

Sri Trang Agro-Industry Public Company Limited

Part 3

Financial Position and Operating Result

13. FINANCIAL INFORMATION**13.1 Statements of Financial Position**

(Unit: Million Baht)	Consolidated		
	As at 31 December of		
	2015	2014	2013 (Restated)
Assets			
Current assets			
Cash and cash equivalents	2,197.2	2,131.6	1,892.7
Derivative financial instruments	336.7	89.8	76.0
Trade accounts receivable and other receivables, net	3,854.2	4,688.4	7,441.2
Amounts due from futures brokers	702.1	392.5	320.8
Inventories, net	13,959.8	10,029.9	16,581.9
Other current assets	480.6	352.2	285.7
Total current assets	21,530.6	17,684.4	26,598.4
Non-current assets			
Long-term loan to an associate	-	-	65.4
Fixed deposits pledged as collateral	33.5	34.6	61.2
Investments in associates	1,357.8	1,157.8	3,541.2
Investment in joint ventures	3,379.0	2,878.2	489.2
Long-term investments	50.6	63.7	52.4
Property, plant and equipment, net	15,185.5	14,355.0	12,294.8
Rubber and palm plantations, net	1,221.2	901.2	547.7
Intangible assets, net	330.3	31.6	27.0
Investment properties	154.5	170.3	176.3
Withholding tax deducted at source	395.7	332.9	240.0
Deferred income tax assets, net	203.4	146.5	121.8
Other non-current assets	36.4	34.3	21.3
Total non-current assets	22,348.0	20,106.1	17,638.3
Total assets	43,878.6	37,790.5	44,236.7
Liabilities and shareholders' equity			
Current liabilities			
Trade accounts payable and other payables	2,687.4	2,579.5	3,821.5
Short-term loans from financial institutions	13,446.2	9,408.4	14,223.1

13.1 Statements of Financial Position (Cont'd)

(Unit: Million Baht)	Consolidated		
	As at 31 December of		
	2015	2014	2013 (Restated)
Current portion of long-term loans from financial institutions	451.4	140.3	113.4
Current portion of debentures	850.0	-	1,600.0
Current portion of finance lease liabilities	25.0	30.0	17.9
Derivative financial instruments	271.6	212.8	532.9
Current income tax liabilities	63.9	48.6	20.5
Other current liabilities	40.0	44.3	46.5
Total current liabilities	17,835.6	12,464.0	20,375.7
Non-current liabilities			
Long-term loans from financial institutions	3,742.2	2,913.5	2,113.7
Debentures	600.0	1,450.0	1,450.0
Finance lease liabilities	10.9	33.3	28.7
Deferred income tax liabilities, net	151.8	172.5	60.1
Provision for retirement benefit obligations	161.7	115.2	106.9
Other non-current liabilities	42.5	50.2	110.6
Total non-current liabilities	4,709.2	4,734.7	3,870.0
Total liabilities	22,544.7	17,198.7	24,245.7
Shareholders' equity			
Issued and paid-up share capital	1,280.0	1,280.0	1,280.0
Premium on share capital	8,551.0	8,551.0	8,551.0
Deduction arising from acquisition of additional interest in subsidiaries from non-controlling interests	(173.1)	(173.1)	(173.1)
Asset revaluation surplus, net of accumulated depreciation	1,427.8	1,470.5	1,130.2
Unrealised gains on available-for-sale investments	6.8	18.9	8.5
Cumulative currency differences on translating financial statement	(268.5)	(445.9)	(453.4)
Retained earnings			
Appropriated - legal reserve	128.0	128.0	128.0
Unappropriated	10,287.7	9,662.3	9,431.6
Total parent's shareholders' equity	21,239.7	20,491.7	19,902.8
Non-controlling interests	94.2	100.2	88.3
Total shareholders' equity	21,333.9	20,591.9	19,991.1
Total liabilities and shareholders' equity	43,878.6	37,790.5	44,236.7

