

# Ocean Glass Public Company Limited

## Management's Discussion and Analysis

### Performance for the Period Ended December 31, 2016

#### **Business Overview**

For the year 2016, Ocean Glass Public Company Limited and Subsidiaries ("the Company") reported consolidated sales revenue of Baht 2,054.95 million increased by 3.42% from last year. The increment was in the midst of price and design competition in the market, especially in China and India. During numerous challenges, the Company continued maintaining its competitiveness by the expansion of distribution channels and maintaining good relationship with customers as well as continuing development of new products to serve customer needs. As a result, the Company sales performance was higher than last year. The Company reported net profit of Baht 94.57 million. Earnings per share presented at 4.43.

The Company's main focus is still on the expansion of distribution channels in different regions such as ASEAN, Asia Pacific, South Asia, and China. For domestic market, under economic slowdown, the Company is still maintaining its market share by focusing 3 customer groups which are Food Services, Retails, and B2B customers who buy glassware products for promotion activities.

The Company continued to develop new products to serve customer needs in all life style. In 2016, our brands, Ocean, Ocean Professional, and Lucaris, launched series of glass collections such as A Touch of Nature which introduce natural accent, a personal drinking glass Ocean ME, and social drinking glass Society, Sensation, and Cuba Poco Grande.

During 2016, Ocean and Ocean Professional promoted major marketing and sales activities such as:

- Ambiente Trade Fair at Germany
- AAHAR (The international Food and Hospitality Fair) at India
- HOTELEX ( Shanghai International Hospitality Equipment & Supply Expo) at China
- Marriott Conference Trade Fair at Indonesia
- FHA (Food & Hotel Indonesia) Trade Fair at Indonesia

For Lucaris, major marketing and sales activities such as:

- Official sponsor of the largest wine and spirits exhibition in Asia Pacific “Vinexpo Hong Kong 2016” at Hong Kong.
- Held the Lucaris Master Class at the Okura Prestige Hotel Bangkok. The guest of honor and speaker, Mr. Alan Kam - the President of The Conferee de la Chaine des Rotisseurs, shared his unique experience for the wine appreciation through the “DESIRE” glass series and introduced the signature of wine glass innovation called “AERLUMER” – the five bottom curl lines at the bowl made for an unprecedented wine experience.
- Hosted the special tasting event with Food & Beverage Directors group of Centara Hotels and Resorts to introduce the latest wine glass collection “DESIRE”. The tasting event was held during the conference on 11 October 2016 at the Centara Grand Central World Hotel. The guest of honor and speaker was Mr. Alan Kam, the President of The Conferee de la Chaine des Rotisseurs Thailand.
- Held the wine tasting event ‘Lucaris Master Class’ in Phuket and Samui. The participants were the key opinion leaders in leading brands of hotels and restaurants. The event was conducted by Mr. Pairach Intaput, the President of Association of Thai Sommelier and a respectful wine consultant of leading companies in Thailand.

In 2016, the Company continued to improve production efficiency according to planned strategies. Apart from implementing Total Quality Management, the Company has applied Lean Six Sigma to reduce waste during production process together with the development of Environment, Occupational Health and Safety Management System. On February 9, 2016, the Company was certified by Environmental Management ISO 14001.

In addition, the Company promoted research and development to explore new technology and products innovation in order to serve consumer needs, reduce production cost, and save environment. On August 31, 2016, Crystal Clear Innovation Co., Ltd., 99.99% owned, was incorporated in Thailand. The main objective is to research and develop new products.

## Operating Results

For the year 2016, the Company reported consolidated sales revenue of Baht 2,040.36 million increased by Baht 52.45 million or 2.64% from last year. The Company's gross profit was 39.10% decreased from last year, reported at 42.69%. The decrement is mainly from price competition in glassware market and the increment of energy price in the last quarter. The Company reported total expenses of Baht 1,943.16 million, increased by 7.21% mostly from production cost and marketing expenses for promotion activities. As a result, the Company reported net profit of Baht 94.57 million, decreased by 29.12% from last year. Earnings per share presented at Baht 4.43.

### Statement of Comprehensive Income

	<b>2016</b> <b>(Million Baht)</b>	<b>2015</b> <b>(Million Baht)</b>	<b>Change</b> <b>(%)</b>
Sales	2,040.36	1,987.91	2.64
Foreign exchange gain (loss)	8.93	(4.73)	(288.90)
Other income	5.66	3.79	49.38
<b>Total revenues</b>	<b>2,054.95</b>	<b>1,986.97</b>	<b>3.42</b>
Cost of goods sold	1,242.63	1,139.29	9.07
Temporary shutdown expenses	173.27	166.31	4.19
Selling expenses	393.74	347.89	13.18
Administrative expenses	100.90	117.03	(13.78)
Finance costs	32.62	42.00	(22.34)
<b>Total expenses</b>	<b>1,943.16</b>	<b>1,812.52</b>	<b>7.21</b>
<b>Profit before income tax expense</b>	<b>111.79</b>	<b>174.45</b>	<b>(35.92)</b>
Income tax expense	(17.22)	(41.02)	(58.02)
<b>Profit for the year</b>	<b>94.57</b>	<b>133.43</b>	<b>(29.12)</b>
Other comprehensive income for the year, net of tax	0.77	6.40	(87.95)
<b>Total comprehensive income for the year</b>	<b>95.34</b>	<b>139.83</b>	<b>(31.81)</b>
<b>Basic earnings per share (Baht)</b>	<b>4.43</b>	<b>6.26</b>	<b>(29.23)</b>

