

## **Sri Trang Agro-Industry Public Company Limited**

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### **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		
	2017	2016	2015
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	2,241.9	1,674.6	2,197.2
Derivative financial instruments	407.9	165.0	336.7
Trade accounts receivable and other receivables, net	7,212.3	8,093.3	3,854.2
Amounts due from futures brokers	810.5	633.9	702.1
Inventories, net	17,123.0	20,931.0	13,959.8
Other current assets	553.7	314.1	480.6
<b>Total current assets</b>	<b>28,349.4</b>	<b>31,811.9</b>	<b>21,530.6</b>
<b>Non-current assets</b>			
Fixed deposits pledged as collateral	12.1	12.3	33.5
Investments in associates	368.0	1,489.9	1,357.8
Investment in joint ventures	362.0	3,699.2	3,379.0
Long-term investments	153.3	59.1	50.6
Property, plant and equipment, net	24,189.7	15,765.5	15,185.5
Rubber and palm plantations, net	1,832.4	1,573.4	1,221.2
Intangible assets, net	459.8	480.8	330.3
Goodwill	2,953.8	-	-
Investment properties	188.9	151.9	154.5
Withholding tax deducted at source	574.8	365.5	395.7
Deferred income tax assets, net	198.0	492.3	203.4
Other non-current assets	65.7	56.6	36.4
<b>Total non-current assets</b>	<b>31,358.4</b>	<b>24,146.7</b>	<b>22,348.0</b>
<b>Total assets</b>	<b>59,707.8</b>	<b>55,958.6</b>	<b>43,878.6</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Trade accounts payable and other payables	2,614.8	3,167.8	2,687.4
Short-term loans from financial institutions	21,786.0	23,433.8	13,446.2
Current portion of long-term loans from financial institutions	420.7	5,397.8	451.4
Current portion of debentures	600.0	-	850.0

## 13.1 Statements of Financial Position (Cont'd)

(Unit: Million Baht)	Consolidated		
	As at 31 December of		
	2017	2016	2015
Current portion of finance lease liabilities	13.2	8.3	25.0
Derivative financial instruments	231.2	654.9	271.6
Current income tax liabilities	153.5	113.8	63.9
Other current liabilities	37.0	59.6	40.0
<b>Total current liabilities</b>	<b>25,856.5</b>	<b>32,836.1</b>	<b>17,835.6</b>
<b>Non-current liabilities</b>			
Long-term loans from financial institutions	7,193.7	0.7	3,742.2
Debentures	2,265.0	2,865.0	600.0
Finance lease liabilities	27.5	5.1	10.9
Deferred income tax liabilities, net	745.0	119.3	151.8
Provision for retirement benefit obligations	308.2	185.2	161.7
Other non-current liabilities	35.0	35.2	42.5
<b>Total non-current liabilities</b>	<b>10,574.4</b>	<b>3,210.6</b>	<b>4,709.2</b>
<b>Total liabilities</b>	<b>36,430.9</b>	<b>36,046.6</b>	<b>22,544.7</b>
<b>Shareholders' equity</b>			
Issued and paid-up share capital	1,536.0	1,280.0	1,280.0
Premium on share capital	10,852.0	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	4,049.4	1,296.9	1,427.8
Unrealised gains on available-for-sale investments	16.4	12.8	6.8
Cumulative currency differences on translating financial statement	(666.1)	(284.0)	(268.5)
Retained earnings			
Appropriated - legal reserve	128.0	128.0	128.0
Unappropriated	7,165.4	9,036.1	10,287.7
<b>Total parent's shareholders' equity</b>	<b>22,908.0</b>	<b>19,847.5</b>	<b>21,239.7</b>
Non-controlling interests	368.9	64.4	94.2
<b>Total shareholders' equity</b>	<b>23,276.9</b>	<b>19,911.9</b>	<b>21,333.9</b>
<b>Total liabilities and shareholders' equity</b>	<b>59,707.8</b>	<b>55,958.6</b>	<b>43,878.6</b>

## 13.2 Statements of Comprehensive Income

(Unit: Million Baht)	Consolidated		
	2017	2016	2015
Revenues from sales and services	89,387.0	77,265.5	61,291.8
Cost of sales and services	(85,610.6)	(71,852.0)	(57,770.6)
<b>Gross profit</b>	<b>3,776.4</b>	<b>5,413.5</b>	<b>3,521.2</b>
Other income	685.5	197.5	186.3
Selling expenses	(3,467.1)	(3,173.7)	(2,125.2)
Administrative expenses	(2,392.0)	(2,262.2)	(1,588.2)
Gains on exchange rate, net	561.6	6.4	214.2
Gains on change in fair value from group investment reclassification	223.6	-	-
Gain from disposals of investments in associates and general investment	132.7	-	-
Gains (losses) on change in fair value of investment properties	47.9	(1.9)	-
Other (losses) gains, net	99.5	(983.3)	1,095.3
<b>Operating profit</b>	<b>(331.8)</b>	<b>(803.7)</b>	<b>1,303.6</b>
Share of profit from investments in associates and joint ventures	129.8	402.8	648.8
<b>Profit (loss) before net finance costs and income tax</b>	<b>(202.0)</b>	<b>(400.9)</b>	<b>1,952.4</b>
Finance income	49.7	35.3	48.2
Finance costs	(1,245.6)	(707.3)	(857.3)
Finance costs, net	(1,195.9)	(672.0)	(809.1)
<b>Profit (loss) before income tax</b>	<b>(1,397.9)</b>	<b>(1,073.0)</b>	<b>1,143.3</b>
Income tax	(20.6)	283.2	(31.5)
<b>Profit (loss) for the years</b>	<b>(1,418.5)</b>	<b>(789.7)</b>	<b>1,111.8</b>
<b>Other comprehensive income:</b>			
<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	2,848.9	-	2.3
Remeasurements of post-employment benefit obligations, net of tax	(17.9)	(1.0)	(25.6)
<i>Items that will be reclassified subsequently to profit or loss</i>			
Changes in fair value of available-for-sale investments, net of tax	3.7	6.8	(12.0)
Currency differences on translation	(390.9)	(13.6)	174.5
<b>Other comprehensive income (expense) for the years, net of tax</b>	<b>2,443.8</b>	<b>(120.3)</b>	<b>139.2</b>
<b>Total comprehensive income for the years</b>	<b>1,025.2</b>	<b>(910.0)</b>	<b>1,251.0</b>
<b>Profit for the years attributable to:</b>			
Owners of the parent	(1,437.1)	(758.0)	1,118.0
Non-controlling interests	18.5	(31.7)	(6.3)
<b>Profit (loss) for the years</b>	<b>(1,418.5)</b>	<b>(789.7)</b>	<b>1,111.8</b>
<b>Total comprehensive income for the years attributable to:</b>			
Owners of the parent	1,015.5	(880.1)	1,260.0
Non-controlling interests	9.7	(29.9)	(9.1)
<b>Total comprehensive income for the years</b>	<b>1,025.2</b>	<b>(910.0)</b>	<b>1,251.0</b>
<b>Earnings per share</b>			
Basic earnings per share (Unit: Baht per share)	(1.05)	(0.57)	0.87

