

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		
	2016	2015	2014
Assets			
Current assets			
Cash and cash equivalents	1,674.6	2,197.2	2,131.6
Derivative financial instruments	165.0	336.7	89.8
Trade accounts receivable and other receivables, net	8,093.3	3,854.2	4,688.4
Amounts due from futures brokers	633.9	702.1	392.5
Inventories, net	20,931.0	13,959.8	10,029.9
Other current assets	314.1	480.6	352.2
Total current assets	31,811.9	21,530.6	17,684.4
Non-current assets			
Fixed deposits pledged as collateral	12.3	33.5	34.6
Investments in associates	1,489.9	1,357.8	1,157.8
Investment in joint ventures	3,699.2	3,379.0	2,878.2
Long-term investments	59.1	50.6	63.7
Property, plant and equipment, net	15,765.5	15,185.5	14,355.0
Rubber and palm plantations, net	1,573.4	1,221.2	901.2
Intangible assets, net	480.8	330.3	31.6
Investment properties	151.9	154.5	170.3
Withholding tax deducted at source	365.5	395.7	332.9
Deferred income tax assets, net	492.3	203.4	146.5
Other non-current assets	56.6	36.4	34.3
Total non-current assets	24,146.7	22,348.0	20,106.1
Total assets	55,958.6	43,878.6	37,790.5
Liabilities and shareholders' equity			
Current liabilities			
Trade accounts payable and other payables	3,167.8	2,687.4	2,579.5
Short-term loans from financial institutions	23,433.8	13,446.2	9,408.4

13.1 Statements of Financial Position (Cont'd)

(Unit: Million Baht)	Consolidated		
	As at 31 December of		
	2016	2015	2014
Current portion of long-term loans from financial institutions	5,397.8	451.4	140.3
Current portion of debentures	-	850.0	-
Current portion of finance lease liabilities	8.3	25.0	30.0
Derivative financial instruments	654.9	271.6	212.8
Current income tax liabilities	113.8	63.9	48.6
Other current liabilities	59.6	40.0	44.3
Total current liabilities	32,836.1	17,835.6	12,464.0
Non-current liabilities			
Long-term loans from financial institutions	0.7	3,742.2	2,913.5
Debentures	2,865.0	600.0	1,450.0
Finance lease liabilities	5.1	10.9	33.3
Deferred income tax liabilities, net	119.3	151.8	172.5
Provision for retirement benefit obligations	185.2	161.7	115.2
Other non-current liabilities	35.2	42.5	50.2
Total non-current liabilities	3,210.6	4,709.2	4,734.7
Total liabilities	36,046.6	22,544.7	17,198.7
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	1,296.9	1,427.8	1,470.5
Unrealised gains on available-for-sale investments	12.8	6.8	18.9
Cumulative currency differences on translating financial statement	(284.0)	(268.5)	(445.9)
Retained earnings			
Appropriated - legal reserve	128.0	128.0	128.0
Unappropriated	9,036.1	9,662.3	9,431.6
Total parent's shareholders' equity	19,847.5	21,239.7	20,491.7
Non-controlling interests	64.4	94.2	100.2
Total shareholders' equity	19,911.9	21,333.9	20,591.9
Total liabilities and shareholders' equity	55,958.6	43,878.6	37,790.5

13.2 Statements of Comprehensive Income

(Unit: Million Baht)	Consolidated		
	2016	2015	2014
Revenues from sales and services	77,265.5	61,291.8	75,529.9
Cost of sales and services	(71,852.0)	(57,770.6)	(72,181.6)
Gross profit	5,413.5	3,521.2	3,348.3
Other income	197.5	186.3	133.9
Selling expenses	(3,173.7)	(2,125.2)	(2,132.7)
Administrative expenses	(2,262.2)	(1,588.2)	(1,687.7)
Gains on exchange rate, net	6.4	214.2	371.1
Other (losses) gains , net	(985.1)	1,095.3	1,122.0
Operating profit	(803.7)	1,303.6	1,155.0
Share of profit from investments in associates and joint ventures	402.8	648.8	535.1
Profit (loss) before net finance costs and income tax	(400.9)	1,952.4	1,690.1
Finance income	35.3	48.2	49.7
Finance costs	(707.3)	(857.3)	(663.4)
Finance costs, net	(672.0)	(809.1)	(613.7)
Profit (loss) before income tax	(1,073.0)	1,143.3	1,076.4
Income tax	283.2	(31.5)	(40.1)
Profit (loss) for the years	(789.7)	1,111.8	1,036.2
Other comprehensive income: <i>Items that will not be reclassified subsequently to profit or loss</i>			
Changes in deferred tax rates	(112.5)	-	-
Asset revaluation surplus, net of tax	-	2.3	361.4
Actuarial gains (losses) on defined employee benefit plan, net of tax	(1.0)	(25.6)	3.9
Change in fair value of available-for-sale investments, net of tax	6.8	(12.0)	10.3
Currency differences on translation	(13.6)	174.5	7.7
Other comprehensive income (expense) for the years, net of tax	(120.3)	139.2	383.2
Total comprehensive income for the years	(910.0)	1,251.0	1,419.5
Profit for the years attributable to:			
Owners of the parent	(758.0)	1,118.0	1,037.8
Non-controlling interests	(31.7)	(6.3)	(1.5)
Profit (loss) for the years	(789.7)	1,111.8	1,036.2
Total comprehensive income for the years attributable to:			
Owners of the parent	(880.1)	1,260.0	1,420.9
Non-controlling interests	(29.9)	(9.1)	(1.4)
Total comprehensive income for the years	(910.0)	1,251.0	1,419.5
Earnings per share			
Basic earnings per share (Unit: Baht per share)	(0.59)	0.87	0.81

