

May 13th, 2019

Subject Management Discussion and Analysis for the three months period ended March 31, 2019

To The President
The Stock Exchange of Thailand

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 three months period ended March 31, 2019 as follows:

Management Discussion and Analysis

For the three months period ended March 31, 2019

Summary of Performance

Sales Revenue

For the period of three months ended 31 March 2018 and 2019, the Company registered total sales revenue of THB 374.35 million and THB 202.23 million respectively or equivalent to a slump of 45.98% year on year. Domestic sales revenue declined 42.87% compared to the same period of the previous year as a result of negative news related to manufacturers of substandard products and the closure of the biggest wholesale skincare market in the country last April which posted a threat to distribution channels of the Company's customers and they had to postpone their purchase orders of the Company's products. Moreover, there were a number of incidents that adversely affected tourism in Thailand that led to a continuous decrease in number of tourists especially from China which is our target customers. The Company was responsive of the situation and formulated new strategies and marketing plans to better reach existing target customers as well as tap into new customer base.

With regard to international sales, the sales revenue experienced a drastic drop of 58.32% compared to the same period last year due to a slowdown in sales in China since the end of last year. Nevertheless, the Company managed to expand its business to the Philippines to extend the customer base and diversify its revenue streams to mitigate the risk of reliance on sales in China. Currently, the Company received good feedbacks from the market expansion in the Philippines but still could not compensate for the material decrease in sales from China. The Company has plans to expand further to other potential countries and is in the process of conducting market feasibility studies in those markets.

Table 1: Sales Revenue by Product Line for the three months period ended March 31 (YoY)

| Product Line/ Business Group | Consolidated financial statements | | | | Change Increase/(Decrease) | |
|---|--|--------|---------|--------|-------------------------------|---------|
| | For Three Months Period Ended 31 March | | | | | |
| | 2018 | | 2019 | | THB mm | % |
| | THB mm | % | THB mm | % | | |
| Sale Revenue | | | | | | |
| Revenue from selling product under Company's trademark | | | | | | |
| 1) Facial skincare | 308.65 | 79.82 | 163.26 | 75.08 | (145.39) | (47.11) |
| 2) Body care | 1.39 | 0.36 | 8.04 | 3.70 | 6.65 | 478.42 |
| 3) Facial cleansing | 12.37 | 3.20 | 9.54 | 4.39 | (2.83) | (22.88) |
| 4) Body cleansing | 22.20 | 5.74 | 10.23 | 4.70 | (11.97) | (53.92) |
| 5) Sunscreen | 8.88 | 2.30 | 7.84 | 3.61 | (1.04) | (11.71) |
| 6) Giftset | 29.03 | 7.51 | 16.66 | 7.66 | (12.37) | (42.61) |
| Total revenue from products under Company's trademark | 382.52 | 98.93 | 215.57 | 99.14 | (166.95) | (43.64) |
| <u>Deduct Sales discount</u> | (8.17) | (2.11) | (13.34) | (6.14) | (5.17) | (63.28) |
| Total sales | 374.35 | 96.82 | 202.23 | 93.00 | (172.12) | (45.98) |
| Other income¹ | 12.31 | 3.18 | 15.23 | 7.00 | 2.92 | 23.72 |
| Total revenue | 386.66 | 100.00 | 217.46 | 100.00 | (169.20) | (43.76) |

Notes: ¹ Other income comprises mainly of interest income and services revenue

Table 2: Sales Revenue by Geography for the Three Months Period Ended 31 December 2018 and 31 March 2019 (QoQ)

| Sales by geography | Consolidated financial statements | | | | Change Increase/(Decrease) | |
|---|-----------------------------------|---------------|---------------|---------------|-------------------------------|----------------|
| | For Three Months Period Ended | | | | | |
| | 31 December 2018 | | 31 March 2019 | | | |
| | THB mm | % | THB mm | % | THB mm | % |
| <u>Sale revenue</u> | | | | | | |
| 1. Sale revenue from domestic customers | 216.71 | 78.15 | 170.86 | 78.57 | (45.85) | (21.16) |
| 2. Sale revenue from overseas customers | 49.55 | 17.87 | 31.37 | 14.43 | (18.18) | (36.69) |
| Total sales | 266.26 | 96.02 | 202.23 | 93.00 | (64.03) | (24.05) |
| Other income ¹ | 11.05 | 3.98 | 15.23 | 7.00 | 4.18 | 37.85 |
| Total revenue | 277.31 | 100.00 | 217.46 | 100.00 | (59.85) | (21.58) |