13.2 Statements of Comprehensive Income

(Unit: Million Baht)	Consolidated		
	2015	2014	2013 (Restated)
Revenues from sales and services	61,291.8	75,529.9	92,185.2
Cost of sales and services	(57,770.6)	(72,181.6)	(86,986.7)
Gross profit	3,521.2	3,348.3	5,198.5
Other income	186.3	133.9	260.0
Selling expenses	(2,125.2)	(2,132.7)	(2,358.5)
Administrative expenses	(1,588.2)	(1,687.7)	(1,230.7)
Gains on exchange rate, net	214.2	371.1	312.5
Other (losses) gains , net	1,095.3	1,122.0	338.6
Operating profit	1,303.6	1,155.0	2,520.4
Share of profit from investments in associates and joint ventures	648.8	535.1	495.6
Profit before net finance costs and income tax	1,952.4	1,690.1	3,016.0
Finance income	48.2	49.7	46.1
Finance costs	(857.3)	(663.4)	(1,075.3)
Finance costs, net	(809.1)	(613.7)	(1,029.3)
Profit before income tax	1,143.3	1,076.4	1,986.7
Income tax	(31.5)	(40.1)	(149.6)
Profit for the years	1,111.8	1,036.2	1,837.1
Other comprehensive income:			
Asset revaluation surplus, net of tax	2.3	361.4	53.3
Change in fair value of available-for-sale investments, net of tax	(12.0)	10.3	(5.0)
Actuarial gains (losses) on defined employee benefit plan, net of tax	(25.6)	3.9	5.5
Currency differences on translating financial statement	174.5	7.7	(120.6)
Other comprehensive income (expense) for the years, net of tax	139.2	383.2	(66.8)
Total comprehensive income for the years	1,251.0	1,419.5	1,770.4
Profit for the years attributable to:			
Owners of the parent	1,118.0	1,037.8	1,820.2
Non-controlling interests	(6.3)	(1.5)	16.9
Profit for the years	1,111.8	1,036.2	1,837.1
Total comprehensive income for the years attributable to:			
Owners of the parent	1,260.0	1,420.9	1,768.5
Non-controlling interests	(9.1)	(1.4)	1.9
Total comprehensive income for the years	1,251.0	1,419.5	1,770.4
Earnings per share			
Basic earnings per share (Unit: Baht per share)	0.87	0.81	1.42

13.3 Statements of Cash Flows

(Unit: Million Baht)	Consolidated		
	2015	2014	2013 (Restated)
Cash flows from operating activities			
Profit before income tax	1,143.3	1,076.4	1,986.7
Adjustments for:			
Unrealised (gains) losses on foreign currency translations	165.8	259.2	268.3
Unrealised (gains) losses from revaluation of derivative financial instruments	(188.2)	(333.8)	392.8
Allowance for impairment of trade accounts receivable (Reversal of) allowance for inventory cost in excess of net realisable value	(5.5)	8.0	14.2
Provision for retirement benefit obligations	24.6	15.7	25.1
Depreciation charges	1,021.7	866.9	720.9
Amortisation charges - rubber and palm plantations	0.7	0.8	1.5
Amortisation charges - intangible assets	32.7	9.8	8.6
Loss on asset revaluation	-	26.5	36.7
Finance costs	857.3	663.4	1,075.3
Dividend income	(36.8)	(1.6)	(22.9)
Share of profit from investments in associates and joint ventures	(648.8)	(535.1)	(495.6)
(Gains) losses on disposal and write-off of property, plant and equipment and intangible assets	(44.5)	6.2	(4.2)
Gains (losses) from revaluation of investment properties	29.2	6.7	(6.3)
Gains on disposal of investment in an associate	-	-	(0.5)
Changes in operating assets and liabilities			
(Increase) decrease in operating assets			
- Trade accounts receivable and other receivables	839.6	2,744.8	(944.2)
- Amounts due from futures brokers	(309.6)	(71.6)	63.6
- Inventories	(4,308.6)	6,477.5	(3,389.7)
- Other current assets	(107.9)	(49.5)	(33.2)
- Other non-current assets	(2.2)	(12.9)	8.5
Increase (decrease) in operating liabilities			
- Trade accounts payable and other payables	128.8	(1,143.4)	1,206.0
- Other current liabilities	(4.3)	(2.1)	1.2
Cash provided by (used in) operating activities	(1,038.9)	10,086.1	872.4
Interest paid	(855.3)	(674.0)	(1,047.5)
Income tax paid	(173.0)	(141.4)	(188.3)
Employee benefits paid	(7.2)	(0.9)	(0.1)
Net cash provided by (used in) operating activities	(2,074.4)	9,269.9	(363.6)

13.3 Statements of Cash Flows (Cont'd)

(Unit: Million Baht)	Consolidated		
	2015	2014	2013 (Restated)
Cash flows from investing activities			
Cash received from long-term borrowings to an associate	-	65.2	-
(Increase) decrease in fixed deposits pledged as collateral	1.1	26.6	38.3
(Increase) decrease in available-for-sale investments	0.1	(0.04)	-
Dividends received	36.8	526.1	481.3
Cash paid for investments in associates	-	-	(8.0)
Proceeds from business dissolution of an associate	-	-	6.8
Proceeds from disposal of property, plant and equipment and intangible assets	114.1	21.2	49.7
Cash paid for purchases of property, plant and equipment, rubber and palm plantations and intangible assets	(2,616.5)	(3,010.8)	(3,664.0)
Net cash used in investing activities	(2,464.4)	(2,371.7)	(3,087.8)
Cash flows from financing activities			
Increase (decrease) in short-term loans from financial institutions	4,005.4	(5,041.7)	1,868.0
Proceeds from long-term loans	1,230.2	940.0	1,826.3
Repayments of long-term loans	(90.3)	(113.4)	(114.0)
Proceeds from issuance of debentures	-	-	900.0
Repayments of debentures	-	(1,600.0)	-
Payments on finance lease liabilities	(31.9)	(25.5)	(31.7)
Dividend payment	(512.0)	(832.0)	(640.0)
Dividend paid from subsidiaries to non-controlling interests	(0.0)	(0.0)	(0.0)
Proceeds from capital increase from non-controlling interests	3.1	13.3	1.6
Net cash provided by (used in) financing activities	4,604.5	(6,659.2)	3,810.1
Net increase (decrease) in cash and cash equivalents	65.6	238.9	358.7
Cash and cash equivalents at the beginning of the years	2,131.6	1,892.7	1,534.0
Cash and cash equivalents at the end of the years	2,197.2	2,131.6	1,892.7
Supplementary information for cash flows			
Cash paid for purchases of property, plant and equipment, rubber and palm plantations and intangible assets:			
Property, plant and equipment rubber and palm plantations and intangible assets acquired	(2,590.4)	(2,904.7)	(3,996.6)
Increase in liabilities under finance lease liabilities	4.5	42.3	62.8
Increase (decrease) in payable from purchases of assets	(30.6)	(148.4)	269.7
Cash paid for purchases of property, plant and equipment, rubber and palm plantations and intangible assets	(2,616.5)	(3,010.8)	(3,664.0)