13.3 Statements of Cash Flows

(Unit: Million Baht)	Consolidated		
	2016	2015	2014
Cash flows from operating activities			
Profit before income tax	(1,073.0)	1,143.3	1,076.4
Adjustments for:			
Unrealised (gains) losses on foreign currency translations	11.9	165.8	259.2
Unrealised (gains) losses from revaluation of derivative financial instruments	555.1	(188.2)	(333.8)
Reversal of allowance for impairment of trade accounts receivable and write-off bad debt	-	(5.5)	8.0
(Reversal of) allowance for inventory cost in excess of net realisable value	(453.7)	373.8	74.5
Provision for damaged inventories from fire accident	41.6	-	-
Provision for retirement benefit obligations	24.5	24.6	15.7
Depreciation charges	1,159.0	1,021.7	866.9
Amortisation charges - rubber and palm plantations	0.7	0.7	0.8
Amortisation charges - intangible assets	35.5	32.7	9.8
Loss on asset revaluation	-	-	26.5
Write-off income tax refund	132.0	-	-
Finance costs	707.3	857.3	663.4
Dividend income	(24.3)	(36.8)	(1.6)
Share of profit from investments in associates and joint ventures	(402.8)	(648.8)	(535.1)
(Gains) losses on disposal and write-off of property, plant and equipment and intangible assets	62.1	(44.5)	6.2
Gains (losses) from revaluation of investment properties	1.9	29.2	6.7
Changes in operating assets and liabilities			
(Increase) decrease in operating assets			
- Trade accounts receivable and other receivables	(4,216.1)	839.6	2,744.8
- Amounts due from futures brokers	68.2	(309.6)	(71.6)
- Inventories	(6,554.2)	(4,308.6)	6,477.5
- Other current assets	35.5	(107.9)	(49.5)
- Other non-current assets	(20.2)	(2.2)	(12.9)
Increase (decrease) in operating liabilities			
- Trade accounts payable and other payables	464.3	128.8	(1,143.4)
- Other current liabilities	19.5	(4.3)	(2.1)
Cash provided by (used in) operating activities	(9,425.1)	(1,038.9)	10,086.1
Interest paid	(716.3)	(855.3)	(674.0)
Income tax refunded	105.4	-	-
Income tax paid	(176.4)	(173.0)	(141.4)
Employee benefits paid	(2.3)	(7.2)	(0.9)
Net cash provided by (used in) operating activities	(10,214.6)	(2,074.4)	9,269.9

13.3 Statements of Cash Flows (Cont'd)

(Unit: Million Baht)	Consolidated		
	2016	2015	2014
Cash flows from investing activities			
Cash received from long-term borrowings to an associate	-	-	65.2
(Increase) decrease in fixed deposits pledged as collateral	21.1	1.1	26.6
Decrease in available-for-sale investments	-	0.1	(0.04)
Dividends received	1.4	36.8	526.1
Cash paid for investments in joint venture	(114.6)	-	-
Cash received from capital decrease of an associate	30.0	-	-
Proceeds from disposal and write-off of property, plant and equipment, rubber and palm plantations and intangible assets	13.5	114.1	21.2
Cash paid for investment property	(0.2)		
Cash paid for purchases of property, plant and equipment, rubber and palm plantations and intangible assets	(2,294.5)	(2,616.5)	(3,010.8)
Net cash used in investing activities	(2,343.3)	(2,464.4)	(2,371.7)
Cash flows from financing activities			
Increase (decrease) in short-term loans from financial institutions	9,952.9	4,005.4	(5,041.7)
Proceeds from long-term borrowings	1,410.0	1,230.2	940.0
Repayments of long-term borrowings	(205.2)	(90.3)	(113.4)
Proceeds from debentures	2,265.0	-	-
Repayments of debentures	(850.0)	-	(1,600.0)
Payments on finance lease liabilities	(25.4)	(31.9)	(25.5)
Dividend paid	(512.0)	(512.0)	(832.0)
Dividend paid from subsidiaries to non-controlling interests	(0.0)	(0.0)	(0.0)
Proceeds from capital increase from non-controlling interests	0.0	3.1	13.3
Net cash provided by (used in) financing activities	12,035.3	4,604.5	(6,659.2)
Net increase (decrease) in cash and cash equivalents	(522.6)	65.6	238.9
Cash and cash equivalents at the beginning of the years	2,197.2	2,131.6	1,892.7
Cash and cash equivalents at the end of the years	1,674.6	2,197.2	2,131.6
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	(2,315.1)	(2,590.4)	(2,904.7)
Increase in liabilities under finance lease liabilities	2.9	4.5	42.3
Increase (decrease) in payable from purchases of assets	17.7	(30.6)	(148.4)
Cash paid for purchases of property, plant and equipment, rubber and palm plantations and intangible assets	(2,294.5)	(2,616.5)	(3,010.8)

