

Ocean Glass Public Company Limited

Management's Discussion and Analysis

Performance for the Period Ended December 31, 2017

Business Overview

For the year 2017, Ocean Glass Public Company Limited and its subsidiaries ("the Company") reported consolidated sales revenue of Baht 2,166.69 million increased by 5.44% from last year. The contributions were from export sales 74.8% and domestic sales 25.18%.

In the past year, the Company still confronted with many challenges to its business. The global economy volatility impacted to Thai Baht appreciation against major currencies, i.e. USD, have had negative effect to the export business while the importer took this opportunity importing products with a competitive price. As a result, the domestic sales slowed down compared to last year. Furthermore, the manufacturers from China and Europe still maintain their maximum production capacity which caused oversupply in table glassware market.

The Company continued developing new product designs to serve customer needs. In 2017, Ocean and Ocean Professional Brands, launched new series of glass collections to market as Festive collection with a collaboration in design with a leading lifestyle product manufacturer; Santé collection with a new choice of modern design for hotel and restaurant. Also, one of our products, LUCARIS Desire Collection with Aerlumer signature won the China Good Design Award 2017 by Red Dot Award, Germany.

The Company also continued strengthening its brands by promoting various marketing activities such as by joining Ambiente Trade Fair in Germany, HOFEX in Hong Kong, Food and Hotels Association Singapore Indonesia and Malaysia, AHAR in India, Holetex in China and Makro Horeca in Thailand, and created direct experiences of LUCARIS Brand and products in national wine and food events e.g., The Hotelier Awards Asia, F&B Conclave in India, the First Chaîne des Rôtisseurs Jeunes Sommeliers Compétition 2017 in Thailand, and Globe in a Glass in India.

Apart from the above brand activities, the Company has uplifted Ocean, Ocean Professional, and LUCARIS Brands by creating a project called "Elevate Life's Pleasure" to deliver Life's Pleasure experience through various types of quality glassware in consumers' everyday life.

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Operating Results

For the year 2017, the Company reported consolidated sales revenue of Baht 2,147.64 million increased by Baht 107.28 million or 5.26% from last year. The Company's gross profit was 34.43% decreased from last year, reported at 39.10%. The decrement was mainly from the competition in glassware market including Thai Baht appreciation against US dollar, and increment of energy price. The Company reported total expenses of Baht 2,083.11 million, increased by 7.20% compared to last year. As a result, the Company reported net profit of Baht 65.98 million, decreased by 30.23% from last year. Earnings per share presented at Baht 3.09.

Statement of Comprehensive Income

	2017 (Million Baht)	2016 (Million Baht)	Change (%)
Sales	2,147.64	2,040.36	5.26
Foreign exchange gain (loss)	7.63	8.93	(14.61)
Other income	11.42	5.66	101.94
Total revenues	2,166.69	2,054.95	5.44
Cost of goods sold	1,408.20	1,242.63	13.32
Temporary shutdown expenses	159.15	173.27	(8.15)
Selling expenses	385.33	393.74	(2.14)
Administrative expenses	106.36	100.90	5.41
Finance costs	24.07	32.62	(26.20)
Total expenses	2,083.11	1,943.16	7.20
Profit before income tax expense	83.58	111.79	(25.23)
Income tax expense	17.60	17.22	2.25
Profit for the year	65.98	94.57	(30.23)
Other comprehensive income for the year, net of tax	169.56	0.77	21,892.22
Total comprehensive income for the year	235.54	95.34	147.04
Basic earnings per share (Baht)	3.09	4.43	(30.25)

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Total Revenues

	2017 (Million Baht)	2016 (Million Baht)	Change (%)
Sales	2,147.64	2,040.36	5.26
- Domestic Sales	540.77	595.84	(9.24)
- Export Sales	1,606.87	1,444.52	11.24

In 2017, proportion of domestic sales was 25.18% and export sale was 74.82%. Domestic sales decreased by 9.24% due to the decrement in sales volume of B2B and local distributors while export sales increased by 11.24% from a successful of distribution expansion in China.

The Company reported gain from foreign exchange of Baht 7.63 million due to foreign exchange hedging and other income in the amount of Baht 11.42 million comprised of insurance claim on risk of machine interruption at Baht 4.62 million and recognition of revenues from cullet sales and mold supplies during the year.

- **Cost of goods sold**

Total cost of goods sold presented at Baht 1,408.20 million increased Baht 165.57 million or 13.32% from last year, which was in line with the increment of sales value and the increment of energy cost.

- **Temporary shutdown expenses**

The Company shutdown expenses presented at Baht 159.15 million, decreased Baht 14.12 million or 8.15% comparing with last year due to maintenance and manage appropriate balance of inventories against sales quantities during the year.