## 13.3 Statements of Cash Flows

(Unit: Million Baht)	Consolidated		
	2017	2016	2015
<b>Cash flows from operating activities</b>			
Profit before income tax	(1,397.9)	(1,073.0)	1,143.3
Adjustments for:			
Unrealised (gains) losses on foreign currency translations	(160.3)	11.9	165.8
Unrealised (gains) losses from revaluation of derivative financial instruments	(666.6)	555.1	(188.2)
Reversal of allowance for impairment of trade accounts receivable and write-off bad debt	6.0	-	(5.5)
(Reversal of) allowance for inventory cost in excess of net realisable value	343.7	(453.7)	373.8
Provision for damaged inventories from fire accident	(41.6)	41.6	-
Provision for retirement benefit obligations	28.0	24.5	24.6
Depreciation charges	1,783.7	1,159.0	1,021.7
Amortisation charges - rubber and palm plantations	4.2	0.7	0.7
Amortisation charges - intangible assets	64.5	35.5	32.7
Loss on asset revaluation	24.0	-	-
Write-off income tax refund	-	132.0	-
Finance costs	1,245.6	707.3	857.3
Dividend income	(49.7)	(35.3)	-
Share of profit from investments in associates and joint ventures	(1.8)	(24.3)	(36.8)
(Gains) losses on disposal and write-off of property, plant and equipment and intangible assets	(129.8)	(402.8)	(648.8)
Gains (losses) from revaluation of investment properties	0.8	62.1	(44.5)
(Gains) on change in fair value from group investment reclassification	(223.6)	-	-
Gains from disposal of investments in associates and general investment	(132.7)	-	-
(Gains) losses on change in fair value of investment properties	(47.9)	1.9	29.2
Gains from account receivables by settlement land and buildings	(16.7)	-	-
Insurance claim income from fire accident	(306.8)	-	-
Changes in operating assets and liabilities			
(Increase) decrease in operating assets			
- Trade accounts receivable and other receivables	2,344.9	(4,216.1)	839.6
- Amounts due from futures brokers	(176.6)	68.2	(309.6)
- Inventories	4,858.3	(6,554.2)	(4,308.6)
- Other current assets	(201.0)	35.5	(107.9)
- Other non-current assets	(8.2)	(20.2)	(2.2)
Increase (decrease) in operating liabilities			
- Trade accounts payable and other payables	(1,595.5)	464.3	128.8
- Other current liabilities	(22.5)	19.5	(4.3)
<b>Cash provided by (used in) operating activities</b>	<b>5,524.5</b>	<b>(9,460.3)</b>	<b>(1,038.9)</b>
Interest paid	(1,236.2)	(716.3)	(855.3)
Interest received	49.7	35.3	-
Income tax refunded	5.7	105.4	-
Income tax paid	(401.5)	(176.4)	(173.0)
Employee benefits paid	(5.8)	(2.3)	(7.2)
<b>Net cash provided by (used in) operating activities</b>	<b>3,936.4</b>	<b>(10,214.6)</b>	<b>(2,074.4)</b>

## 13.3 Statements of Cash Flows (Cont'd)

(Unit: Million Baht)	Consolidated		
	2017	2016	2015
<b>Cash flows from investing activities</b>			
Decrease in fixed deposits pledged as collateral	0.2	21.1	1.1
Dividends received	2,299.9	1.4	36.8
Cash paid for investments in subsidiaries	(5,129.5)	-	-
Cash received from disposal of investment in associates and long-term investment	689.4	-	-
Cash received from capital decrease of an associate	-	30.0	-
Cash paid for investment in joint venture	-	(114.6)	-
Cash received from disposal of property, plant and equipment, rubber and palm plantations and intangible assets	165.9	13.5	114.1
Cash paid for purchase of a long-term investment	(100.0)	-	-
Cash paid for purchases of property, plant and equipment, rubber and palm plantations and intangible assets	(3,166.8)	(2,294.5)	(2,616.5)
Cash paid for purchases of an investment property	-	(0.2)	-
<b>Net cash used in investing activities</b>	<b>(5,241.0)</b>	<b>(2,343.3)</b>	<b>(2,464.4)</b>
<b>Cash flows from financing activities</b>			
Increase (decrease) in short-term loans from financial institutions	(2,165.6)	9,952.9	4,005.4
Proceeds from long-term borrowings	4,172.4	1,410.0	1,230.2
Repayments of long-term borrowings	(1,886.4)	(205.2)	(90.3)
Proceeds from debentures	-	2,265.0	-
Repayments of debentures	-	(850.0)	-
Payments on finance lease liabilities	(6.3)	(25.4)	(31.9)
Dividend paid	(506.1)	(512.0)	(512.0)
Dividend paid from subsidiaries to non-controlling interests	(293.1)	-	-
Proceeds from capital increase from non-controlling interests	-	-	3.1
<b>Net cash provided by (used in) financing activities</b>	<b>1,871.8</b>	<b>12,035.3</b>	<b>4,604.5</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>567.3</b>	<b>(522.6)</b>	<b>65.6</b>
Cash and cash equivalents at the beginning of the years	1,674.6	2,197.20	2,131.6
<b>Cash and cash equivalents at the end of the years</b>	<b>2,241.9</b>	<b>1,674.60</b>	<b>2,197.2</b>
<b>Supplementary information for cash flows</b>			
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	(3,196.1)	(2,315.1)	(2,590.4)
Increase in land and buildings due to account receivables repayment	43.0	-	-
Increase in liabilities under finance lease liabilities	33.5	2.9	4.5
Increase (decrease) in payable from purchases of assets	(47.1)	17.7	(30.6)
<b>Cash paid for purchases of property, plant and equipment, rubber and palm plantations and intangible assets</b>	<b>(3,166.8)</b>	<b>(2,294.5)</b>	<b>(2,616.5)</b>