13.4 Financial Ratios

<u>Financial Ratio</u>		2016	2015	2014
Liquidity Ratios				
Current ratio	Times	0.97	1.21	1.42
Quick ratio	Times	0.30	0.34	0.55
Cash flow liquidity ratio	Times	(0.40)	(0.14)	0.56
Account receivable turnover ¹	Times	13.96	15.81	13.07
Average collection period	Days	25.79	22.77	27.55
Inventory turnover ²	Times	4.12	4.82	5.42
Inventory period	Days	87.41	74.75	66.36
Account payable turnover ³	Times	45.01	37.22	34.03
Average payment period	Days	8.00	9.67	10.58
Cash Cycle	Days	105.20	87.84	83.33
Profitability Ratios				
Gross profit margin	(%)	7.01	5.74	4.43
Operating profit margin	(%)	(1.04)	2.13	1.53
Operating cashflow to operating profit ratio	(%)	12.71	(1.59)	8.03
Net profit margin	(%)	(0.98)	1.82	1.37
Return on equity (ROE) ⁴	(%)	(3.68)	5.33	5.11
Efficiency Ratios				
Return on assets (ROA) ⁵	(%)	1.52	2.74	2.53
Return on fixed assets ⁶	(%)	2.59	13.73	13.63
Fixed assets turnover ratio ⁷	Times	4.58	3.87	5.38
Total assets turnover ratio ⁸	Times	1.55	1.51	1.84
Financial Leverage Ratios				
Net debt to equity ratio	Times	1.73	0.95	0.73
Debt to equity ratio	Times	1.81	1.06	0.84
Interest bearing debt to equity ratio	Times	1.51	0.79	0.58
Net long-term debt to EBITDA ratio	Times	1.51	0.72	0.88
Interest coverage ratio	Times	(13.84)	(1.38)	15.03
Debt service coverage ratio	Times	(2.55)	(0.64)	1.66
Dividend payout ratio	(%)	(67.55)	45.79	49.34

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, 13 February 2013, and 13 May 2016, respectively. As part of both debentures' covenant, STA is required to maintain Net Debt to Equity Ratio under 3:1 times. During 2014 – 2016, STA has always maintained our capital structure and complied with such covenant requirement.

Covenant Ratio	2016	2015	2014
Net Debt to Equity Ratio (times)	1.51	0.79	0.58

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 2016, Natural Rubber (NR) industry was in the transition period. After the Natural Rubber (NR) price bottomed out in Q1 2016, positive market momentum bolstered by the suppressed NR supply coupled with the imposition of an export quota by Thailand, Malaysia and Indonesia during March to August 2016 triggered an accelerating growth in NR demand and positive price adjustment.

Amid Raw Material (RM) supply constraints, our sizable scale of business and well-diversified locations of processing facilities along with our strong raw materials procurement networks enabled us to procure ample raw materials which prompted us to capture the rising demand from better market sentiment. Accordingly, our sale volume for the year 2016 hit a record high of 1,494,094 tons, up 33.4% YoY, boosting our world market share from 9% to 12% and resulting in YoY increase of both revenue and gross profit.

However, the volatility of NR price, especially during the final quarter of 2016 when price has shot up for approximately 60% from the stimulus policy of the President Donald Trump, brought about the loss from rubber derivative financial instruments. Together with an increase in SG&A expenses, lower profits shared from associates and joint ventures, lower gains on exchange rate, and non-recurring expenses, resulted in negative impacts to our net performance in 2016.

Non-recurring items

In 2016, the Group recorded Baht 734.3 million of non-recurring expenses comprising losses from fire at our factory in Indonesia in October 2016, related tax expenses, related litigation expenses, and legal fees. For 2015, there was only legal fees of Baht 126.0 million booked as a non-recurring item.

Unrecognised/Unrealised surplus from inventory revaluation

As of 31 December 2016, the Company had Baht 2,909.7 million unrecognised/unrealised surplus from inventory revaluation which was the difference in inventory value between the net realisable value and lower of cost or net realisable value which increased from Baht 148.3 million as of 31 December 2015. According to the Thai Financial Reporting Standards, this item is not recognised in Statements of Comprehensive Income until the inventories are sold. The amount of this item can be changed over time depending on the actual sales price at the time of sale.

Income Statement Overview

Unit: Baht million

	FY 2016	FY 2015	% YoY
Revenue from sale of goods and services	77,265.5	61,291.8	26.1%
Cost of sales and services (net)	(71,852.0)	(57,770.6)	24.4%
Gross profit	5,413.5	3,521.2	53.7%
Selling and administrative expenses (SG&A)	(5,436.0)	(3,713.4)	46.4%
Other income	197.5	186.3	6.0%
Gains on exchange rate	6.4	214.2	-97.0%
Other gains (losses), (net)	(985.1)	1,095.3	-189.9%
Operating profit (loss)	(803.7)	1,303.6	-161.7%
Share of profit from investments in associates and joint ventures	402.8	648.8	-37.9%
EBITDA	794.3	3,007.5	-73.6%
EBIT	(400.9)	1,952.4	-120.5%
Finance costs (net)	(672.0)	(809.1)	-16.9%
Income tax	283.2	(31.5)	-998.7%
Net Profit (loss) for the year	(789.7)	1,111.8	-171.0%
Attributed to owners of the parent	(758.0)	1,118.0	-167.8%
Attributed to non-controlling interests	(31.7)	(6.3)	-405.6%

Revenue

In 2016, our revenue from sale of goods and services was Baht 77,265.5 million, increased by 26.1% YoY. This was mainly driven by 33.4% growth of sale volume as a result of a pickup NR demand from tyre producers, despite being offset by a 4.8% decline in average selling price.

