

# Ocean Glass Public Company Limited

## Management Discussion and Analysis

Consolidated Financial Result  
For the Period Ended December 31, 2014

### Business Overview

In 2014, sales growth of Ocean Glass Public Company Limited and Subsidiaries ("the Company") was 4.92% comparing to last year. The Company continues to expand the business as strategic plan throughout the competition of table glassware business both domestic and export market. However, the Company has net profit for 2014 in the amount of Baht 47.02 million or net profit per share at 2.20 Baht.

For domestic market, the Company has maintained sales growth rate similar to last year. Under the stagnation of domestic economic has an affected of reduced purchasing power, including economics and politics problems in many countries. Both local and abroad competitors are focusing on ASEAN market, which is our core market and it has high potential growth particularly from Chinese, European and American. These manufacturers moved their production into China affected to more serious in the price competition from imported goods from China. However, the Company is still capable of competing with our quality of products, branding, product development and design, price and services.

The Company's distribution channels comprise of 3 channels, which are food & drink business (Food Service), retail consumer to purchase for their household (Retail) and B2B consumer who buy glassware products to be used in promotional campaign (Premium). The Company sells its products in both domestic and export market. The export sales cover over 70 countries worldwide. The distribution channel is through outside agents and the Company's sales force.

Moreover, The Company continued to focus on its marketing activities and promotional campaign on branding of Ocean and Lucaris. During year 2014, the Company had implemented major marketing and sales activities as follows:

- The continuous marketing activities and branding of Lucaris, crystalline glassware in Thailand and some core markets in Asia during the Master of Wine Seminars were conducted by 3 Masters of Wine of Asia in 3 countries; Malaysia, Indonesia and China by Introduction of latest product designed "Shanghai Soul Grande". Besides, the Company also officially sponsored for Wine & Spirit Glass, VINEXPO ASIA-PACIFIC 2014 in Hong Kong, China. There were 1,800 Chateaus joined this fair.

- The continuous marketing activities, advertising and promotional campaign of Ocean and Ocean Professional for instance Summer Campaign and Festive Campaign in retail store in Thailand and core markets such as India, China and ASEAN.
- The Company has participated in the international exhibition and trade fairs:
  - Europe and Americas Market: Ambiente in Frankfurt, Germany and International Home Houseware Show at Chicago, USA.
  - Asia Market: Houseware Fair in Hong Kong, China; Food & Hotel Asia in Singapore; HOTELEX in Shanghai, China.

With 30 years of experience in manufacturing, the product quality is the Company's main objective. The Company is fully committed to provide a maintaining the highest quality standards throughout the entire production process to ensure that all the customers will receive the finest quality products and services at all time.

During 2014, the efficiency improvement program of lead-free crystalline production line was still continuing on plan. Increment in actual efficiency improvement affected higher productivity and occurred in satisfaction level. The Company believes that it leverages the capabilities to produce higher quality and distinctive products.

In order to effectively operate in an efficient manner, preparing for intense competition in today's seamless economy, the Company continues to adopt the Total Quality Management (TQM) system, as well as, to improve the overall efficiency and quality of its operations and products, working towards total customer satisfaction.

On November 20, 2013, the Company was registered a subsidiary company; Ocean Glass Trading India Private Limited, located in India. The main objective is to perform marketing activities in India. On 20 February 2014, the Company transferred INR 499,990 in capital to the subsidiary, 99% owned by the Company.

## Change in presentation and correction of errors

In 2014, the Company has reclassified items which have disclosed in notes to financial statements no.4 on change in presentation and correction of errors for the following:

- The Company's financial statements have been reclassified to comply with the announcement of Department of Business Development Regulation dated September 28, 2011, in relation to the format of Financial Statements B.E. 2554, effective from January 1, 2011, the Company has reclassified trade and other receivables and trade and other payables for the year ended December 31, 2013. However, current assets and current liabilities as of December 31, 2013, were still shown the same value as previous report.

- The Company has reclassified rebate net to sales for the year 2013. As a result, sales and selling expenses for the year 2013 decreased in the amount of Baht 28.75 million.

- The Company restated prior year financial statements due to the error from calculation of employee benefit obligations. The Company under recorded employee benefit obligations for both long-service award benefit and retirement benefit by Baht 11.96 million as at December 31, 2013, and Baht 11.09 million as at January 1, 2013.

- In compliance with the Thai Accounting Standards (TAS) 12, Income taxes, requires the Company offsets deferred tax assets and deferred tax liabilities for presentation purpose. The Company has reclassified deferred tax assets and deferred tax liabilities for the year ended December 31, 2013. As a result, total assets and total liabilities were decreased in the amount of Baht 83.51 million from the previous report.