## 13.4 Financial Ratios

<b>Financial Ratio</b>		<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Liquidity Ratios</b>				
Current ratio	Times	1.10	0.97	1.21
Quick ratio	Times	0.38	0.30	0.34
Cash flow liquidity ratio	Times	0.13	(0.40)	(0.14)
Account receivable turnover <sup>1</sup>	Times	12.73	13.96	15.81
Average collection period	Days	28.27	25.79	22.77
Inventory turnover <sup>2</sup>	Times	4.50	4.12	4.82
Inventory period	Days	80.01	87.41	74.75
Account payable turnover <sup>3</sup>	Times	56.91	45.01	37.22
Average payment period	Days	6.33	8.00	9.67
Cash Cycle	Days	101.95	105.20	87.84
<b>Profitability Ratios</b>				
Gross profit margin	(%)	4.22	7.01	5.74
Operating profit margin	(%)	(0.37)	(1.04)	2.13
Operating cashflow to operating profit ratio	(%)	(1,186.3)	1,270.95	(159.13)
Net profit margin	(%)	(1.61)	(0.98)	1.82
Return on equity (ROE) <sup>4</sup>	(%)	(6.65)	(3.68)	5.33
<b>Efficiency Ratios</b>				
Return on assets (ROA) <sup>5</sup>	(%)	(0.02)	(0.02)	0.03
Return on fixed assets <sup>6</sup>	(%)	1.60	2.38	13.73
Fixed assets turnover ratio <sup>7</sup>	Times	4.12	4.58	3.87
Total assets turnover ratio <sup>8</sup>	Times	1.55	1.55	1.51
<b>Financial Leverage Ratios</b>				
Net debt to equity ratio	Times	1.47	1.73	0.95
Debt to equity ratio	Times	1.57	1.81	1.06
Interest bearing debt to equity ratio	Times	1.36	1.56	0.88
Net long-term debt to EBITDA ratio	Times	4.39	5.96	0.72
Interest coverage ratio	Times	0.16	0.56	(2.28)
Debt service coverage ratio	Times	0.49	(0.73)	(0.34)
Dividend payout ratio	(%)	N/A	N/A	45.79

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 the debentures of Sri Trang - Agro Industry Public Company Limited no. 1/2556, Tranche 2, due in 2018, and Debenture of Sri Trang - Agro Industry Public Company Limited no. 1/2016. 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.

<b><u>Covenant Ratio</u></b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net Debt to Equity Ratio (times)	1.27	1.51	0.79

**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****Financial Result Overview**

In 2017, the natural rubber industry was buffeted by volatility and uncertainties such as the global economic and political situation, the appreciation of Thai Baht, unfavorable weather conditions, and a sharp increase in speculative activities in the futures markets in Tokyo, Shanghai and Singapore. Rubber prices started to move steadily higher from late 2016 and reached a three-year high at 231.6 cent/kg in mid-February 2017. However, prices started to go down steadily since then and remained stable from late Q3 to Q4 2017. The average rubber price for 2017 was 164.7 cent/kg, which was higher than 138.4 cent/kg in 2016.

The year 2017 was a year of change as the Company completed the demerger of the associate and joint venture companies from our joint venture partner. As a result, examination gloves have become part of the Company's core businesses since 15 March 2017. By production capacity, the Company's glove business is Thailand's largest, and the world's leading, producer of gloves. This demonstrates the Company's commitment to operate as a fully integrated natural rubber company and reinforces the Company's position as the world's leading natural rubber company.

In 2017, the Company recorded a total revenue of Baht 89,387.0 million and sales volume of 1,323,823 tons of natural rubber products, representing 10% of global natural rubber consumption, and sales volume of 15,028 million pieces, representing approximately 8% of global glove consumption. However, the Company recorded a loss of Baht 1,437.1 million because of volatility in the natural rubber market.

**Extraordinary events**

On 15 March 2017, the Company additionally acquired shares of Siam Sempermed Corp. Ltd. (Subsequently changed its name to "Sri Trang Gloves (Thailand) Co., Ltd." since 16 March 2017) totalling 10,000 shares, increasing from 40.2% to 90.2% of the total shares for Baht 6,320 million. As a result of this business acquisition, the Company has recognised a goodwill of Baht 2,954 million as well as any disputes and lawsuits under the arbitration proceedings, and legal proceedings between the Company and Semperit in any courts and arbitrations have been finally withdrawn or terminated.

On 16 October 2017, the Company registered the increased share capital of 255,999,998 additional shares under the allocation ratio of 5 existing ordinary shares for 1 newly-issued ordinary share with a par value of Baht 1 per share by offering price at Baht 10 per share. The paid-up share capital and premium on share capital totalling Baht 256 million and Baht 2,301 million, respectively.

**Non-recurring items**

In 2017, the Company recorded Baht 463 million of non-recurring income which was insurance claim received from fire accident of PT Star Rubber in Indonesia since October 2016.