13.4 Financial Ratios

<u>Financial Ratio</u>		2015	2014	2013
Liquidity Ratios				
Current ratio	Times	1.21	1.42	1.31
Quick ratio	Times	0.34	0.55	0.46
Cash flow liquidity ratio	Times	(0.14)	0.56	(0.02)
Account receivable turnover ¹	Times	15.81	13.07	13.82
Average collection period	Days	22.77	27.55	26.06
Inventory turnover ²	Times	4.82	5.42	5.85
Inventory period	Days	74.75	66.36	61.53
Account payable turnover ³	Times	37.22	34.03	38.82
Average payment period	Days	9.67	10.58	9.27
Cash Cycle	Days	87.84	83.33	78.31
Profitability Ratios				
Gross profit margin	(%)	5.74	4.43	5.64
Operating profit margin	(%)	2.13	1.53	2.73
Operating cashflow to operating profit ratio	(%)	(1.59)	8.03	(0.14)
Net profit margin	(%)	1.82	1.37	1.97
Return on equity (ROE) ⁴	(%)	5.33	5.11	9.35
Efficiency Ratios				
Return on assets (ROA) ⁵	(%)	2.74	2.53	4.50
Return on fixed assets ⁶	(%)	13.73	13.63	22.39
Fixed assets turnover ratio ⁷	Times	3.87	5.38	8.09
Total assets turnover ratio ⁸	Times	1.51	1.84	2.28
Financial Leverage Ratios				
Net debt to equity ratio	Times	0.95	0.73	1.12
Debt to equity ratio	Times	1.06	0.84	1.21
Interest bearing debt to equity ratio	Times	0.79	0.58	0.88
Net long-term debt to EBITDA ratio	Times	0.72	0.88	0.45
Interest coverage ratio	Times	(1.38)	15.03	0.80
Debt service coverage ratio	Times	(0.64)	1.66	(0.08)
Dividend payout ratio	(%)	45.79	49.34	45.71

Notes:

1. Computed by dividing sales of goods and services by average trade accounts receivable
2. Computed by dividing cost of sales and services by average inventories
3. Computed by dividing cost of sales and services by trade accounts payable
4. Computed by dividing net profit for the year (attributable to owners of the parent) by average shareholders' equity
5. Computed by dividing net profit for the year (attributable to owners of the parent) by average total assets
6. Computed by dividing summation of net profit for the year (attributable to owners of the parent) and depreciation by average fixed assets
7. Computed by dividing sales of goods and services by average fixed assets
8. Computed by dividing total revenues by average total assets

STA has successfully issued 2 debentures on 1 December 2011 and 13 February 2013, respectively. As part of both debentures' covenant, STA is required to maintain Net Debt to Equity Ratio under 3:1 times. During 2013 – 2015, STA has always maintained our capital structure and complied with such covenant requirement.

Covenant Ratio	2015	2014	2013
Net Debt to Equity Ratio (times)	0.79	0.58	0.88

Note

1. **Net Debt** is net financial debts which is derived from total interest bearing debts as reported in STA consolidated financial statements less cash and cash equivalent and short term investments as reported in STA consolidated financial statements.
2. **Equity** is defined as total shareholder equity as reported in STA consolidated financial statements.

14. MANAGEMENT DISCUSSION AND ANALYSIS: MD&A**Financial Result Overview**

In 2015, Natural Rubber (NR) industry continued the downturn momentum beset with fragile global economic recovery, the slowest growth in 25 years of Chinese economy, ongoing slump in oil and other commodities' prices, and a sharp appreciation of US dollars. Stalling NR demand growth and downward movement to hit a 6-year low of NR price in concurrent with rubber price intervention of the Thai government has not only required us to recognise allowances for inventory but also have led to the circumstance that the raw materials costs did not adjust in tandem with the selling prices. Thanks to our selective selling policy, effective risk management strategies, efficient inventory management, and productivity enhancement, we have delivered outstanding performance among our peers. Our net profit impressively grew by 7.7% irrespective of the declined revenues at 18.9% as a result of lower average selling price and sale volume from softening NR demand. Our escalation in net profit margin was driven primarily by higher gross profit margin, an improvement of profit sharing from our joint ventures, lower selling and administrative expenses, an increase in other income, despite partially offset by lower gains from hedging activities and higher finance costs.