The effects of correction of errors as mentioned above to the statement of comprehensive income in consolidated financial statements for the year ended December 31, 2013, net loss increased from Baht 42.44 million to Baht 43.13 million and presented net loss per share from 1.99 Baht to 2.02 Baht.

## Operating Results Summary

In 2014, the Company reported consolidated sales of Baht 2,077.36 million, increased of Baht 97.44 million or 4.92%. The Company's gross profit demonstrated at 35.53% to sales value or Baht 737.90 million, increased from last year which presented at 27.22% due to sales growth in Asia and Middle East Asia market for soda-lime glassware and high sales growth in China and Europe market for lead-free crystal glass (crystalline). Moreover, the efficiency of production were improved both soda-lime and crystalline glassware as well.

During the year 2014, the Company confronts a problem of shutdown soda-lime glass because of chromium contamination in sand from new imported source which affect the color of glasses. The Company has shutdown expense of the mentioned soda-lime glass line in the amount of Baht 94.17 million.

Moreover, during the year 2014, the Company has effectively managed expenses by focus on marketing activities to reach our customers and distributors. As a result, the Company has net profit in the amount of Baht 47.02 million or 2.20 Baht per share while the Company has net loss in the amount of Baht 43.13 million in the year 2013.

■ **Total Revenues**

	<i>Year 2014 (Million Baht)</i>	<i>Year 2013 (Million Baht)</i>	<i>Change (%)</i>
Revenue from sales	2,077.36	1,979.92	4.92
Foreign exchange gain (loss)	3.69	(7.92)	146.61
Other income	9.51	11.10	(14.30)
<b>Total revenues</b>	<b>2,090.56</b>	<b>1,983.10</b>	<b>5.42</b>

The Company reported consolidated revenue from sales for the year 2014 in the amount of Baht 2,077.36 million, increased by Baht 97.44 million or 4.92% from previous year. The proportion of domestic sales was 27% and export sales registered at 73%. Domestic sales proportion slightly decreased from previous year (the proportion of domestic sales was 28% and export sales registered at 72% for the year 2013)

	<i>Year 2014 (Million Baht)</i>	<i>Year 2013 (Million Baht)</i>	<i>Change (%)</i>
Domestic Sales	550.75	562.05	(2.01)
Export Sales	1,526.61	1,417.87	7.67
<b>Total revenue from sales</b>	<b>2,077.36</b>	<b>1,979.92</b>	<b>4.92</b>

In 2014, revenue from domestic sales decreased from previous year in the amount of Baht 11.30 million or decreased 2.01% due to stagnant domestic economic. This caused affected the purchasing power reduction including the slowdown of household spending and the tourism industry, which directly affected the lower sales food & drink business (Food Service).

Export sales increased in the amount of Baht 108.74 million or growth 7.67% primarily due to the market expansion of soda-lime products in Asia and Middle East Asia market. Major incremental sales came from B2B customers, who buy glassware products to be used in promotional campaign (Premium).

The Company's sales of crystalline product grew in almost regions especially in China and Europe market. The Company has another new product designed for middle range of crystalline product to meet the needs of our customers.

In 2014, the Thai Baht depreciated against US dollar causes the effect on the Company recognized foreign exchange gain of Baht 3.69 million. While in 2013, the Company reported loss on foreign exchange amounting of Baht 7.92 million due to fluctuations in foreign exchange rate during the year 2013.

Other income for 2014 presented in the amount of Baht 9.51 million, mainly comprised of sales of cullet and recognized revenues from mold supplies which decreased by Baht 1.59 million or 14.30% from previous year.

■ **Total Cost of goods sold**

	<i>Year 2014 (Million Baht)</i>	<i>Year 2013 (Million Baht)</i>	<i>Change (%)</i>
Cost of goods sold	1,339.46	1,440.94	(7.04)

In 2014, total cost of goods sold presented in the amount of Baht 1,339.46 million decreased by Baht 101.48 million or 7.04% from last year, primarily due to improvement of production efficiency especially in crystalline glassware, including the Company effectively managed of its manufacturing resources which affect the reduction of unit cost of manufacturing as well.

■ **Total Selling and Administrative expenses**

	<i>Year 2014 (Million Baht)</i>	<i>Year 2013 (Million Baht)</i>	<i>Change (%)</i>
Selling expenses	350.56	360.83	(2.85)
Administrative expenses	102.81	99.87	2.95

Selling expenses for the year 2014 registered Baht 350.56 million, decreased by Baht 10.27 million or 2.85%, primarily came from advertising and promotion expenses. However, the Company emphasized to focus on marketing activities, in order to reach our customers and distributors. While, administrative expenses presented to Baht 102.81 million, increased by Baht 2.94 million or 2.95%, primarily due to staff expenses and the Company has hired more staff for support expand market of its subsidiaries. However, the Company has still effectively managed expenses in line with the Company's budget.