Additionally, the Company recorded Baht 539 million of non-recurring items relevant to legal expenses and the demerger between the Company and Semperit which after the completion of the demerger any courts and arbitrations have been finished as well.

**Income Statement Overview**

(Unit : THB million)	FY 2017	FY 2016	%YOY	Q4 2017	Q4 2016	%YOY
<b>Revenue from sales of goods and services</b>	<b>89,387.0</b>	<b>77,265.5</b>	<b>15.7%</b>	<b>19,768.4</b>	<b>22,510.5</b>	<b>-12.2%</b>
Cost of sales and services	(85,610.6)	(71,852.0)	19.1%	(18,393.8)	(20,889.1)	-11.9%
<b>Gross profit (loss)</b>	<b>3,776.4</b>	<b>5,413.5</b>	<b>-30.2%</b>	<b>1,374.5</b>	<b>1,621.3</b>	<b>-15.2%</b>
SG&A	(5,859.1)	(5,436.0)	7.8%	(1,332.6)	(1,952.5)	-31.7%
Other income	685.5	197.5	247.1%	398.0	59.0	574.1%
Gains (loss) on exchange rate, net	561.6	6.4	8680.6%	176.3	(35.5)	N/A
Other gains, net	147.4	(985.1)	N/A	112.4	(1,110.1)	N/A
<b>Operating profit (loss)</b>	<b>(331.8)</b>	<b>(803.7)</b>	<b>-58.7%</b>	<b>728.5</b>	<b>(1,417.8)</b>	<b>N/A</b>
Share of profit (loss) from investments in JV	129.8	402.8	-67.8%	46.6	101.5	-54.1%
<b>EBITDA</b>	<b>1,650.4</b>	<b>794.3</b>	<b>107.8%</b>	<b>1,325.1</b>	<b>(983.1)</b>	<b>N/A</b>
<b>EBIT</b>	<b>(202.0)</b>	<b>(400.9)</b>	<b>-49.6%</b>	<b>775.1</b>	<b>(1,316.3)</b>	<b>N/A</b>
Finance costs (net)	(1,195.9)	(672.0)	78.0%	(293.3)	(320.1)	-8.4%
Income tax (expense)	(20.6)	283.2	N/A	25.5	321.1	-92.1%
<b>Net Profit (loss) for the periods</b>	<b>(1,418.5)</b>	<b>(789.7)</b>	<b>79.6%</b>	<b>507.2</b>	<b>(1,315.3)</b>	<b>N/A</b>
Attributed to Owners of the parent	(1,437.1)	(758.0)	89.6%	468.8	(1,303.1)	N/A
Attributed to non-controlling interests	18.5	(31.7)	N/A	38.5	(12.2)	N/A

**Revenue**

Our revenue from sale of goods and services in 2017 was Baht 89,387.0 million, increased by 15.7% YoY. The revenue from NR business was Baht 79,121.7 million, expanded by 13.8% YoY which was driven by 28.4% growth of average selling price in line with the movement of NR prices in the global market, despite 11.4% decline in sales volume of NR products. Moreover, the revenue from Gloves business was Baht 9,858.7 million, increased by 100.7% YoY.

**Sales volume**

In 2017, our sales volume of NR products amounted to 1,323,873 tons, dropped by 11.4% comparing to the previous year. However, we can maintain the global NR consumption market share at 10% in 2017. The decrease in sales volume was mainly resulted from a decline in sales to China and Singapore due to the negative sentiments of NR price movement rather than demand-supply fundamentals. This, nevertheless, has been partly compensated by an increase in domestic sales which accounted for 10.0% of our sales volume. China still remained our largest market destination at 45.5%, whereby other Asian markets accounted for 24.9% followed by USA and Europe markets at 5.8% and 4.3%, respectively.

Since 15 March 2017 – 31 December 2017, our sales volume of Gloves products was 15,068 million pieces. Assuming STGT's revenue was consolidated since 1 January 2017, the gloves sales volume would be 16,344 million pieces, representing approximately 8% of global glove consumption.

**Gross profit**

Our gross profit in 2017 grew 30.2% YoY to Baht 3,776.4 million. The gross profit margin also dropped from 7.0% in 2016 to 4.2% in 2017. However, assuming there was no the allowance for inventory cost in excess of net realisable value of Baht 343.7 million and taking into account the realised gains from heading activities of Baht 201.6 million, our adjusted gross profit margin would have been declined to 4.8% from 6.1% in the previous year. This was due mainly to NR price volatility and an unusual gap between futures and physical markets.

**Operating loss**

Operating loss for the year 2017 recovered from the previous year, amounted to Baht (331.8) million in 2017 from (803.7) million in 2016. This has been partially offset by other income from insurance claims received from fire accident of PT Star Rubber in Indonesia since October 2016 amounting Baht 463 million as well we higher gains from exchange rate and gains from rubber derivative financial instruments recovered from loss in the previous year.

Nevertheless, in 2017, selling and administrative expenses (SG&A) increased by 7.8% from the previous year. The increase was due principally to higher cess<sup>1</sup> expenses and partially came from the increase in freight and transportation expenses as rising of oil prices in the global market and freight rate. Meanwhile, the increase of administrative expenses was primarily due to non-recurring items relevant to legal expenses and the demerger between the Company and Semperit amounting Baht 539 million.

<sup>1</sup>Cess Rate : Jan 16 – Nov 16 : 1.4 Baht/Kg.  
Feb 17 – Mar 17 : 3 Baht/Kg.

Dec 16 – Jan 17 : 2 Baht/Kg.  
Apr 17 – Jun 17 : 1.4 Baht/Kg.

and Aug 17 - Present : 2 Baht/Kg.

### Share of profit from investments in associates and joint ventures

In 2017, the Company received the share of profit from investments in associates and joint ventures amounted to Baht 129.8 million, decreased by 67.8% from the previous year mainly due to the changes in accounting recognition as a result of the demerger since 15 March 2017. However, the profit sharing from the hydraulic hoses joint ventures expanded slightly by 2.7% comparing to the previous year.