There is no significant non-recurring expense during 2014-2015.

Income Statement Overview

Unit: Baht million

	FY 2015	FY 2014	% YoY
Revenue from sale of goods and services	61,291.8	75,529.9	-18.9%
Cost of sales and services (net)	(57,770.6)	(72,181.6)	-20.0%
Gross profit	3,521.2	3,348.3	5.2%
Selling and administrative expenses (SG&A)	(3,713.4)	(3,820.4)	-2.8%
Other income	186.3	133.9	39.1%
Gains on exchange rate	214.2	371.1	-42.3%
Other gains (net)	1,095.3	1,122.0	-2.4%
Operating profit	1,303.6	1,155.0	12.9%
Share of profit from investments in associates and joint ventures	648.8	535.1	21.3%
EBITDA	3,007.5	2,567.5	17.1%
EBIT	1,952.4	1,690.1	15.5%
Finance costs (net)	(809.1)	(613.7)	31.9%
Income tax	(31.5)	(40.1)	-21.5%
Net Profit for the year	1,111.8	1,036.2	7.3%
Attributed to owners of the parent	1,118.0	1,037.8	7.7%
Attributed to non-controlling interests	(6.3)	(1.5)	-311.8%

In 2015, our total revenue was Baht 61,291.8 million, decreased by 18.9% YoY. This was due principally to 19.4% lower average selling price compared to 2014, a direct impact from the falling global NR prices deepened by concerns over derailed economic activities in China, ongoing plunge of crude oil and commodities' prices, and a sharp appreciation of the US dollar. Our selective selling policy to maintain profitability under this lethargic NR industry whereby the raw materials costs did not move in tandem with the selling prices has brought down our sale volume 7.0% YoY.

Sale volume for the year 2015 decreased by 7.0% YoY to 1,119,966 tons. Weaker economic growth of China and the reimposition of anti-dumping duty on Chinese passenger and light truck tires imported by the US commencing since January 2015 have resulted to a diminished NR import demand of China. Therefore, our sale volume to China declined by 14.8% YoY. Our sales to domestic market, Europe, USA, and Vietnam also declined as most customers has kept a minimum stock under

pessimistic market sentiment despite being partly offset by the increase of our sales to Singapore, Malaysia, India, and Korea.

Thanks to our selective selling policy, effective risk management strategies, efficient inventory management, and productivity enhancement, notwithstanding our softened revenues and industry downturn momentum, our gross profit in 2015 grew 5.2% YoY to Baht 3,521.2 million. The gross profit margin also improved from 4.4% in 2014 to 5.7% in 2015 even though downward movement to hit a 6-year low of NR price in Q4 2015 required us to recognise inventory allowance. Assuming the inventory allowance of Baht 373.8 million was not made in 2015 but including realised gain of Baht 1,085.8 million from our hedging activities, our adjusted gross profit margin in 2015 would have been at 8.1%, the highest after the peak of bullish NR market cycle since 2011, which increased from 6.1% in 2014.

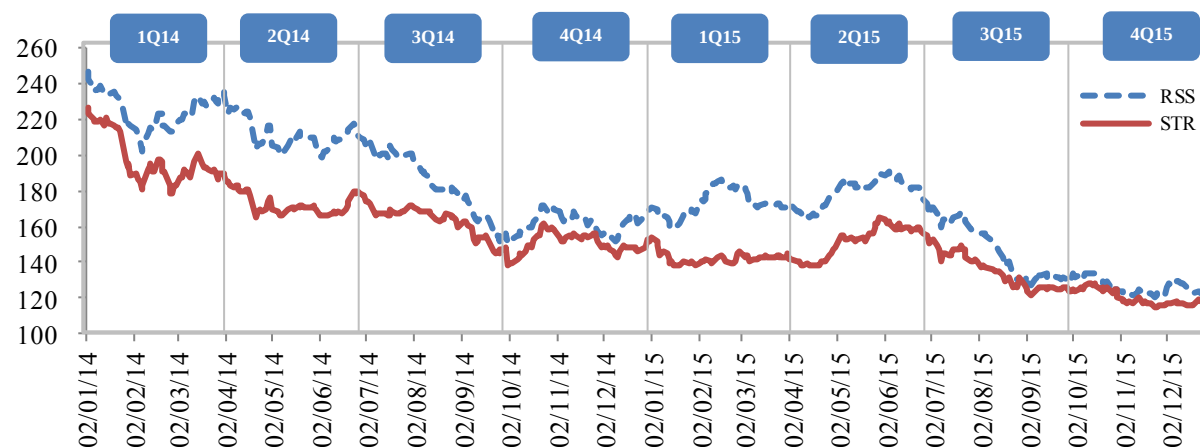
Operating profit in 2015 amounted to Baht 1,303.6 million, up 12.9% YoY. The operating profit margin correspondingly improved to 2.1% from 1.5% in 2014 due principally to higher gross profit margin, lower administrative expenses from a decrease in consulting fees, and higher other income. These were partially offset by lower gain from hedging activities.