Notes: ¹ Other income comprises mainly of interest income and services revenue

Table 3: Sales Revenue by Geography for the Three Months Period Ended 31 March (YoY)

| Sales by geography | Consolidated financial statements | | | | Change Increase/(Decrease) | |
|---|--|---------------|---------------|---------------|-------------------------------|----------------|
| | For Three Months Period Ended 31 March | | | | | |
| | 2018 | | 2019 | | | |
| | THB mm | % | THB mm | % | THB mm | % |
| <u>Sale revenue</u> | | | | | | |
| 1. Sale revenue from domestic customers | 299.08 | 77.35 | 170.86 | 78.57 | (128.22) | (42.87) |
| 2. Sale revenue from overseas customers | 75.27 | 19.47 | 31.37 | 14.43 | (43.90) | (58.32) |
| Total sales | 374.35 | 96.82 | 202.23 | 93.00 | (172.12) | (45.98) |
| Other income ¹ | 12.31 | 3.18 | 15.23 | 7.00 | 2.92 | 23.72 |
| Total revenue | 386.66 | 100.00 | 217.46 | 100.00 | (169.20) | (43.76) |

Notes: ¹ Other income comprises mainly of interest income and services revenue

Cost of Goods Sold

Cost of goods sold for the three months period ended 31 March 2018 and 2019 was THB 101.00 million and THB 54.04 million respectively, equivalent to a 46.50% decline. Cost of goods sold to sales revenue ratio slightly dropped from 26.98% to 26.72 % as a result of the changing sales mix that each product line contributed to total sales.

Table 4: Cost of Goods Sold by Type of Expenses for the Three Months Period Ended 31 March (YoY)

| Cost of sales | Consolidated financial statements | | | | Change Increase/(Decrease) | |
|--|--|--------|--------|--------|-------------------------------|---------|
| | For Three Months Period Ended 31 March | | | | | |
| | 2018 | | 2019 | | THB mm | % |
| | THB mm | % | THB mm | % | | |
| Raw material and packaging | 78.40 | 77.62 | 33.96 | 62.84 | (44.44) | (56.68) |
| Labor costs | 12.30 | 12.18 | 5.69 | 10.53 | (6.61) | (53.74) |
| Depreciation costs | 4.20 | 4.16 | 4.91 | 9.09 | 0.71 | 16.90 |
| Freight expenses | 0.70 | 0.69 | 0.22 | 0.41 | (0.48) | (68.57) |
| Others ¹ | 5.40 | 5.35 | 9.26 | 17.14 | 3.86 | (71.48) |
| Total cost of sales | 101.00 | 100.00 | 54.04 | 100.00 | (46.96) | (46.50) |
| Proportion of cost of sales to sales revenue (%) | 26.98 | | 26.72 | | | |
| Gross Profit Margin (%) | 73.02 | | 73.28 | | | |

Note: ¹ Other costs of goods sold mainly comprise warehouse rentals, utility charges and other expenses related to production.

Gross Profit

Considering gross profit, for the period of three months ended 31 March 2018 and 2019, the Company posted gross profit of THB 273.35 million and THB 148.19 million respectively or equivalent to gross profit margin of 73.02% and 73.28% respectively. The minor increase in gross profit margin of the Company was derived from cost of goods sold that adjusted downward mildly from the change in production plan and sales mix.

Sales Expenses

Sales expenses for the three months period ended 31 March 2018 and 2019 stood at THB 119.59 million and THB 97.10 million respectively. This is equivalent to a modest decline of 18.81% compared to the same period last year. This signifies that the Company managed to materially cut down sales expenses from the previous year in alignment with the drop in sales revenue. Nevertheless, some of the sales expenses took time to adjust and did not fully reflect the slowdown in revenue as there was a lead time for certain expenses that the Company must plan in advance such as advertising expenses spent on various media. Furthermore, the Company had significant advertising and sales promotion expenses in the first quarter thanks to new products the Company introduced during the end of the past year. Consequently, sales expenses to sales revenue ratio edged up dramatically from 31.95% to 48.01% as the Company incurred additional expenses from new product launches.