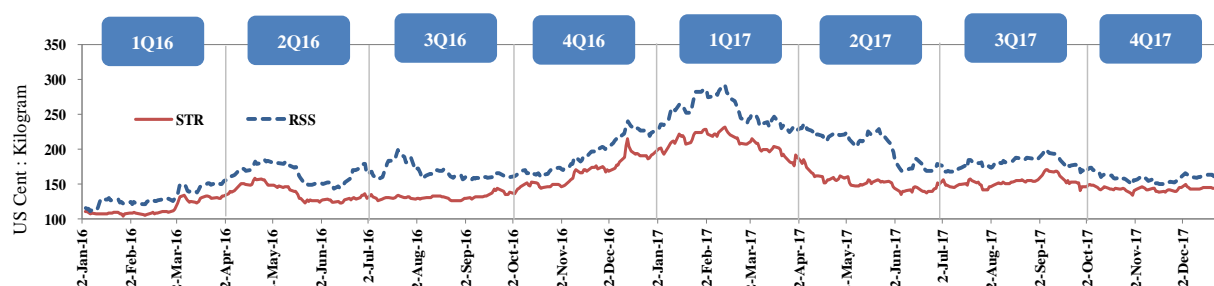
### Net loss

Net loss of Baht (1,437.1) million was recorded in 2017, increased from net loss of Baht (758.0) million in 2016. The decline in net profit was primarily as a result of an increase in financial costs from higher interest expenses. In March 2017, there was a borrowing loan to finance the share acquisition in the demerger in the amount of Baht 4,500 million, which has been fully repaid within a specified period by pushing down such loan in an amount of Baht 3,000 million to STGT at the end of 2017.

As of 31 December 2017, the Company recognised an allowance for inventory cost in excess of net realisable value for consolidated financial statements amounting to Baht 343.7 million compared with the reversal of allowance for inventory cost in excess of net realisable value amounting to Baht 453.7 million last year. (Please find more details in Note to the Consolidated and Separate Financial Statements under item 10)

### Key Factors Affecting the Company's Operations

#### 1. Volatility of Natural Rubber Price



*Daily Price Movement of TSR20 and RSS3 at SICOM*

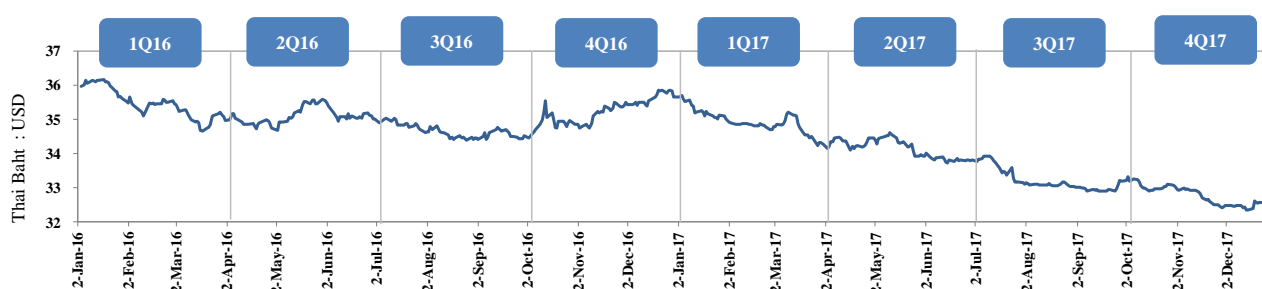
Prices of natural rubber and volatility in the natural rubber market directly affect the Company's revenue and profitability. Natural rubber prices started to go up from late 2016 and reached a three-year high in Q1 2017. The average price of STR20 in Q1 2017 was 209.4 cent/kg, the highest in 2017 and representing a 81.14% increase YOY, as the heavy rainfall that caused flooding in the south of Thailand during the start of 2017 led to a 10% decrease in rubber supply in Q1 2017 compared with the same period in 2016. The timing of the flood happened to coincide with the period when the Company needed to stock up on raw material (the period from November to February of every year) in preparation for the sales during the wintering season, which usually lasts from mid-March until mid-May of every year. This resulted in higher raw material costs for the Company.

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 2016-2017*

(Unit : US Cent/ Kg.)	RSS3			TSR20		
	2017	2016	%Change	2017	2016	%Change
<b>Q1 Average</b>	254.5	131.4	93.68%	209.4	115.6	81.14%
<b>Q2 Average</b>	204.8	165.7	23.60%	152.8	137.5	11.13%
<b>Q3 Average</b>	180.9	167.6	7.94%	153.7	131.9	16.53%
<b>Q4 Average</b>	159.8	192.9	-17.16%	143.7	167.0	-13.95%
<b>Yearly Average</b>	<b>199.8</b>	<b>164.9</b>	<b>21.16%</b>	<b>164.7</b>	<b>138.4</b>	<b>19.00%</b>
<b>Closing price as at 31 December</b>	160.6	224.5	-28.46%	146.9	193.5	-24.08%

## 2. Foreign exchange rate



*Historical Exchange Rate of Thai Baht against US dollar*

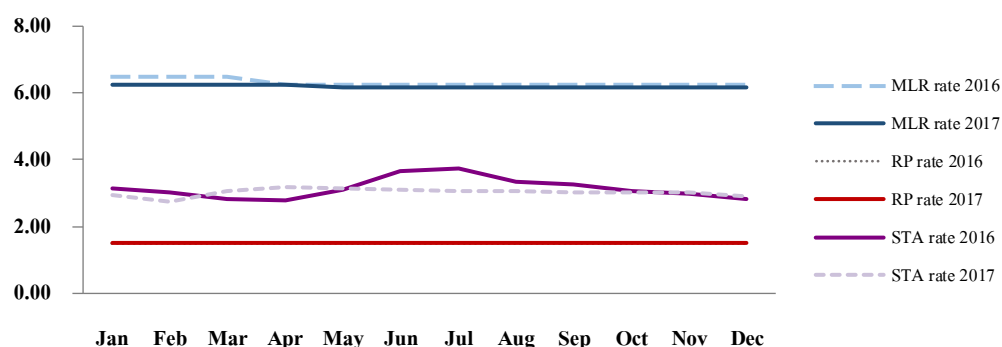
The fluctuations between Thai baht and US Dollars could directly affect our revenues since approximately 79.5% of our total revenues are denominated in US Dollars while our financial reporting currency is in Thai Baht. In order to mitigate this risk, the Group, therefore, uses financial derivatives to hedge our foreign exchange exposures. The mark-to-market of financial derivatives will be recognised as unrealised gain/loss on foreign exchanges.