Net profit was Baht 1,118.0 million in 2015 compared to Baht 1,037.8 million last year, up 7.7% YoY. Net profit margin was 1.8% grew from 1.4% in 2014. The increase in net profit margin was primarily contributed by the increase in operating profit and the improvement in share of profit from associates and joint ventures due mainly to increase in net profit of our examination gloves business, despite being offset by higher unrealised loss on USD denominated loan as a result of a depreciation of IDR against USD.

Key Factors Affecting the Company's Operations

1. Volatility of Natural Rubber Price

US Cent : Kilogram



Daily Price Movement of TSR20 and RSS3 at SICOM

Price and volatility of natural rubber directly affect our revenues and profitability. Natural rubber industry underwent market volatility and uncertainties of external factors throughout the year 2015. Subdued growth of global economy, especially in China - the world's largest consumer of natural rubber and the appreciation of US dollar from looming US interest rate hike coupled with the plummet of oil prices have negatively affected NR price. This downward movement to hit a 6-year low or declined approximately by 20% compared with the year 2014 required us to recognise inventory allowance amounted Baht 373.8 million.

The NR price are affected by a number of factors including 1) world economic conditions which directly affected automobile and tire industry, 2) the magnitude of demand & supply of NR, 3) exchange rate fluctuation especially US dollar, Japanese Yen, and natural rubber exporting currencies such as Thai Baht, Indonesian Rupiah, and Malaysia Ringgit as natural rubber is mainly traded in US Dollars, 4) oil price since natural rubber and synthetic rubber, which is derivatives of crude oil, are substitute products and 5) government policy of major NR exporting countries.

Price Movement of TSR20 and RSS3 at Singapore Commodity Exchange Limited (SICOM) during 2014-2015

(Unit : USD per ton)	RSS3			TSR20		
	2014	2015	%Change	2014	2015	%Change
Q1 Average	2,253	1,729	-23.2%	1,981	1,422	-28.2%
Q2 Average	2,119	1,790	-15.5%	1,728	1,516	-12.3%
Q3 Average	1,838	1,464	-20.3%	1,629	1,344	-17.5%
Q4 Average	1,619	1,258	-22.3%	1,506	1,200	-20.4%
Year Average	1,956	1,559	-20.3%	1,710	1,370	-19.9%
Closing price as at 31 December	1,700	1,175	-30.9%	1,522	1,178	-22.6%

2. Foreign exchange rate

Thai Baht : USD



Historical Exchange Rate of Thai Baht against US dollar

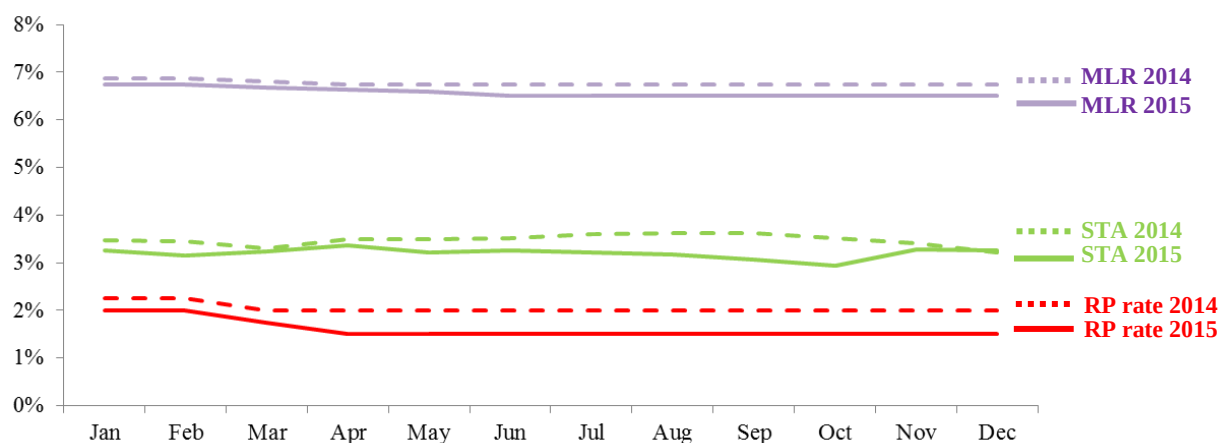
The fluctuations between Thai baht and US Dollars could directly affect our revenues since approximately 74% of our total revenues are denominated in US Dollars while our financial reporting currency is in Thai Baht. In order to mitigate this risk, the Group, therefore, uses financial derivatives to hedge our foreign exchange exposures. The mark-to-market of financial derivatives will be recognised as unrealised gain/loss on foreign exchanges.