■ **Total Shutdown expenses**

	<i>Year 2014 (Million Baht)</i>	<i>Year 2013 (Million Baht)</i>	<i>Change (%)</i>
Shutdown expenses from production plan	91.11	81.35	12.00
Shutdown expenses from color glass problem	94.17	-	100.0
<b>Total Shutdown expenses</b>	<b>185.28</b>	<b>81.35</b>	<b>127.76</b>

In 2014, Shutdown expenses amounted of Baht 185.28 million, increased by Baht 103.93 million or 127.76%, compared to previous year, due to shut down from production plan by Baht 91.11 million, increased from last year Baht 9.77 million or 12.00%, in order to manage appropriate balance of inventories against sales quantities during the year. Shutdown expenses from color glass problem due to the effect of chromium contamination in sand from new imported source. The Company has stopped using this sand source since early June. Currently, all production process has been returned normal stage since June 15, 2014. Affect from shutdown expense as mentioned to soda-lime glass line in the year 2014 presented was at Baht 94.17 million.

■ **Finance costs**

	<i>Year 2014 (Million Baht)</i>	<i>Year 2013 (Million Baht)</i>	<i>Change (%)</i>
Finance costs	50.37	52.05	(3.22)

In 2014, finance cost decreased Baht 1.68 million or decreased 3.22% because of repayment of long-term loans during the year and lower interest rates of both short-term and long-term loans compared to last year.

■ **Other comprehensive income**

The Company measured the land at fair value, which was determined by independent appraiser. Gains on land revaluation in comprehensive income, net of tax presented in the amount of Baht 79.46 million, which has disclosed in note to financial statements no.12 Property, plant, and equipment – net.

## Financial Ratio Analysis

<b>Profitability Ratio</b>	<b>31-Dec-2014</b>	<b>31-Dec-2013</b>
Gross Profit Margin (%)	35.52	27.22
Operating Profit Margin (%)	5.41	0.01
Net Profit (Loss) Margin (%)	2.25	(2.17)
Return on equity (%)	3.16	(2.99)
<b>Efficiency Ratio</b>	<b>31-Dec-2014</b>	<b>31-Dec-2013</b>
Return on Assets (%)	3.44	0.00
<b>Liquidity Ratio</b>	<b>31-Dec-2014</b>	<b>31-Dec-2013</b>
Current Ratio (times)	2.04	1.70
Quick Ratio (times)	0.49	0.50
Average Collection Period (days)	38.41	38.94
Inventory Days (days)	165.30	149.04
Accounts Payable Days (days)	85.60	86.28
Cash Cycle (days)	118.11	101.70
<b>Leverage &amp; Financial Policy</b>	<b>31-Dec-2014</b>	<b>31-Dec-2013</b>
Debt to Equity Ratio (times)	1.04	1.38*
Interest Coverage Ratio (times)	5.88	3.68
Debt Service Coverage Ratio (times)	2.76	1.27

The Company's gross profit margin in the year 2014 increased by 8.30% from year 2013, primarily from lower cost of production due to efficiency improvement from manufacturing both soda-lime and crystalline products, including revision pricing of soda-lime product and managed more efficiency of product mix of sales. As a result, gross profit margin improved by compared to last year.

Although the Company has quite amount of shutdown expenses from color glass problem for the year 2014, the improving productivity and worthily managed selling expenses, resulting in operating profit margin ratio increased from 0.01% for the year 2013 to 5.41% for the year 2014 and net profit margin for the year 2014 presented at 2.25% (year 2013 presented net loss margin at 2.17%), return on equity presented 3.16% and return on assets presented 3.44% for the year 2014.

Refer to liquidity ratio and leverage and financial policy, the Company has better liquidity from previous year and sufficient cash from operations and liquidity for debt service coverage. Moreover, the Company could maintain debt to equity ratio as long-term loans restriction.