Table 5: Sales Expenses by Type of Expenses for the Three Months Period Ended 31 March (YoY)

| Selling expenses | Consolidated financial statements | | | | Change Increase/(Decrease) | |
|--------------------------------------|--|---------------|--------------|---------------|-------------------------------|----------------|
| | For Three Months Period Ended 31 March | | | | | |
| | 2018 | | 2019 | | THB mm | % |
| | THB mm | % | THB mm | % | | |
| Advertising and promotional expenses | 105.70 | 88.39 | 83.54 | 86.04 | (22.16) | (20.96) |
| Sales employee cost | 7.90 | 6.61 | 8.09 | 8.33 | 0.19 | (2.41) |
| Freight expenses | 1.40 | 1.17 | 1.35 | 1.39 | (0.05) | (3.57) |
| Others ¹ | 4.59 | 3.84 | 4.12 | 4.24 | (0.47) | (10.24) |
| Total selling expenses | 119.59 | 100.00 | 97.10 | 100.00 | (22.49) | (18.81) |
| % to sales revenue | | 31.95 | | 48.01 | | |

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

Administrative Expenses

The Company recorded administrative expenses for the three months period ended 31 March 2018 and 2019 at THB 34.11 million and THB 40.14 million respectively. This equals to a surge of 17.68 % in administrative expenses year on year as caused by higher employee expenses to support more workloads and more units from business expansion of the Company.

Table 6: Administrative Expenses by Type of Expenses the Three Months Period Ended 31 March (YoY)

| Administrative expenses | Consolidated financial statements | | | | Change Increase/(Decrease) | |
|--------------------------------------|--|---------------|--------------|---------------|-------------------------------|--------------|
| | For Three Months Period Ended 31 March | | | | | |
| | 2018 | | 2019 | | THB mm | % |
| | THB mm | % | THB mm | % | | |
| Administrative employee cost | 20.10 | 58.93 | 28.81 | 71.77 | 8.71 | 43.33 |
| Miscellaneous expenses | 6.80 | 19.94 | 3.65 | 9.09 | (3.15) | (46.32) |
| Depreciation and amortization | 3.50 | 10.26 | 3.47 | 8.64 | (0.03) | (0.86) |
| Tax and other fee | 3.50 | 10.26 | 2.97 | 7.40 | (0.53) | (15.14) |
| Others ¹ | 0.21 | 0.62 | 1.24 | 3.09 | 1.03 | 490.48 |
| Total administrative expenses | 34.11 | 100.00 | 40.14 | 100.00 | 6.03 | 17.68 |
| % to sales revenue | 8.82 | | 18.46 | | | |

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

Net Profit

The Company posted net profit for the three months period ended 31 March 2018 and 2019 of THB 112.14 million and THB 19.34 million respectively, equivalent to a slump of 82.75%. Net profit margin also experienced a significant decline from 29.00% to 8.89%. The fall in net profit margin was derived from the aforementioned decline in sales revenue especially from overseas and higher administrative expenses that adjusted upward from the same period of the previous year.

Financial Position

Total Assets

As of 31 March 2019, the Company's total assets stood at THB 5,174.80 million, dropping 1.40% from the end of last year. The majority of total assets consists of cash and equivalents, short-term investments, trade receivables and other receivables, inventories and property, plant and equipment. Cash spent to acquire other assets and payments of loans from financial institutions.

Total Liabilities

As of 31 March 2019, the Company held total liabilities of THB 176.10 million, decreasing 33.67% from the end of last year. Total liabilities fell as loans from financial institutions, trade payables and other payables dropped.

Shareholders' Equity

As of 31 March 2019, the Company held shareholders' equity of THB 4,998.70 million. The mild increase in shareholders' equity of 0.32% was mainly derived from rising retained earnings according to the Company's performance.

Financial Ratio

| Financial Ratio | As of March 31, 2019 |
|------------------------------|----------------------|
| Liquidity Ratio (times) | 28.72 |
| Debt to Equity Ratio (times) | 0.04 |
| Return on Equity - ROE (%) | 1.55 |
| Return on Assets - ROA (%) | 1.50 |
| Net Profit Margin (%) | 8.89 |

Please be informed accordingly.

Yours Sincerely,
Mr. Piyawat Ratchapolsitte
Chief Financial Officer