In 2015, US Dollars continued to appreciate from the looming policy interest rate increase of the US Federal Reserve. Thai Baht has weakened against US dollar from an average of 32.34 Baht/US dollar in 2014 to 34.09 Baht/US dollar in 2015, representing a depreciation of 5.4%. Such movement unfavourably translated into lower NR prices which are generally denominated in USD. Although we have lowered level of currency derivative instruments in 2015 to benefit from the appreciation of US Dollars, our gains on foreign exchange was Baht 214.2 million, decreased from Baht 371.1 million in 2014.

3. Finance costs

The key factors that affect our finance costs are interest rate, NR price, sale volume, business expansion plan, and the movement of currency exchange. Interest expenses for the year 2015 remained stable from the year earlier since the increase of short-term and long-term borrowings from financial institutions to support business expansion during the year has been counterbalanced by our lower effective interest rate. Nonetheless, overall finance cost increased from Baht 663.4 million in 2014 to Baht 857.3 million in 2015, up 29.2% YoY as a result of unrealised loss on exchange rate of USD denominated loans owing to a depreciation of IDR against USD.

Graph below exhibited our average interest rates during 2014-2015, which were lower than the average Minimum Loan Rate (MLR) of three large commercial banks; Bangkok Bank, Kasikorn Bank, and Siam Commercial Bank and closed to Bank of Thailand's policy rate.



STA Effective Interest Rate Vs. Average MLR Rate

4. Share of Profits from Investment in Affiliates

In 2015, the Group received share of profit from investments in affiliates and joint venture companies in total of Baht 648.8 million of which 84.6% contributed by gloves business and 23.3% by high pressure hydraulic hoses business. The increase by 21.3% YoY of share of profit from investment in affiliates and joint ventures was driven primarily by net profit growth of examination gloves business, despite being offset partially by a decline in net profit of high pressure hydraulic hoses business.

5. Government Policy

The policy of the Thai Government may benefit or have an adverse impact to the Group's operation. For example, the cooperative agreement among Thailand, Indonesia, and Malaysia (International Tripartite Rubber Council : ITRC) to withdraw Natural Rubber exports of 300,000 tons during October 2012 to March 2013 has limited our export volume to some certain extent. However, 4-month cess exemption during September to December 2013 of the Office of Rubber Replanting Aid Fund has brought down our selling expenses in late of 2013. Recently, the Thai government's rubber buffer fund scheme implemented during peak season in Q1 2015 to buy ribbed smoked sheet rubbers (RSS) at higher-than-market price has disrupted our raw materials stock up activity and affected our sale performance since the global market price of RSS did not pick up in the same magnitude of local price.

6. Tax Policy of the Countries in our areas of operation

The reinstatement of US tariff for Chinese tires in January 2015 had adversely impacted the Chinese tire manufacturers. This, in return, has changed the geographical sales of the NR producers whereas the total global demand would be unaffected. Meanwhile, China purchase tax reduction of small car took effect on October 2015 through the end of 2016 could stimulate local demand and bolster automobile and tire industry.

Business Segmentation Analysis

Revenue breakdown by product segment (Baht million)

	FY 2015	FY 2014	% YoY
TSR	44,482.7	57,512.4	-22.7%
%	72.6%	76.1%	
RSS	5,462.4	9,818.5	-44.4%
%	8.9%	13.0%	
LTX	4,774.2	5,631.5	-15.2%
%	7.8%	7.5%	
Other*	6,572.5	2,567.5	156.0%
%	10.7%	3.4%	
Total	61,291.8	75,529.9	-18.9%

Note:

* Comprises revenue from (i) the sale of rubber wood and wood packing product and (ii) the provision of certain services (such as logistics, research and development and information technology services) to our associates and a joint venture entity as well as other external third parties (iii) the sale of gloves

Technically Specified Rubber (TSR)

Revenue from the sale of TSR, our core product, declined by 22.7% YoY due to a decrease in average selling price of 18.7%, which was in line with SICOM price, and a decrease in sale volume of 4.8%. Tumbling NR prices from negative NR industry has not only required us to recognise allowances for inventory but also led to the situation that the raw materials costs did not move in tandem with the selling prices. Thanks to our selective selling policy, lowered sale volume was compensated by higher gross profit margin even though our gross profit of TSR marginally decreased by 1.8% YoY.

Ribbed Smoked Sheet (RSS)

Revenue from the sale of RSS contracted by 44.4% YoY, driven by a decrease of average selling price and sale volume by 19.5% and 30.9%, respectively. The decrease in sale volume was a consequence of the Thai government's rubber buffer fund scheme implemented in Q1 2015 has disrupted our raw material stock up activity in preparation for low season of rubber tree during the second quarter to early of the third quarter of each year. As a result of lower NR prices and sale volume, our gross profit from the sale of RSS decreased by 32.5% YoY while gross profit margin improved from 2014.