Sale volume

Amid the raw material supply constraints caused by a prolonged leaf shedding period followed by an excessive rainfall in Thailand, our sale volume for the year 2016 hit a record high of 1,494,094 tons or increased by 33.4% from the year 2015 when our strategy of selective selling to sacrifice market share in order to maintain profitability was implemented. Our sizable scale of business and well-diversified locations of processing facilities together with our strong raw materials procurement network in key strategic areas did not only boost competitiveness in terms of accessibility to the source of raw materials but also allow us to benefit from the continuing resilient NR demand. Thus, our sale volume growth considerably outgrew the global NR consumption growth at 3.0%, enabling us to boost our market share from 9% to 12% of global NR consumption. The substantial increase in total sales volume was attributable to the increase in sales volume in China, Thailand, Singapore, Europe, and India.

Gross profit

Our gross profit in 2016 grew 53.7% YoY to Baht 5,413.5 million thanks to our world's largest position and our fully-integrated business model that enabled us to lead the market and capture the rising demand from better market sentiment. The gross profit margin also improved from 5.7% in 2015 to 7.0% in 2016. However, assuming the reversal of inventory allowance of Baht 453.7 million was not made in 2016 but including realised loss of Baht 273.8 million from our hedging activities, our adjusted gross profit margin in 2016 would have been at 6.0%, decreased from 2015 at 8.1%.

Operating loss

Operating loss for the year 2016 amounted to Baht 803.7 million, down from operating profit of Baht 1,303.6 million in 2015. Despite of an increase in gross profit, the operating loss was due principally to higher selling and administrative expenses (SG&A), other loss from rubber derivative financial instruments due to a rapid transition of NR price during the final quarter of 2016, and lower gains on

exchange rate owing to high volatility of US dollar against Thai Baht. The increase of SG&A was as a result of our record high sale volume. The increase of selling expenses was mainly driven by higher cess expenses, freight, transportation expenses, and commission. Meanwhile, the increase of administrative expenses was primarily due to non-recurring items.

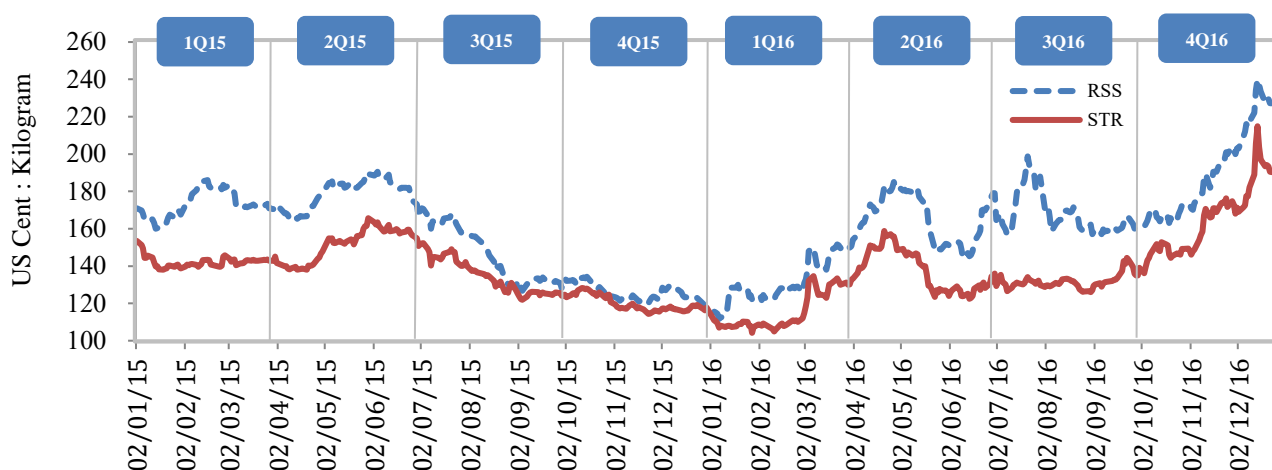
Net loss

Net loss of Baht 758.0 million was recorded in 2016 compared with net profit of Baht 1,118.0 million in 2015. The decline in net profit margin was primarily as a result of the operating loss and lower share of profit from our glove business caused by the intense competition in the industry, despite being offset by lower income tax and lower finance costs thanks to more favourable movement of IDR against USD.

As of 31 December 2016, the Company had Baht 2,909.7 million unrecognised/unrealised surplus from inventory revaluation which was the difference in inventory value between the net realisable value and lower of cost or net realisable value.

