

December 25, 2017

Subject: Management Discussion and Analysis for the year ended December 31, 2016

To The President

The Stock Exchange of Thailand

Do Day Dream Public Company Limited (the "Company" or "we" or "our" or "us") would like to inform management discussion and analysis for its results of operations from the consolidated financial statements for the year ended December 31, 2016 as follows:

Management Discussion and Analysis
For the year ended December 31, 2016

Results of Operations

Sales Revenue

Our sales revenue increased from THB955.1 million in 2015 to THB1,201.5 million in 2016 representing an increase of 25.8% . The increase in sales revenue was largely due to higher sales revenue of our existing products, especially products which started selling in 2015 and had a full year revenue recognition in 2016 amounting to THB60 million, and sales revenue from new products launched in 2016 amounting to THB58.2 million. The product category with highest revenue increased was facial skincare products with its revenue increased amounting to THB132.1 million. This was mainly attributable to increase in sales quantity while average selling prices remained relatively constant. By customer location, our overseas sales revenue decreased from THB180.0 million in 2015 to THB146.2 million in 2016 mainly due to change in selling structure and method of certain overseas retail customers to be through our distribution partners. As a result, our overseas sales revenue contribution decreased from 18.8% of our sales revenue in 2015 to 12.2% of our sales revenue in 2016.

Sales by product category	Consolidated financial statements			
	For the year ended December 31			
	2015 ¹⁴		2016	
	THB mm	%	THB mm	%
Sale Revenue				
1. Revenue from selling product under Company's trademark				
1) Facial skincare	860.5	90.0	1,072.7	89.0
2) Body care	56.3	5.9	36.4	3.0
3) Facial cleansing	37.4	3.9	48.7	4.0
4) Body cleansing	-	-	9.8	0.8
5) Sunscreen	27.9	2.9	58.9	4.9
6) Giftset	22.6	2.4	63.4	5.2
7) Food supplement ¹¹	7.1	0.7	0.7	0.1
Total revenue from products under Company's trademark	1,011.8	105.8	1,290.6	107.0
Deduct Sale Discount	(77.2)	(8.1)	(91.0)	(7.5)
Revenue from product under Company's trademark – Net	934.6	97.7	1,199.6	99.5
2. Sales from OEM business	2.5	0.2	1.9	0.2
3. Other sales revenue ¹²	18.0	1.9	-	-
Total sales	955.1	99.8	1,201.5	99.7
Other income ¹³	1.6	0.2	3.3	0.3
Total revenue	956.7	100.0	1,204.8	100.0

Notes: ¹¹ The Company discontinued distribution of food supplement products since the beginning of 2016
¹² Other sales revenue comprise of revenue from sales of packaging to related company which was discontinued since 2015
¹³ Other income comprises mainly of interest income and services revenue
¹⁴ The consolidated financial information for the year ended December 31, 2015, which is a comparison figures presented according to PAE standard in the consolidated financial statement for the year ended December 31, 2016, was prepared by management of the Company and was not audited by auditor

Sales by geography	Consolidated financial statements			
	For the year ended December 31			
	2015 ¹²		2016	
	THB mm	THB mm	THB mm	THB mm
Sale revenue				
1. Sale revenue from domestic customers	775.1	81.0	1,055.3	87.5
2. Sale revenue from overseas customers	180.0	18.8	146.2	12.2
Total sales	955.1	99.8	1,201.5	99.7
Other income ¹¹	1.6	0.2	3.3	0.3
Total revenue	956.7	100.0	1,204.8	100.0

Notes: ¹¹ Other income comprises mainly of interest income and services revenue
¹² The consolidated financial information for the year ended December 31, 2015, which is a comparison figures presented according to PAE standard in the consolidated financial statement for the year ended December 31, 2016, was prepared by management of the Company and was not audited by auditor



Cost of sales

Our cost of sales comprise of raw material and packaging cost, labor cost, depreciation of our plant and machinery, freight expenses and others cost of sales. Our cost of sales increased from THB347.5 million in 2015 to THB374.8 million in 2016 mainly distributable to increase in raw material and packaging cost with respect to higher production volume which is in accordance with our sales revenue.