Concentrated Latex

Revenue from the sale of Concentrated Latex was down 15.2% YoY. The decrease was mainly attributable to a decline in average selling price of 18.5%, despite partially offset by 4.0% increase of sale volume. The increase in sale volume was due mainly to a pick-up in demand from gloves business as the NR price was relatively competitive to its substitute of NBR price. Our gross profit from the sale of Concentrated Latex in 2014 rose by 7.5% YoY and gross profit margin also increased from the earlier year due to the improved demand appetite from glove manufacturers.

Consolidated Balance Sheet*Current assets*

Current assets increased by Baht 3,846.3 million, or 21.7%, to Baht 21,530.6 million as at 31 December 2015 which was due primarily to an increase in inventories of Baht 3,929.8 million in response to capacity expansion, an increase in amount due from futures brokers of Baht 309.6 million, and an increase in derivative financial instruments of 247.0 million, which were partially offset by the reduction in trade accounts receivable of Baht 834.2 million as a result of lower average selling price of NR products.

At the end of 2015, 94.4% of our accounts receivable were not yet due or overdue less than 1 month while 3.7% was overdue by more than 1 year. The allowance for doubtful debts was 3.9% of total accounts receivable.

Non-current assets

Non-current assets increased by Baht 2,241.8 million, or 11.2%, to Baht 22,348.0 million as at 31 December 2015 which primarily consists of an increase in property, plants and equipment of Baht 830.5 million (net of depreciation and write-off) for the construction of our new TSR factories in Thailand and Indonesia, an increase in investment in associates and joint ventures of Baht 700.7 million from an increase in their operating results, an increase in rubber and palm plantations of Baht 320.0 million, and an increase in intangible assets of Baht 298.7 million from SAP software and its related direct implementation cost.

Current liabilities

Current liabilities increased by Baht 5,371.6 million, or 43.1%, to Baht 17,835.6 million as at 31 December 2015 which was mainly from an increase in short-term loans of Baht 4,037.8 million to support the higher level of inventories, an increase in current portion of debenture of Baht 850.0 million, and an increase in current portion of long-term borrowings from financial institutions of Baht 311.1 million.

Non-current liabilities

Non-current liabilities marginally decreased by Baht 25.5 million, or 0.5%, to Baht 4,709.2 million as at 31 December 2015 which was primarily due to a decrease in debenture of Baht 850.0 million offsetting with an increase in long-term loans (net of current portion) of Baht 828.8 million to support our rubber plantation and capacity expansion.

Shareholders' equity

Equity increased by Baht 742.0 million, or 3.6%, to Baht 21,333.9 million as at 31 December 2015 due mainly to net profit during the year offsetting with dividend payment by Baht 512.0 million.

Source of Fund

In 2015, our capital expenditure was Baht 2,259.7 million, principally comprised Baht 1,370.2 million for TSR capacity expansion and Baht 668.1 million for the investment in rubber plantation. Our 3 mains source of fund consisted of cash flows from operations, short-term and long-term facilities from financial institutions, and debentures. Our debt to equity ratio was 1.06 times in 2015, which was considered conservative when compared with our competitors in the same industry. As at 31 December 2015, the Group was in compliance with all debt covenants.

Financial Ratios*Current ratio*

Current ratio is calculated by dividing total current assets by total current liabilities. Our current ratio as at 31 December 2015 and 31 December 2014 were 1.21 times and 1.42 times, respectively. The decrease in our current ratio was due primarily to an increase in total current liabilities at a faster rate than an increase in total current assets to support our business expansion.

Fixed asset turnover ratio

Fixed asset turnover ratio is calculated by dividing sales of goods and services by average property, plant and equipment (net) and rubber and palm plantations (net). As at 31 December 2015 and 31 December 2014, our fixed asset turnovers were 3.87 and 5.38 times, respectively. A decrease in fixed asset turnover ratio was due mainly to an increase in property, plant and equipment as well as rubber and palm plantations while our revenues decreased from lower average selling prices and sale volume.

Return on assets ("ROA")

ROA is calculated by dividing net profit (parent company) for the year by average total assets. As at 31 December 2015 and 31 December 2014, our ROA were 2.74% and 2.53%, respectively. A slight improvement of ROA was due to an increase in net profit at a faster rate than an increase in average total assets.

Return on equity ("ROE")

ROE is calculated by dividing net profit (parent company) for the year by average total equity. As at 31 December 2015 and 31 December 2014, our ROE were 5.33% and 5.11%, respectively. Similar to ROA, the increase in ROE was due to an increase in net profit at a faster rate than an increase in average total equity.

Debt to equity ratio ("D/E")

D/E is calculated by dividing total debt by total equity. As at 31 December 2015 and 31 December 2014, our D/E were 1.06 and 0.84 times, respectively. The increase in D/E was as a result of higher short-term and long-term borrowings from financial institutions to support business expansion.