Key Factors Affecting the Company's Operations

1. Volatility of Natural Rubber Price



Daily Price Movement of TSR20 and RSS3 at SICOM

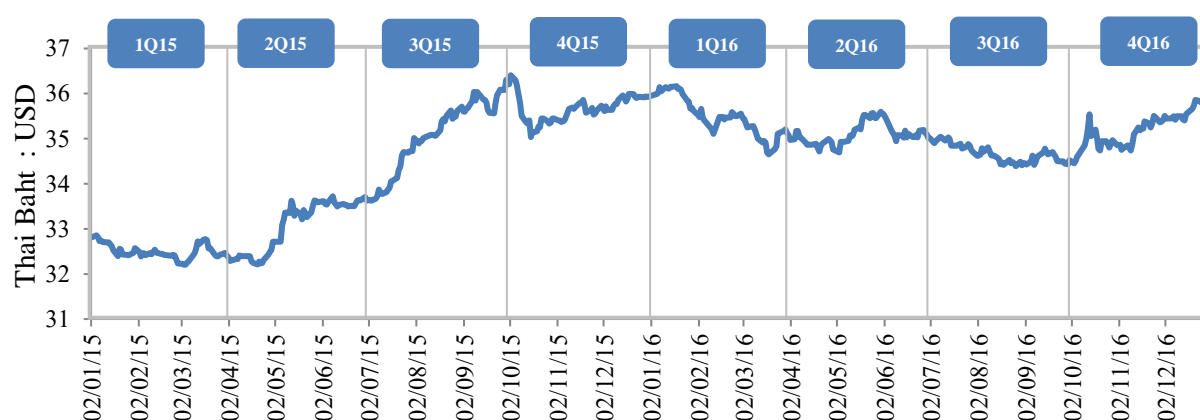
Price and volatility of natural rubber directly affect our revenues and profitability. After the Natural Rubber (NR) price bottomed out in Q1 2016, positive market momentum bolstered by the suppressed NR supply from an unusual drought and a prolonged winter followed by continuous rainfall coupled with the imposition of an export quota by Thailand, Malaysia and Indonesia during March to August 2016 triggered an accelerating growth in NR demand and positive price adjustment. As a result of this, we recognised a reversal of inventory allowance amounted Baht 453.7 million. However, NR price shoot up during the final quarter of 2016 (approximately 60% increase from the beginning of the final quarter to the peak in mid-December 2016) boosted by the policy of the President Donald Trump to stimulate the US economy brought about the loss from rubber derivative financial instruments.

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 2015-2016

(Unit : USD per ton)	RSS3			TSR20		
	2016	2015	%Change	2016	2015	%Change
Q1 Average	1,314	1,729	-24.0%	1,156	1,422	-18.7%
Q2 Average	1,657	1,790	-7.4%	1,375	1,516	-9.3%
Q3 Average	1,676	1,464	14.5%	1,319	1,344	-1.9%
Q4 Average	1,929	1,258	53.3%	1,670	1,200	39.2%
Year Average	1,649	1,559	5.8%	1,384	1,370	1.0%
Closing price as at 31 December	2,245	1,175	91.1%	1,935	1,178	64.3%

2. Foreign exchange rate



Historical Exchange Rate of Thai Baht against US dollar

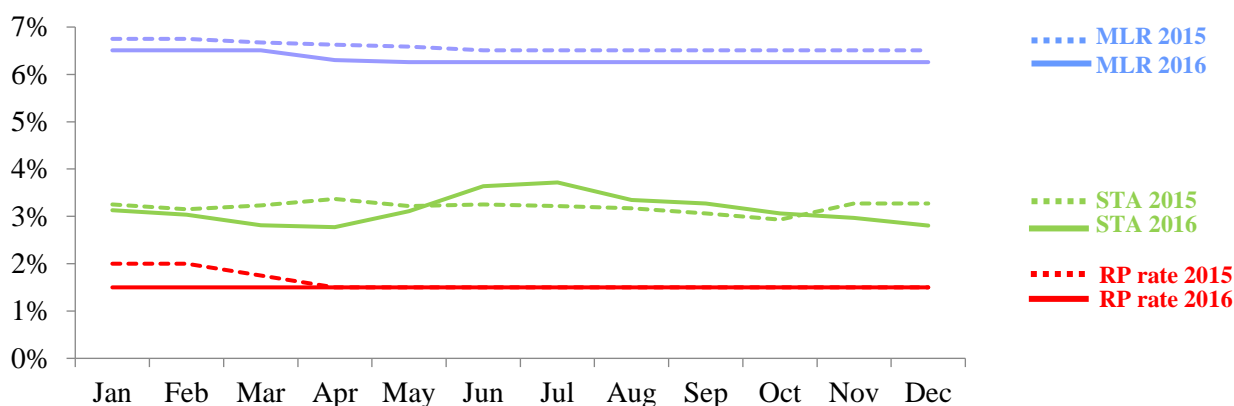
The fluctuations between Thai baht and US Dollars could directly affect our revenues since approximately 75% of our total revenues are denominated in US Dollars while our financial reporting currency is in Thai Baht. In order to mitigate this risk, the Group, therefore, uses financial derivatives to hedge our foreign exchange exposures. The mark-to-market of financial derivatives will be recognised as unrealised gain/loss on foreign exchanges.

In 2016, Thai Baht has weakened against US dollar from an average of 34.09 Baht/US dollar for the year 2015 to 35.12 Baht/US dollar for the year 2016, representing a depreciation of 3.0%. The looming policy interest rate increase of the US Federal Reserve led to capital flow and high volatility in foreign exchange market. Consequently, our gains on exchange rate for the year 2016 shrank from Baht 214.2 million in 2015 to Baht 6.4 million.

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 2016 increased from the previous year on account of the rising short-term and long-term borrowings from financial institutions to support higher NR prices, a record sale volume, and business expansion. Nonetheless, overall finance cost decreased from Baht 857.3 million in 2015 to Baht 707.3 million in 2016, down 17.5% YoY as a result of more favourable movement of IDR against USD compared with the year 2015 when we had 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 2015-2016, 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 2016, the Group received share of profit from investments in affiliates and joint venture companies in total of Baht 402.8 million of which 67.2% contributed by gloves business and 45.6% by high pressure hydraulic hoses business, offsetting with the share of loss of other business. The decrease by 37.9% YoY of share of profit from investment in affiliates and joint ventures was driven primarily by lower net profit of our glove business caused by the intense competition in the industry, despite being offset partially by higher 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 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. Recently, the cooperative agreement among Thailand, Indonesia, and Malaysia (International Tripartite Rubber Council : ITRC) to withdraw Natural Rubber exports of 615,000 tons during March – August 2016 has limited our export volume to some certain extent.

