manufacture 2/	16.8%	13.0%	17.0%	13.1%
3rd party products for distribution	16.5%	11.1%	16.7%	12.3%
Others	n/m	n/m	n/m	0.8%
Gross profits margin from domestic sales	36.9%	31.5%	38.2%	32.0%
Branded products	33.3%	34.5%	33.5%	33.6%
Others	n/m	n/m	n/m	16.7%
Gross profits margin from overseas sales	33.3%	34.5%	33.5%	33.5%
Total gross profits margin	35.8%	32.8%	36.7%	32.6%

Note: 1/ Energy Drinks and Sport Drinks
2/ Drinking Water, 3-in-1 Coffee and RTD Coffee

In 9M/2017, overseas sales delivered stable gross profits margin at 33.5% from the corresponding period last year because gross profit margin from overseas sales are varied in correspondence to the proportion of overseas sales in each export country due to different selling prices to each country.

3 Selling, general and administrative (SG&A) expenses

In Q3/2017, our SG&A expenses amounted to THB 851 million, up by THB 356 million or 72.1%, and represented 24.1% of total revenue from sales, up from 18.4% during the corresponding period last year. Such significant increase resulted mainly from consolidations of ICUK's financial performance and position since the 4th quarter of 2016.

SG&A expenses	3-month period ending		Change		9-month period ending		Change		
	Unit: THB million	30 Sep 16	30 Sep 17	Amount	(%)	30 Sep 16	30 Sep 17	Amount	(%)
Selling expenses (Non-ICUK)		381	443	62	16.3%	963	1,256	293	30.5%
Selling expenses (ICUK)		0	222	222	n/m	0	552	552	n/m
Selling expenses		381	665	284	74.4%	963	1,808	845	87.8%
General and administrative expense		113	186	73	64.3%	340	523	183	54.0%
Total SG&A expenses		494	851	356	72.1%	1,303	2,331	1,028	79.0%

Our selling expenses amounted to THB 665 million, up by THB 284 million or 74.4% in the corresponding period and our administrative expenses amounted to THB 186 million, up by THB 73 million or 64.3%.

For the 9M/2017, SG&A expenses was at THB 2,331 million, increased by THB 1,028 million or 79.0%, and represented 24.0% of total revenue from sales, up from 18.3% in the corresponding period last year.

Selling expenses amounted to THB 1,808 million up by THB 845 million or 87.8% in the corresponding period last year. The considerable rise was due to increase in major expenses including (1) employee's remuneration package and rental payments in respect of distribution centers and fleet of cash vans (2) marketing and promotional expenses in association with promoting and distributing 3-in-1 Coffee and RTD Coffee to build up brand awareness and to push the products through key channels nationwide, especially the modern trade ones, and (3) sponsorship fees payable to Chelsea Football Club Limited made by both CBD and ICUK, as well as sponsorship fees payable to English Football League paid by ICUK. The Company started to recognize the EFL sponsorship fees through our consolidated statement of comprehensive income from June 2017 onwards for a total of 36 months in effect.

Administrative expenses derived to THB 523million, raised by THB 183 million or 54.0% due to consolidations of ICUK's financial performance and position. It also resulted from the employees' remuneration packages that increased as a result of our growing headcounts and upward adjustment of based compensations in accordance with our human resources policies.

On the Quarter-on-Quarter basis, SG&A expenses increased by THB 109 million or 14.7% from Q2/2017. Selling expenses were up by THB 91 million or 15.9%, amounting to THB 665 million, on the back of (1) fully quarter recognition of EFL sponsorship fees for the first time after the first recognition in June 2017, resulting in the increase of THB 31 million in sponsorship fee paid by ICUK, (2) rising advertising expense for domestic energy drinks product, and (3) higher promotional expense for domestic products correspondingly to the increasing marketing events. Administrative expenses raised by THB 18 million or 10.4%, deriving to THB 186 million, driven by (1) increase in staff cost by THB 10.5 million for domestic operations and (2) rising fees by THB 9.6 million for the overseas business consultants.

4 Financial expenses

Our financial expenses in Q3/2017 amounted to THB 19 million, up by THB 18 million from the corresponding period last year. It was due to our multiple drawdowns of loans from financial institutions in order to support our production capacity expansion projects at Bangpakong, Chacheungsao province.

For 9M/2017, financial expenses derived to THB 29 million, increased by THB 2 million from the corresponding period last year. This was due to our multiple drawdowns of loans from financial

institutions in order to support our production capacity expansion projects at Bangpakong, Chacheungsao province and the new aluminum can facility with an annual capacity of 1,000 million cans at the same site under the joint venture project with SHOWA DENKO Group, which is expected to test run for commercial in the 4th quarter of 2018.

5 Net profits and net profits margin

In Q3/2017, our net profits amounted to THB 272 million and represented net profits margin of 7.7%, dropped from net profits of THB 439 million and net profits margin of 16.3% in the corresponding period last year. Such decline was mainly due to deterioration in gross profits margin and consolidations of ICUK's financial performance and position since the 4th quarter of 2016.

For 9M/2017 period, our net profits derived to THB 722 million and represented net profit margin of 7.4%, decreased from THB 1,208 million which posted net profit margin of 17.0% in the corresponding period last year. The decline was resulted from the rising costs in SG&A expenses with regard to the sponsorship fees payable to Chelsea Football Club Limited, one-off expenses incurred from the event for official launch of Carabao Cup held in the United Kingdom, and costs increased concerning to the activation of our 31 distribution centers.

Our net profits attributed to shareholders of the Company in the Q3/2017 amounted to THB 389 million, decreased by THB 50 million or 11.5%, and contributed to THB 1,037 million in 9M/2017, down by THB 172 million or 14.2% for the same reasons.

Consolidated financial position of the Group as of 30 September 2017 in comparison with that as of 31 December 2016

Total assets were THB 12,635 million, up by THB 2,857 million or 29.2% from THB 9,778 million as of 31 December 2016 due mainly to trade receivables and inventories set to move in response to our growth in business operations. In addition, such increase in total asset also resulted from our investments in expanding production capacities at Bangpakong, Chacheungsao province.

Total liabilities were THB 5,628 million, up by THB 2,949 million or 110.1% from THB 2,679 million as of 31 December 2016 due mainly to trade payables and other payables. We also made additional utilization of THB 2,512 million based on loans from financial institutions. Our interest-bearing debt therefore amounted to THB 3,512 million or equivalent to the ratio of interest-bearing debts to total equity of 0.50 times, up from 0.14 times as of 31 December 2016. Our ratio of debts to total equity was 0.80 times, up from 0.38 times as of 31 December 2016.

Yours sincerely,

Pongsarn Klongwathanakith

(Pongsarn Klongwathanakith)

Chief Financial Officer