In 2017, Thai Baht has strengthen against US dollar by 3.8% from an average of 35.12 Baht/US dollar for the year 2016 to 33.77 Baht/US dollar for the year 2017. Nevertheless, our gains on exchange rate increased from Baht 6.4 million in 2016 to Baht 561.6 million in 2017 thanks to undertaking derivative transactions to manage risk of foreign exchange rate.

## 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 2017 increased from the previous year on account of the rising short-term and long-term borrowings from financial institutions to support raw material purchasing, business expansion, and business acquisition. The Company also had borrowings in foreign currencies namely USD and IDR which, in 2017, our company recorded loss on foreign currencies denominated loans amounted to Baht 39.5 million. Accordingly, overall finance cost increased from Baht 672.0 million in 2016 to Baht 1,196.0 million in 2017, raise 78.0% YoY.

Graph below exhibited our average interest rates during 2016-2017, 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. Government Policy

Policies issued by the governments of Thailand and other major rubber-producing countries may benefit or negatively affect the Company's operations. For instance, in 2016, the governments of Thailand, Indonesia and Malaysia, the three major rubber-producing countries, agreed to impose a quota of 615,000 tons on rubber exports during the period from March to August 2016. In 2017, the three governments again imposed a quota of 350,000 tons on rubber exports during the period from January to March 2017. In addition, the Thai government has announced various measures in an attempt to solve the problem of low rubber prices, such as the establishment

of the Thai Rubber Fund Company Limited, the promotion domestic consumption of rubber, efforts to reduce supply such as the cutting down of rubber trees and the cessation of rubber tapping, and the inclusion of natural rubber in the list of commodities to be regulated by the Ministry of Commerce. These measures may cause domestic prices of natural rubber to be inconsistent with prices in the global markets.

### **Business Segmentation Analysis**

Revenue breakdown by product segment (Baht million)

	FY 2017	FY 2016	% YoY
<b>TSR</b>	<b>63,183.1</b>	<b>56,133.4</b>	<b>12.6%</b>
%	70.7%	72.6%	
<b>RSS</b>	<b>9,653.1</b>	<b>7,305.3</b>	<b>32.1%</b>
%	10.8%	9.5%	
<b>LTX</b>	<b>6,285.5</b>	<b>6,088.0</b>	<b>3.2%</b>
%	7.0%	7.9%	
<b>Gloves*</b>	<b>9,858.7</b>	<b>4,913.0</b>	<b>100.7%</b>
%	11.0%	6.4%	
<b>Other**</b>	<b>406.6</b>	<b>2,825.8</b>	<b>-85.6%</b>
%	0.5%	3.7%	
<b>Total</b>	<b>89,387.0</b>	<b>77,265.5</b>	<b>15.7%</b>

Note:

\* In March 2017, Sri Trang Gloves (Thailand) has become our subsidiary (previously it was a joint venture company). The revenues from examination glove products therefore have been recorded in the consolidated financial statement after 15 March 2017 onwards.

\*\*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 TSR, which accounted for 70.7% of total revenue, increased 12.6% YoY. The increase in revenue was attributed to 28.7% increase in ASP even though sales volume declined by 12.6%.

Due to volatility in the rubber market, particularly during the first half of 2017, the rubber prices on the global markets did not reflect the movement of the raw material costs. The Company also had to decrease the production capacity for TSR in Q2 2017 in order to maintain a desirable level of gross profit margin, resulted in a 59.1% decline in gross profit from the previous year.

### ***Ribbed Smoked Sheet (RSS)***

Revenue from RSS, which accounted for 10.8% of total revenue, increased 32.1% YoY. The increase in revenue was attributable to a 31.9% increase in ASP, even though sales volume leveled off compared with the previous year due to the stable demand for RSS. However, due to the fact that the selling prices on the futures markets were abundantly higher than the Company's raw material costs, particularly during the floods in the South of Thailand in early 2017, gross profit for RSS increased 115.1% comparing to the previous year.

### ***Concentrated Latex (LTX)***

Revenue from concentrated latex, which accounted for 7.0% of total revenue, increased 3.2% YoY. The increase in revenue was attributable to an 18.1% increase in ASP. Sales volume, however, declined 12.5% YoY. The drop in sales volume resulted from a substantial decrease in sales volume during Q2 2017, when the floods in the South of Thailand in early 2017 cut down supply and the Company was unable to stock up in preparation for the wintering period.

Gross profit for concentrated latex decreased 23.3% YoY as a result of sharply declining rubber prices during the second half of 2017, which induced rubber farmers to produce cup lump or unsmoked rubber sheets rather than latex, as the former two products yield higher prices and can be kept longer.

### ***Gloves***

Revenue from gloves, which accounted for 11.0% of total revenues, increased 100.7% YoY. Sales volume during the period from 15 March 2017 to 31 December 2017 after the acquisition of STGT stands at 15,068 million pieces, while profit margin increased 158.7% comparing to the previous year.

Assuming STGT's revenue was consolidated since 1 January 2017, the gloves sales volume during the period from 15 March 2017 to 31 December 2017 after the acquisition of STGT stands at 15,068 million pieces, while profit margin increased 158.7% comparing to the previous year.