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 and the regulations on the truck's weight limit took effect on September 2016 could stimulate local demand and bolster automobile and tire industry.

Business Segmentation Analysis

Revenue breakdown by product segment (Baht million)

	FY 2016	FY 2015	% YoY
TSR	56,133.4	44,482.7	26.2%
%	72.6%	72.6%	
RSS	7,305.3	5,462.4	33.7%
%	9.5%	8.9%	
LTX	6,088.0	4,774.2	27.5%
%	7.9%	7.8%	
Other*	7,738.8	6,572.5	17.7%
%	10.0%	10.7%	
Total	77,265.5	61,291.8	26.1%

Note:

* Comprises revenue from (i) the sale of rubber wood and wood packing product (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 and (iii) the sale of gloves

Technically Specified Rubber (TSR)

Revenue from the sale of TSR, our core product, grew 26.2% YoY due to an increase in sale volume of 33.7% despite partly offset by a decrease in average selling price of 5.6%. Our well-diversified locations of processing facilities and our strong raw materials procurement network enabled us to capture a pick-up in NR demand amid raw material supply constraints. As a result of this, our sale volume in 2016 significantly expanded in comparison with the year 2015 when our strategy of selective selling was implemented. Gross profit for TSR also increased 83.1% YoY led to an increase in gross profit margin.

Ribbed Smoked Sheet (RSS)

Revenue from the sale of RSS expanded by 33.7% YoY, which was mainly contributed by a 37.5% increase in sales volume owing to more favorable market sentiment despite being offset by a decrease in average selling price of 2.7%. Prolonged wintering period from unusual drought discouraged rubber farmers to produce unsmoked sheet (raw material of RSS) since it requires more procedures, more workers, and longer production period compared to field latex (raw material of LTX). Moreover, the increase in both demand and prices of LTX exacerbated a shortage of unsmoked sheet as rubber farmers tend to produce field latex rather than unsmoked sheets when the price gap becomes closer. As a result of this, our gross profit from the sale of RSS contracted 18.2% YoY and gross profit margin was also tapered.

Concentrated Latex (LTX)

Revenue from the sale of LTX rose 27.5% YoY. The expansion in revenue was primarily driven by a 28.0% increase in sales volume as a result of continuing robust demand while the average selling price marginally declined by 0.4%. Gross profit for LTX grew 3.2% YoY; nonetheless, gross profit margin was softer since the RM supply constraints have brought up the field latex price.

Consolidated Balance Sheet*Current assets*

Current assets increased by Baht 10,281.2 million, or 47.8%, to Baht 31,811.9 million as at 31 December 2016 which was due primarily to an increase in inventories of Baht 6,971.3 million in response to sales expansion as well as NR price improvement and an increase in trade accounts receivable of Baht 4,239.0 million as a result of a record sale volume and higher average selling price of NR products which were partially offset by the reduction in cash and cash equivalents of Baht 522.6 million and a decrease in derivative financial instruments of Baht 171.8 million as a result of volatility in NR prices.

At the end of 2016, 98.4% of our accounts receivable were not yet due or overdue less than 1 month while 0.6% was overdue by more than 1 year. The allowance for doubtful debts was 0.6% of total accounts receivable.

Non-current assets

Non-current assets increased by Baht 1,798.7 million, or 8.0%, to Baht 24,146.7 million as at 31 December 2016 which primarily consists of an increase in property, plants and equipment of Baht 580.0 million (net of depreciation and write-off) for the new construction and the expansion of our TSR & LTX factories, an increase in investment in associates and joint ventures of Baht 452.3 million from an increase in their operating results, an increase in rubber and palm plantations of Baht 352.2 million, an increase in deferred income tax assets of Baht 288.9 million, and an increase in intangible assets of Baht 150.5 million from SAP software and its related direct implementation cost.

Current liabilities

Current liabilities increased by Baht 15,000.5 million, or 84.1%, to Baht 32,836.1 million as at 31 December 2016 which was mainly from an increase in short-term loans of Baht 9,987.6 million to support the higher level of inventories and trade accounts receivable, an increase in current portion of long-term borrowings from financial institutions of Baht 4,946.4 million due mainly to the reclassification of long-term loan to current portion of long-term loan since the company was not in full compliance with the terms of the underlying loan agreement, an increase in trade accounts payable and other payables of Baht 480.4 million due to higher raw material prices for NR products, and an increase in derivative financial instruments of Baht 383.4 million, which were partially offset by a decrease in current portion of debenture of Baht 850.0 million.

Non-current liabilities

Non-current liabilities decreased by Baht 1,498.6 million, or 31.8%, to Baht 3,210.6 million as at 31 December 2016 which was primarily due to a decrease in long-term loans (net of current portion) of Baht 3,741.6 million as a consequence of the abovementioned reclassification offsetting with an increase in debenture of Baht 2,265.0 million to support working capital for our business operation.

Shareholders' equity

Equity decreased by Baht 1,422.0 million, or 6.7%, to Baht 19,911.9 million as at 31 December 2016 due mainly to net loss during the year, dividend payments of Baht 512.0 million, and the decrease in asset revaluation surplus (net of accumulated depreciation) of Baht 130.9 million

Research and development (R&D) expenditure

In 2016, our Group's R&D expenditure to support R&D activities and innovation development was Baht 10.0 million.

Source of Fund

In 2016, our capital expenditure was Baht 2,126.9 million, principally comprised Baht 1,459.8 million for TSR capacity expansion and Baht 466.3 million for the investment in rubber plantation. Our mains

source of fund consisted of short-term and long-term facilities from financial institutions and debentures.