Cost of sales	Consolidated financial statements			
	For the year ended December 31			
	2015		2016	
	THB mm	%	THB mm	%
Raw material and packaging	317.7	91.4	343.8	91.7
Labor costs	17.5	5.1	15.9	4.2
Depreciation costs	2.8	0.8	9.3	2.5
Freight expenses	6.0	1.7	0.9	0.3
Others	3.5	1.0	4.9	1.3
Total cost of sales	347.5	100.0	374.8	100.0
Proportion of cost of sales to sales revenue	36.4		31.2	
Gross Profit Margin	63.6		68.8	

Gross Profit

For the year ended December 31, 2015 and 2016, our gross profit was THB607.6 million and THB826.8 million, respectively, and gross profit was 63.6% and 68.8%, respectively. Our gross profit increased mainly due to our ability to control production cost in various aspects including our ability to negotiate with key suppliers resulting in lower average cost together with economies of scale and more efficient production.

Selling expenses

Selling expenses comprise of advertising and promotional expenses, sales employee cost, and freight expenses. For the year 2016, selling expenses slightly decreased from THB330.9 million to THB319.1 million while selling expenses as a percentage of sales revenue significantly decreased from 34.6% in 2015 to 26.5% in 2016. The decrease was mainly due to decrease in freight expenses and advertising and promotional expenses which reflected an efficient cost management by the Company as well as well-organized advertising and promoting programs through several marketing channels that penetrated directly to target customers.

Selling expenses	Consolidated financial statements			
	For the year ended December 31			
	2015		2016	
	THB mm	THB mm	THB mm	THB mm
Advertising and promotional expenses	283.9	85.8	275.3	86.3
Sales employee cost	9.5	2.9	24.4	7.6
Freight expenses	30.4	9.2	7.2	2.3
Others ¹	7.1	2.1	12.2	3.8
Total selling expenses	330.9	100.0	319.1	100.0
% to sales revenue	34.6		26.5	

Notes: ¹ Other selling expenses mainly comprise market survey expenses and rental expenses for Namu Life Shop

Administrative expenses

Administrative expenses mainly comprise administrative employee cost at our head office and Rojana plant. Administrative expenses increased from THB30.3 million in 2015 to THB87.1 million in 2016, or, as a percentage of revenue, 3.2% and 7.2% in 2015 and 2016, respectively. The increase was mainly attributable to higher administrative employee cost which was in line with the increase sales revenue and with the relocation of the Company production base to Rojana Industrial Park in 2016, both of which required the Company to hire more administrative staffs.

Administrative expenses	Consolidated financial statements			
	For the year ended 31 December			
	2015		2016	
	THB mm	THB mm	THB mm	THB mm
Administrative employee cost	15.5	51.1	46.6	53.5
Miscellaneous expenses	3.3	10.9	13.4	15.4
Depreciation and amortization	3.6	12.0	7.9	9.1
Tax and other fee	3.6	11.8	11.3	12.9
Others ¹	4.3	14.2	7.9	9.1
Total administrative expenses	30.3	100.0	87.1	100.0
% to sales revenue	3.2		7.2	

Notes: ¹ Other administrative expenses mainly comprises of impairment of deteriorate products and allowance for doubtful account

Net Profit for the Year

Net profit increased from THB193.9 million in 2015 to THB335.2 million in 2016 and net profit margin increased from 20.3% in 2015 to 27.8% in 2016. This was mainly distributable to the continuous growth of the Company from both sales of existing products and new products, extension of coverage in distribution channel, efficient marketing campaign, and effective production cost and sales and administration cost management.

Financial Position

Total Assets

As at December 31, 2015 and 2016, we had total assets of THB528.5 million and THB775.5 million, respectively. Our assets were mainly consisted of cash and cash equivalents, trade and other receivables, inventories, property, plant and equipment. Our assets as at December 31, 2016 increased mainly due to increase inventories from operation and increase in property, plant and equipment from our new production plant.

Total Liabilities

As at December 31, 2015 and 2016, we had total liabilities of THB286.0 million and THB400.5 million, respectively. Our liabilities were mainly comprised of short-term loans from financial institutions, trade and other payables and long-term loans from financial institutions. The increase in our total liabilities as at December 31, 2016 were mainly attributable to increase in loans from financial institutions and trade and other payables which was in accordance with the Company operating performance.

Shareholders' Equity

As at December 31, 2015 and 2016, we had shareholders' equity of THB242.5 million and THB375.0 million, respectively. The increase in shareholders' equity as at December 31, 2016 was mainly due to increase in share capital from THB10 million to THB225 million together with increase in retained earnings of the Company.

Please be informed accordingly.

Yours Sincerely,



(Mr. Piyaawat Ratchapolsitte)

Chief Financial Officer