### **Consolidated Balance Sheet**

#### *Current assets*

Current assets amounted to Baht 28,349.4 million, counted as 47.5% of total assets as at 31 December 2017, dropped by Baht 3,462.5 million or 10.9% comparing to the previous year. The decrease was due primarily to a drop in inventories of Baht 3,808.0 million in response to the lower NR price at the end of 2017 than that in the previous year which inventories reported in the financial report following the financial reporting standards are stated at the lower of cost and net realisable value (Please find more details in Note to the Consolidated and Separate Financial Statements under item 3 and 10). Moreover, a decrease in trade accounts receivable and other receivables of Baht 880.9 million as a result of a drop in sales volume despite higher average selling price of NR products approximately 28.4% from the previous year which were partially offset by an increase in cash and cash equivalents of Baht 567.3 million and an increase in derivative financial instruments of Baht 243.0 million.

At the end of 2017, our accounts receivable were not yet due or overdue less than 1 month amounted to Baht 6,225.6 million or 98.5% of total accounts receivable while 0.87% total accounts receivable or Baht 55.3 million was overdue by more than 1 year. The allowance for doubtful debts was 0.8% of total accounts receivable.

#### *Non-current assets*

Non-current assets amounted to Baht 31,358.4 million, counted as 52.5% of total assets as at 31 December 2017, rose by Baht 7,211.7 million or 29.9% comparing to the previous year which primarily consists of an increase in property, plants and equipment of Baht 8,424.2 million (net of depreciation and write-off) for the new factory construction and the expansion of our TSR, LTX and Glove factories. As a result of the demerger, in 2017, the Company recorded a goodwill of Baht 2,953.8 million (2016: nil) and a decrease in investment in associates and joint ventures of Baht 4,459.0 million.

#### *Current liabilities*

Current liabilities amounted to Baht 25,856.5 million, counted as 71.0% of total liabilities as at 31 December 2017, decreased by Baht 6,979.6 million or 21.3% comparing to the previous year. The decrease was primarily came from a drop in short-term and long-term borrowings from financial institutions of Baht 6,624.9 million as the Company fully repaid a borrowing loan to finance the share acquisition in the demerger supported by cash received from increasing share capital together with a decrease in derivative financial instrument recorded as liabilities of Baht 423.7 million.

#### *Non-current liabilities*

Non-current liabilities amounted to Baht 10,574.4 million, counted as 29.0% of total liabilities as at 31 December 2017, rose by Baht 7,363.8 million or 229.4% comparing to the previous year, which was primarily due to an increase in long-term borrowings from financial institutions (net of current portion) of Baht 7,193.1 million as a consequence of pushing down of the abovementioned loan to finance the demerger in an amount of Baht 3,000 million to STGT at the end of 2017.

#### *Shareholders' equity*

Equity rose by Baht 3,365.0 million, or 16.9%, to Baht 23,276.9 million as at 31 December 2017 due mainly to an increase in asset revaluation surplus (net of accumulated depreciation) of Baht 2,752.6 million and an increase in share capital of Baht 2,557.0 million which were partially offset by a decrease in unappropriated retained earnings of Baht 1,870.7 million as net loss in 2017.

### **Research and development (R&D) expenditure**

In 2017, our Group had Baht 16.3 million (including the support from the Government in the amount of Baht 0.35 million) in expenses related to research and development which covers all products sold by the Company, Technically Specified Rubber, Ribbed Smoked Sheets, Concentrated Latex and Examination Gloves. Such expenses went toward the increase in production efficiency and the product quality to satisfy customer demand and sustainable environmental management.

**Source of Funds**

In 2017, our capital expenditure was Baht 3,196.1 million, principally comprised Baht 1,828.2 million for new factory construction and capacity expansion of TSR and Baht 656.7 million for Gloves capacity expansion. Our main source of fund consisted of increasing capital from shareholders as well as short-term and long-term facilities from financial institutions.

**The ability to service debt and comply with loan covenant**

As at 31 December 2017, the Company had borrowings including short-term and long-term loans from financial institutions, debentures and financial leases amounted Baht 32,306.0 million (Please find the details about payment term, interest rate and ending balance in each foreign currencies in Note to the Consolidated and Separate Financial Statements under item 23). Due to the high volatility of natural rubber prices and other related factors, in the Q3 2017, the Company was unable to maintain Net Long-Term Debt to EBITDA at no more than 4.5 times as prescribed under the loan agreements by the financial institution, the Company therefore requested for exemption from the financial institution. Moreover, the Company has from time to time adjusted our business strategies in response any changes in business circumstances. The Company has also established a business unit to closely monitor operating results in order to tackle any problems that may occur in a timely manner. Accordingly, the year ended 2017, the Company could maintain such a ratio as required by the financial institution.

Our net debt to equity ratio was at 1.47 times as of 31 December 2017, dropped from 1.73 times in 2016 principally due to the increase of registered capital in the amount of 255,999,998 additional shares, totalling Baht 2,559,999,980.

**Financial Ratios***Current ratio*

Current ratio is calculated by dividing total current assets by total current liabilities. Our current ratio as at 31 December 2016 and 31 December 2017 were 0.97 times and 1.10 times, respectively. The increase in our current ratio was due primarily to the decrease in short-term borrowings and current portions of long-term borrowings from the financial institutions amounted Baht 6,624.9 million.

*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 2016 and 31 December 2017, our fixed asset turnovers were 4.58 and 4.12 times, respectively. The decrease of fixed asset turnover ratio came from an increase in our revenues at a lower rate than an increase in average property, plant and equipment due to the capacity expansion 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 2016 and 31 December 2017, our ROA were (1.52%) and (2.48%), respectively. The decrease in ROA was due mainly to a higher net loss in 2017.

*Return on equity ("ROE")*

ROE is calculated by dividing net profit (parent company) for the year by average total equity. As at 31 December 2016 and 31 December 2017, our ROE were (3.69%) and (6.65%), respectively. Similar to ROA, the decrease in ROE was due mainly to a higher net loss in 2017.

*Debt to equity ratio ("D/E")*

D/E is calculated by dividing total debt by total equity. As at 31 December 2016 and 31 December 2017, our D/E were 1.81 and 1.57 times, respectively. The decrease in D/E was as a result of lower short-term borrowings and current portions of long-term borrowings from financial institutions as well as increasing share capital of the Company.