The ability to service debt and comply with loan covenant

As at 31 December 2016, long-term loan amounted Baht 3,536 million was reclassified to current portion of long-term loan since the company's net long-term debt to EBITDA ratio exceeded the limit specified in loan covenant of one financial institution at 4.5 times. However, this was a temporary effects of net loss mainly due to rubber hedging caused by a high volatility of NR price during Q4 2016 and non-recurring expenses. The rest debt covenants was fully complied by our Group.

Our net debt to equity ratio was at 1.73 times as of 31 December 2016, higher than the year ended 2015 as a result of higher sale volume and NR prices but considered conservative compared with our competitors in the industry.

The demerger with Semperit

On 15 March 2017 (the date after the reporting period), the company entered into the demerger with Semperit Technische Produkte Gesellschaft m.b.H. ("Semperit"), that will result in the Company becoming 90.2% ownership (increasing from 40.2% to 90.2%) of Siam Sempermed Corp., Ltd. ("SSC") (which was subsequently renamed to Sri Trang Gloves (Thailand) Co., Ltd. ("STGT") on 16 March 2017) and Semperit becoming 100.0% ownership over the other associate companies, which include Sempermed USA, Inc., Sempermed Singapore Pte Ltd. ("SESI") (including SESI's stake in Formtech Engineering (M) SDN BHD and Sempermed Brasil Comercio Exterior Ltd.), Semperflex Shanghai Ltd., Shanghai Sempermed Glove Sales Co., Ltd. and Shanghai Semperit Rubber & Plastics Products Co., Ltd. Semperflex Asia Corporation Ltd. ("SAC") will continue to operate as a joint venture entity, with Semperit being granted the right to acquire the Company's 42.5% stake (together with the remaining shares held by other shareholders of SAC) in SAC between 2019 and 2021 at an exercise price of US\$60.0 million for the 50.0% stakes that are owned by the Company and other shareholders of SAC. The Company and Semperit have both agreed to withdraw all ongoing claims, lawsuits, arbitrations at any respective courts and tribunals at completion. The joint venture agreements and any surviving obligations were also terminated with effect from closing.

As a source of fund for the acquisition of SSC shares, the Company has secured a loan facility of Baht 4,500 million from a financial institution. The Company will afterward execute a Debt Push-Down to STGT with the repayment as long-term loan.

Being a major shareholder in STGT, one of the top five largest manufacturers of examination rubber gloves in the world, will strengthen the overall business operation of the Group as a fully-integrated natural rubber company and emphasize the Company's position as the world leader in natural rubber industry. Moreover, this will result in the change of the Company's accounting recognition from profit sharing under the equity method to the consolidation of STGT which will not only decrease the overall fluctuations in the operating results of the Group from the midstream natural rubber processing but also increase overall assets, liabilities, revenues and profits. Conversely, the disposals of ordinary shares of or investments in associates will lower share of profit from associates and joint ventures in consolidated financial.

Financial Ratios

Current ratios

Current ratio is calculated by dividing total current assets by total current liabilities. Our current ratio as at 31 December 2015 and 31 December 2016 were 1.21 times and 0.97 times, respectively. The decrease in our current ratio was due primarily to the aforementioned temporary reclassification of long-term loan amounted Baht 3,536 million to current portion of long-term loan.

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 2016, our fixed asset turnovers were 3.87 and 4.58 times, respectively. An increase in our revenues from higher sale volume at a faster rate than an increase in average property, plant and equipment as well as rubber and palm plantations.

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 2016, our ROA were 2.74% and -1.52%, respectively. The decrease in ROE was due mainly to a net loss in 2016.

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 2016, our ROE were 5.33% and -3.68%, respectively. Similar to ROA, the decrease in ROE was due mainly to a net loss in 2016.

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 2016, our D/E were 1.06 and 1.81 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, sale volume growth, and higher NR price.

Business Outlook**Rubber Industry**

	2015	2016F	2017F
%Global Growth (GDP)	3.2%	3.1%	3.4%
<i>Advance economies</i>	2.1%	1.6%	1.9%
<i>Emerging market and developing economies</i>	4.1%	4.1%	4.5%
<i>China (world's largest NR consumer)</i>	6.9%	6.7%	6.5%
Vehicle production (mil. Unit)	91	95	96
<i>% change</i>	1.3%	3.6%	1.3%
Tire production (mil. Unit)	1,762	1,815	1,885
<i>% change</i>	1.4%	3.0%	3.8%
NR consumption ('000 tons)	12,146	12,505	12,872
<i>% change</i>	-0.3%	3.0%	2.9%

Source: IMF WEO Update, January 2017 and The World Rubber Industry Outlook forecasted by International Rubber Study Group (IRSG), December 2016

After the end of 5-year bearish market sentiment at the beginning of 2016, NR market upheld by stronger fundamental demand & supply and macroeconomic outlook have entered the transition period. Steady global economic activity, stimulus package of the US, and the new China's truck weight limit regulations brighten NR demand prospect whilst NR supply continues to be curtailed by a scarcity of skilled tapper as a consequence of prolonged period of low NR prices and by abnormal weather conditions.