Business Outlook**Rubber Industry**

	2014	2015	2016F
%Global Growth (GDP)	3.4%	3.1%	3.4%
<i>Advance economies</i>	1.8%	1.9%	2.1%
<i>Emerging market and developing economies</i>	4.6%	4.0%	4.3%
<i>China (world's largest NR consumer)</i>	7.3%	6.9%	6.3%
Vehicle production (mil. Unit)	90	91	95
<i>% change</i>	2.8%	1.8%	3.6%
Tire production (mil. Unit)	1,729	1,772	1,829
<i>% change</i>	4.4%	2.4%	3.3%
NR consumption ('000 tons)	12,127	12,342	12,591
<i>% change</i>	6.8%	1.8%	2.0%

Source : IMF and The World Rubber Industry Outlook forecasted by International Rubber Study Group (IRSG), December 2015

It has been half of a decade that NR industry has underwent a downturn after its peak in early of 2011. The decrease by approximately 80% to a 6-year low of NR prices was a reflection of a vulnerable

global economic outlook and concerns over volatilities in global commodity, foreign exchange, and stock markets. It is envisaged that NR prices are less likely to significantly rebound unless prolonged drought from El Niño phenomenon occur. The export quota of the International Tripartite Rubber Council (ITRC) which will implement for 6 months commencing from March 2016 could expectedly boost NR prices in short term without legitimate control for upstream production. Upon the completion of this scheme, such suppressed NR supply together with the overhang NR stock of the Thai Government for more than 300,000 tons will continue to pressure NR prices. However, the downside is somewhat limited given that the current price is at the production cost of farmers. Falling price beyond this level will automatically curtail NR supply and induce consumption which could create a chance for the NR industry to become more stabilized and recovered.

Demand & Supply Balance

World Natural Rubber production and consumption during 2014 - 2016

Unit : 000'tons	2014	2015	2016F
NR production	12,103	12,274	12,653
% change	-1.4%	1.4%	3.1%
NR consumption	12,127	12,342	12,591
% change	6.8%	1.8%	2.0%
NR Balance	(24)	(68)	62

Source: The World Rubber Industry Outlook forecasted by International Rubber Study Group (IRSG), December 2015

According to International Rubber Study Group (IRSG), World Rubber Industry Outlook, Review and Prospects to 2024 as of December 2015, the world demand of natural rubber (NR) in 2015 was 12,342,000 tons, up 1.8% YoY (2014 : 6.8%). The decelerating growth was mainly due to the world economic slowdown, especially in China who is the world's largest natural rubber consuming country. This was adversely affected tire industry which constituted more than 70% of NR demand. Tire production slightly grew by 2.4% in 2015 compared to 4.4% in 2014. Meanwhile, the world supply of NR increased by 1.4% to 12,274,000 tons in 2015. The growth of supply are mainly from Thailand, Vietnam and CAMAL* countries.

On the backdrop of gloomy global economic outlook, IRSG projected that NR demand in 2016 will slightly increase by 2.0% from 2015 to 12,591,000 tons. For NR supply, IRSG forecasted that the NR production will grow at 3.1% reaching 12,653,000 tons in 2016. The largest sources of additional supply volumes are CAMAL* countries, India, and China, while the top-3 producing countries (Thailand, Indonesia, and Vietnam) will maintain their production level relatively at the same level as 2015.

In 2016, an ample NR supply from new rubber plantation during upsurge of NR price during 2005-2008 is expected while NR consumption, undermined by the slowing economic development, might be insufficient to absorb the expansion of supply. However, prolonged low level of NR price would encourage the switch to other crops, postpone the new planting/re-planting schedule, reduce skilled tapping labour and tapping activities, and limit new rubber farmers. Thus, IRSG anticipated that NR supply surplus will hover around 62,000 tons.

Note*: CAMAL countries include Cambodia, Myanmar and Lao PDR.

Progress of our expansion plan**Upstream Business – Land of more than 8,000 hectares already secured for rubber plantation**

Having footprint in rubber plantation is one of our strategies to fulfill our fully integrated NR supply chain. Not only will it increase our opportunity to procure raw materials at more favorable prices in new rubber plantation zone, and increase opportunity for new midstream capacity expansion, it will also provide us with insights on upstream market sentiment, and will ultimately increase our sustainable profitability.

At the end of 2015, the Group had obtained approximately 8,264 hectares suitable for rubber plantation in 19 provinces of Thailand, 83% has already planted and some of which started to yield from December 2015 onwards. Most of our lands are in the North and Northeastern regions.

Midstream Business – Continuous capacity expansion to reach 1.7 million by the end of 2016

Production capacity expansion and increasing our market share are our key strategies in midstream business to maintain our competitive edge in Natural Rubber market. It will enable us to benefit from economies of scale and put us in a position to better lead the global market.

As at 31 December 2015, our optimum annual capacity was registered at industry record at 1.5 million tons per annum. The additional capacity of 174,000 tons from year ended 2014 came from our 4 new TSR plants in Sa Kaeo (Thailand), Kalasin (Thailand), Mudon (Myanmar), and Jambi (Indonesia). We aim to reach capacity of 1.7 million tons per annum by the end of 2016. The continuance of capacity expansion does not only allow us to create a strong foothold in many top producing countries but also enable us to maintain our leading position as the world's largest Natural Rubber producer.