*\*Effect from reclassifications for the year 2014, Debt to Equity Ratio as of December 31, 2013, changed from previous reported at 1.42 times to 1.38 times.*

## Statements of Financial Position as at December 31, 2014

	31-Dec-2014 (Million Baht)	31-Dec-2013 (Million Baht)	Change (%)
Current Assets	1,387.09	1,560.43	(11.11)
Non-Current Assets	1,769.46	1,827.34	(3.17)
<b>Total Assets</b>	<b>3,156.55</b>	<b>3,387.77</b>	<b>(6.83)</b>
Current Liabilities	678.63	918.00	(26.08)
Non-Current Liabilities	928.20	1,047.14	(11.36)
<b>Total Liabilities</b>	<b>1,606.83</b>	<b>1,965.14</b>	<b>(18.23)</b>
<b>Total Shareholders' Equity</b>	<b>1,549.72</b>	<b>1,422.63</b>	<b>8.93</b>

### Assets

Total assets represented at Baht 3,156.55 million, decreased by Baht 231.22 million or 6.83% from December 31, 2013. There was comprised of current assets of Baht 1,387.09 million, decreased by Baht 173.34 million or 11.11%, primarily due to decrement in cash and cash equivalent in the amount of Baht 157.25 million from short-term loans repayment due in this period to local financial institutions. While non-current assets of Baht 1,769.46 million decreased by Baht 57.88 million or 3.17%, primarily due to recognized gains on land revaluation since 1Q14 in the amount of Baht 99.33 million, net of depreciation and amortization for the period.

Cash and cash equivalent balance was Baht 94.29 million, decreased of Bath 157.25 million or 62.52%, primarily due to commitment on long-term loan agreement of Baht 250 million from one local financial institution since 2012 and expired to utilize within 2013.

Trade accounts receivable balance totaling Baht 235.99 million, increased of Baht 28.70 million or 13.85%, primarily due to trade accounts receivable increased in line with sales of 4Q14, compared to 4Q13. Trade accounts receivable comprised of Baht 1.02 million or 0.43% for overdue over 3-month period. Average collection days during 2014 were 39 days. Allowance for doubtful debt accounts is assessed primarily on analysis of payment histories and future expectations of customer payments. Bad debts are written off when incurred. As of December 31, 2014, the Company has not recorded allowance for doubtful debt from the mentioned assessment.

Total inventories balance amounting of Baht 988.35 million, decreased by Baht 87.71 million or 8.15% due to appropriate balance of inventories against production, sales and storage which sufficient distributed as plan. Inventories are stated at the lower of cost or net realizable value, after provision for slow moving and obsolete items.



Value added tax receivables presented by Baht 63.89 million, increased by Baht 42.92 million or 204.70% which is on process of verification of documents and VAT refund from the Revenue Department.

Total property, plant and equipment, net represented at Baht 1,744.87 million, decreased by Baht 53.79 million or 2.99% primarily from depreciation and amortization during the year.

## Liabilities

Total liabilities presented of Baht 1,606.83 million, decreased by Baht 358.31 million or 18.23%, primarily due to decrement in loans from local financial institutions. The Company's source of capital structure funded through operating cash flow and loans borrowing from local financial institutions. Interest bearing debt represented at Baht 1,147.90 million, increased by Baht 359.58 million or 23.85% compared to last year, primarily due to short-term loans repayment due in the amount of Baht 291.38 million and long-term loans repayment due during the period in the amount of Baht 68.20 million.

	<i>31-Dec-2014</i> <i>(Million Baht)</i>	<i>31-Dec-2013</i> <i>(Million Baht)</i>	<i>Change</i> <i>(%)</i>
Total Liabilities	1,606.83	1,965.14	(18.23)
Loans from local financial institutions	1,147.90	1,507.48	(23.85)

Long-term loans of Baht 785 million are secured by the Company's land and construction thereon. On November 12, 2014, the Company entered into amendment of loan agreement for monthly principal repayment amount and extended repayable period to be within the year 2021, from the previous agreement repayable period to be within year 2018. The loans contain restriction on Debt to Equity Ratio. During the year 2014, the Company maintained such ratio as well.

Moreover, the Company has sufficient credit facilities for short-term loans with its operation, Interest repayment and obligations according to the better liquidity of current ratio from last year.

## Shareholders' Equity

Total shareholders' equity represented at Baht 1,549.72 million, increased 8.93%, because of gains on land revaluation, net of tax and recognized net profit for the period.

## Commitment by Management and Service

### Royalty fee

On February 1, 2007, the Company entered into an agreement for product design services with a foreign company. Under the terms of the agreement, the foreign company shall provide product designs and consultations services for glass series. In consideration thereof, the Company will pay a fee at a fixed percentage of net sales of the products. The term of this agreement is indefinite.

### License and technical assistance agreements

On May 1, 2009, the Company entered into license and technical assistance agreements with Toyo-Sasaki Glass Company Limited ("Toyo-Sasaki Glass") for a period of 5 years. Under the terms of the agreements, Toyo-Sasaki Glass shall provide the Company license and technical information in the manufacturing and distribution of glassware and crystal products. In consideration thereof, the Company will pay certain percentages of net sales as royalty fees to Toyo-Sasaki Glass. Since 2015 onwards, the Company did not renew the license and technical assistance agreement with Toyo-Sasaki Glass.