An excessive rainfall and flooding in southern Thailand in January 2017 have curbed global NR production to a certain level since more than 70% of output is represented by southern Thailand and January is usually the peak NR output. This limited supply impact is also evidenced by the successful release a significant amount of the Thai Government's NR stock with an average age of 3 years to a number of NR producers at the price that closed to market price. Moreover, the reprocessing of such released old NR stock also requires additional fresh NR raw materials in order to maintain a quality NR products. This can imply that new NR supply could be potentially insufficient to meet the NR demand during the upcoming leaf-shedding season.

Notwithstanding almost a year of recovery, NR price remains at low level comparing with the past decade price movement. Meanwhile, current level of oil price, synthetic rubber price, and NR stock at Qingdao in China indicates a limited downside risk for NR prices. However, more vigorous growth of real demand is still requisite to sustainable price improvement.

Above all, uncertainties of major countries' policy as well as volatilities in global commodity, foreign exchange, and stock markets will remain the main factors to weigh on sentiment in the NR market.

Demand & Supply Balance

World Natural Rubber production and consumption during 2015 - 2017

Unit : 000'tons	2015	2016F	2017F
NR production	12,275	12,449	12,917
% change	1.2%	1.4%	3.8%
NR consumption	12,146	12,505	12,872
% change	-0.3%	3.0%	2.9%
NR Balance	129	(56)	45

Source: The World Rubber Industry Outlook forecasted by International Rubber Study Group (IRSG), December 2016

According to the World Rubber Industry Outlook, Review and Prospects to 2025, published by the International Rubber Study Group (IRSG) in December 2016, the global demand for natural rubber (NR) in 2016 was at 12,505,000 tons, up 3.0% YoY, in line with the growth of the tire industry, which accounts for approximately 70% of total NR demand. Meanwhile, the global NR supply increased by 1.4% to 12,449,000 tons in 2016. This sluggish supply growth was the result of unfavorable weather conditions and a prolonged period of low NR prices. The supply growth was mainly contributed by CAMAL* countries, Thailand and Vietnam.

IRSG projected global NR demand in 2017 to be 12,872,000 tons, increasing 2.9% YoY. The growth is mainly driven by China, the world's largest consumer of natural rubber. As for NR supply, IRSG forecasted that NR production will grow at 3.8%, reaching 12,917,000 tons in 2017. The largest sources of additional supply volumes are China, Indonesia, and CAMAL* countries, while supply from Thailand, the world's largest NR producing country, will be curtailed by unfavorable weather conditions.

From 2017 onwards, NR supply from new rubber trees is expected to grow at a slower rate as there have been much fewer planting activities since 2011, when prices started to drop to lower levels. Moreover, the prolonged period of low NR prices has induced rubber farmers to switch to other more profitable crops, delay planting/re-planting activities and reduce the tapping frequency. The extended period of low prices has also dampened farmer interest in the rubber industry. Meanwhile, NR demand continues to be healthy, supported by the solid growth of the tire industry, which represents approximately 70% of NR consumption. The IRSG therefore anticipates that NR supply surplus in 2017 will hover around 45,000 tons, which is close to the equilibrium point.

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

Our business strategy and progress of expansion plan

Upstream Business – continue to bring synergy to our Group's business operation

To reinforce our position as a fully integrated natural rubber company, we will continue with the efficient management of our rubber plantations, which provides us with valuable insights regarding natural rubber supply that we can utilize to our advantage in the management of our midstream and downstream operations. Having our own plantations also helps us identify areas where we can potentially set up a new production facility. In the past we decided to set up new processing facilities in 4 provinces, namely Phitsanulok, Kalasin, Sakaeo, and Sakon Nakhorn following the development of our own rubber plantations in those areas.

The Company has achieved target in securing land of approximately 50,000 rai (8,000 hectares) for rubber plantations, the majority of which are located in the north of Thailand, an area to which we can potentially expand our production base. More than half of rubber trees of our plantations will be ready for tapping within a few years.

Midstream Business – Continuous capacity expansion to capture a market share of 20% of global NR consumption

We will continue with the yearly expansion of our production capacity by setting up new production facilities with cutting-edge technology in new strategic locations, for example, in the north of Thailand. With strong sales, R&D, quality control and CSR teams who are committed to working collaboratively to ensure customers' satisfaction, we are confident that we will be able to set a new record in sales volume every year from now on, which will enable us to ultimately attain "STA 20," that is, to capture a market share of 20% of global NR consumption.

As at 31 December 2016, our engineering annual capacity was registered at industry record at 2.4* million tons per annum. The additional capacity of 61,000 tons from year ended 2015 came from our new TSR plants in Loei (Thailand).

Note*: The engineering capacity is derived from the specifications certified by the supplier of the processing machinery. Our engineering capacity includes the engineering capacity of Thaitech Rubber Corporation Limited after the additional share acquisition in this company in April 2016.

Downstream Business – to strengthen our operation and further expand production capacity

After the demerger with Semperit, the Company becomes the major shareholder of STGT, the world's top five manufacture of examination gloves, and have sole discretion and flexibility over all aspects of the operations of STGT. Therefore, we will seek to strengthen our operations of STGT in terms of sourcing of raw materials, production, marketing, and product distribution as well as the enhancement of production efficiency. The competitive advantage of our Group in producing our own concentrated latex, which is the main raw material of natural rubber gloves, is that we can ensure the sufficiency of raw material with an unparalleled quality. Together with our own in-house R&D, technology, and engineering supports, we strongly believe that we can successfully expand production capacity, product variety, and market coverage in the near future. All this will help to reinforce our position as the world's largest fully integrated natural rubber company.

As at 31 December 2016, we had 4 processing plants in Thailand with a total production capacity of approximately 14 billion glove pieces annually.