- **Selling and administrative expenses**

The Company's selling expenses presented at Baht 385.33 million decrease Baht 8.41 million or 2.14% from last year, primarily due to the selling and marketing expenses control while administrative expenses presented at Baht 106.36 million, increased Baht 5.46 million, or 5.41% due to increasing in employee expenses and write off obsolete inventories during the year.

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- **Expenses from research & development, and innovation**

According to NSTDA's guideline, the Company reported research & development, and innovation expenses at Baht 1.12 million.

- **Finance costs**

The Company's finance costs presented at Baht 24.07 million, decreased Baht 8.55 million or 26.20% due to the Company continuously generates cash inflow from operations to support repayments of long-term loans during the period which caused a decrement in interest expenses.

- **Other comprehensive income for the year, net of tax**

The Company's other comprehensive income presented at Baht 169.56 million, increased Baht 168.79 million from the last year due to the recording of gain on land revaluation during the year in the amount of Baht 173.58 million and the recording loss on re-measurement of employee benefit obligation in the amount of Baht 3.76 million.

Statements of Financial Position as at December 31, 2017

	2017 (Million Baht)	2016 (Million Baht)	Change (%)
Current Assets	1,230.25	1,360.25	(9.56)
Non-Current Assets	1,822.28	1,665.63	9.40
Total Assets	3,052.53	3,025.88	0.88
Current Liabilities	644.10	641.96	0.33
Non-Current Liabilities	525.59	689.26	(23.75)
Total Liabilities	1,169.69	1,331.22	(12.13)
Total Shareholders' Equity	1,882.84	1,694.66	11.10
Total Liabilities and Shareholders' Equity	3,052.53	3,025.88	0.88

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Performance for the Period Ended December 31, 2017

▪ **Total Assets**

As of 31 December 2017, total assets presented at Baht 3,052.53 million, increased by Baht 26.65 million or 5.19% primarily from:

- The increase of cash and cash equivalent amounted Baht 2.24 million or 2.41% due to continuously generates cash inflow from operations to support repayments of short-term and long-term loans, and dividend payment during the year.
- The decrease in inventory amounted Baht 120.82 million or 12.17% due to the increment of sales volume during the year and inventory management policy.
- The decrease of value added tax receivables amounted Baht 17.39 million or 37.11% due to receiving value added tax refund from the Revenue Department for the year.
- The increase of net property, plant and equipment amounted Baht 151.73 million or 9.26%, primarily due to the recording of fair value on land which determined by Independent appraiser during the year.

▪ **Total Liabilities**

As of 31 December 2017, total liabilities presented at Baht 1,169.69 million, decreased by Baht 161.53 million or 12.13%, primarily due to decrement in loans from local financial institutions.

▪ **Total Shareholders' Equity**

Total equity presented at Baht 1,882.84 million, increased Baht 188.18 million or 11.10% from last year, primarily due to the recognition of gain on land revaluation and net profit for the year net of dividend payment during the year.

Financial Ratio Analysis

Profitability Ratio	Unit	Jan – Dec 2017	Jan – Dec 2016
Gross Profit Margin	(%)	34.43	39.10
Operating Profit Margin	(%)	4.13	6.36
Net Profit Margin	(%)	3.05	4.60
Return on equity	(%)	3.69	5.63
Basic earnings per Share	Baht/Share	3.09	4.43

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Efficiency Ratio	Unit	Jan – Dec 2017	Jan – Dec 2016
Return on Assets	(%)	3.54	4.65
Liquidity Ratio	Unit	31 Dec 2017	31 Dec 2016
Current Ratio	Times	1.91	2.12
Quick Ratio	Times	0.50	0.50
Average Collection Period	Days	33	37
Inventory Days	Days	139	182
Accounts Payable Days	Days	43	46
Cash Cycle	Days	129	173
Leverage & Financial Policy	Unit	31 Dec 2017	31 Dec 2016
Debt to Equity Ratio	Times	0.62	0.79
Interest Coverage Ratio	Times	11.25	9.49
Debt Service Coverage Ratio	Times	1.38	1.76

According to the liquidity ratio and financial leverage policy, the analysis showed that the Company has better liquidity from last year. The Company had sufficient cash for interest payment and other financial obligations. Moreover, the Company was able to maintain debt to equity ratio according to the restriction of long-term loans from local financial.

- **Management and service agreement (Royalty fee)**

On 1 January 2015, the Group entered into an agreement for product design services with a foreign company. Under the terms of the agreement, the foreign company shall provide designed consultation services for glass series. In consideration thereof, the Group will pay a fee at a fixed amount. This agreement effects until 31 December 2019.