### Total Revenues

	2016 (Million Baht)	2015 (Million Baht)	Change (%)
<b>Sales</b>	<b>2,040.36</b>	<b>1,987.91</b>	<b>2.64</b>
- Domestic Sales	595.84	541.46	10.04
- Export Sales	1,444.52	1,446.45	(0.13)

In 2016, proportion of domestic sales was 29.20% and export sales was 70.80%. Domestic sales increased by 10.04% from growth of B2B and food service channel to support hotel and restaurant while export sales was stagnation due to world economic slowdown and high competition in the market especially China and India.

The Company reported gain from foreign exchange of Baht 8.93 million due to foreign exchange hedging.

- **Cost of goods sold**

Total cost of goods sold presented in the amount of Baht 1,242.63 million increased by Baht 103.34 million or 9.07% from last year, mainly from the increment of energy cost in quarter 4.

- **Temporary shutdown expenses**

The Company's temporary shutdown expenses increased by Baht 6.96 million or 4.19% comparing with last year due to inventory management.

- **Selling and administrative expenses**

The Company's selling expenses presented at the amount of Baht 45.85 million increased by 13.18% from last year, mainly from promotion expenses to drive sales and transportation expenses from new business model transformation in China. While administrative expenses decreased by Baht 16.13 million, or 13.78% due to the effectiveness in manage administrative expenses.

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

According to NSTDA's guideline, the Company reported research & development, and innovation expenses at the amount of Baht 2.82 million.

- **Finance costs**

The Company's finance costs decreased Baht 9.38 million or 22.34% due to the Company continuously generates cash inflow from operation 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 decreased Baht 5.63 million from the last year due to the record of the difference in re-measurement of employee benefit obligation at the amount of Baht 6 million.

**Statements of Financial Position as at December 31, 2016**

	<b>2016</b> <b>(Million Baht)</b>	<b>2015</b> <b>(Million Baht)</b>	<b>Change</b> <b>(%)</b>
Current Assets	1,360.25	1,469.89	(7.46)
Non-Current Assets	1,665.24	1,721.13	(3.25)
<b>Total Assets</b>	<b>3,025.49</b>	<b>3,191.02</b>	<b>(5.19)</b>
Current Liabilities	641.96	699.46	(8.22)
Non-Current Liabilities	688.88	825.48	(16.55)
Total Liabilities	1,330.84	1,524.94	(12.73)
Total Equity	1,694.65	1,666.08	1.71
<b>Total Liabilities and Equity</b>	<b>3,025.49</b>	<b>3,191.02</b>	<b>(5.19)</b>

▪ **Total Assets**

As of 31 December 2016, total assets presented at Baht 3,025.49 million, decreased by Baht 165.53 million or 5.19% primarily from:

- The decrease of cash and cash equivalent amounted Baht 24.41 million or 20.83% due to continuously generates cash inflow from operation to support repayments of short-term and long-term loans, and dividend payment during the period.
- The decrease of inventory amounted Baht 57.60 million or 5.48% due to the increment of sales volume and inventory management policy.
- The decrease of investment in property, plant and equipment amounted Baht 60.01 million or 3.53% due to depreciation during the year in the amount of Baht 161.61 million net with investment in fixed assets for the period amounted Baht 108.70 million.

▪ **Total Liabilities**

As of 31 December 2016, total liabilities presented at Baht 1,330.84 million, decreased by Baht 194.10 million primarily due to decrement in loans from local financial institutions.

▪ **Total Equity**

Total equity presented at Baht 1,694.65 million, increased Baht 28.57 million or 1.71% from last year, primarily due to recognize net profit for the year net with dividend payment from performance of the last year.

**Financial Ratio Analysis**

<b>Profitability Ratio</b>	<b>Unit</b>	<b>Jan – Dec 2016</b>	<b>Jan – Dec 2015</b>
Gross Profit Margin	(%)	39.10	42.69
Operating Profit Margin	(%)	6.36	10.94
Net Profit Margin	(%)	4.64	6.72
Return on equity	(%)	5.63	8.30
Basic earnings per Share	Baht/Share	4.43	6.26
<b>Efficiency Ratio</b>	<b>Unit</b>	<b>Jan – Dec 2016</b>	<b>Jan – Dec 2015</b>
Return on Assets	(%)	4.65	6.82
<b>Liquidity Ratio</b>	<b>Unit</b>	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
Current Ratio	Times	2.12	2.10
Quick Ratio	Times	0.50	0.51
Average Collection Period	Days	37	38
Inventory Days	Days	182	197
Accounts Payable Days	Days	46	45
Cash Cycle	Days	173	190
<b>Leverage &amp; Financial Policy</b>	<b>Unit</b>	<b>31 Dec 2016</b>	<b>31 Dec 2015</b>
Debt to Equity Ratio	Times	0.79	0.92
Interest Coverage Ratio	Times	9.49	9.21
Debt Service Coverage Ratio	Times	1.76	1.47

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.