**Business Outlook****Rubber Industry**

	2016	2017	2018F
<b>%Global Growth (GDP)</b>	<b>3.2%</b>	<b>3.7%</b>	<b>3.9%</b>
<i>Advance economies</i>	1.7%	2.3%	2.3%
<i>Emerging market and developing economies</i>	4.4%	4.7%	4.9%
<i>China (world's largest NR consumer)</i>	6.7%	6.8%	6.6%
<b>Vehicle production (mil. Unit)</b>	<b>96</b>	<b>98</b>	<b>101</b>
<i>% change</i>	4.8%	2.4%	2.4%
<b>Tire production (mil. Unit)</b>	<b>1,842</b>	<b>1,887</b>	<b>1,966</b>
<i>% change</i>	4.5%	2.4%	4.2%
<b>NR consumption ('000 tons)</b>	<b>12,587</b>	<b>13,028</b>	<b>13,336</b>
<i>% change</i>	3.7%	3.5%	2.4%

Source: IMF WEO Update, January 2018 and The World Rubber Industry Outlook forecasted by International Rubber Study Group (IRSG), December 2017

Demand for natural rubber has been steadily growing, with tire manufacturers which is the main consumers of NR accounting for 70% of overall demand. In 2017, the demand from tire manufacturers increased 3.4%, compared with a 3.9% increase in demand from other sectors, mainly from the glove industry and condom manufacturers. At the same time, rubber supply increased 6.1%, nearly twice the growth of demand. This can be attributed to the fact rubber trees planted during the period from 2010 to 2012, when rubber prices were much higher, could be harvested for the first time in 2017. Another factor that may have contributed to increased rubber supply is that some rubber farmers are inclined to increase the tapping frequency during a period of low prices to make up for lower income.

In 2018, the natural rubber industry is expected to grow in tandem with the global economic recovery. Oil prices, which have started to move up to higher levels since late 2017, are also a positive factor, as synthetic rubber, which can be used as a substitute for natural rubber, is derived from crude oil. Another positive factor is China's Qingdao stocks, which stood at 134,500 tons at the end of 2017, approximately 50,000 tons below the average of the previous seven years. In addition, demand for natural rubber from other sectors is poised to be growing steadily, with demand in 2018 forecast to increase 5.2%, mainly as a result of increased consumption in China and Malaysia.

Since mid-2017 until early 2018, the Thai government has announced various measures to alleviate low rubber prices, for instance, the establishment of Thai Rubber Fund Company Limited; the extension of credit to rubber farmers; the promotion of domestic rubber consumption; efforts to reduce supply such as the cutting down of rubber trees and the cessation of rubber tapping; and the inclusion of natural rubber in the list of commodities to be regulated by the Ministry of Commerce as a preventive measure for the Government to handle low rubber prices in the future.

Furthermore, in a joint effort by the major rubber producers - Thailand, Indonesia and Malaysia - to cut down rubber supply, the Thai government imposed a reduction quota of 350,000 tons of rubber exports for the three-month period from January 2018 to March 2018. Nevertheless, movements of rubber prices in the global markets are also influenced by other factors, such as speculative activities in the futures markets, including SICOM, TOCOM and the Shanghai Futures (SHFE). These factors may cause rubber prices to not always move in the same direction as the fundamentals.

**Demand & Supply Balance****World Natural Rubber production and consumption during 2016 - 2018**

Unit : 000'tons	2016	2017	2018F
<b>NR production</b>	<b>12,451</b>	<b>13,210</b>	<b>13,462</b>
<i>% change</i>	1.5%	6.1%	1.9%
<b>NR consumption</b>	<b>12,587</b>	<b>13,028</b>	<b>13,336</b>
<i>% change</i>	3.7%	3.5%	2.4%
<b>NR Balance</b>	<b>(136)</b>	<b>182</b>	<b>126</b>

Source: The World Rubber Industry Outlook forecasted by International Rubber Study Group (IRSG), December 2017



IRSG projected global NR demand in 2018 to be 13.34 million tons, increasing 2.4% YoY. The growth will mainly be driven by China, the world's largest consumer of natural rubber. As for NR supply, IRSG forecasted that NR production will grow at the rate of 1.9%, reaching 13.46 million tons in 2018. The largest sources of additional supply volumes will be the CAMAL\* countries, Thailand, India and Vietnam. While supply from Thailand, the world's largest NR producing country, will be curtailed by the decrease in new planting and replanting of natural rubber.

From 2018 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. The IRSG therefore anticipates that NR supply surplus in 2018 will hover around 126,000 tons, dropping from 182,000 tons in 2017.

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

## **Our business strategy and progress of expansion plan**

### **Upstream Business – 8,000-odd hectares of land already secured for rubber plantations**

As of 31 December 2017, Sri Trang Group had obtained approximately 50,000 rai (8,000 hectares) of land suitable for the cultivation of rubber trees in 19 provinces of Thailand. 89% of the lot has already been planted with rubber trees and marginally out of which has been already started to provide yield since 2015. The majority of our rubber plantations are located in the northern and northeastern regions of Thailand. This shall be an advantage for our mid-stream business both for raw material procurement and NR production.

Having our own plantations will help 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 five provinces, namely Phitsanulok, Kalasin, Sakaeo, Sakon Nakhon and Chiangrai following the development of our own rubber plantations in those areas. Moreover, this will increase our sourcing efficiency and make it easier for the Company to gather raw materials in reasonable price which would benefit us in terms of cost control and profitability.

### **Midstream Business – moving toward “STA 20”**

Going forward, we will continue with the expansion of our production capacity by setting up processing facilities with cutting-edge technology in new strategic locations, for example, in the north of Thailand. With our 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 achieve a new record in sales volume. As a result, STA will enable to ultimately attain “STA 20,” that is, to capture a market share of 20% of global NR consumption.

As of 31 December 2017, Sri Trang Group had a total 36 production facilities, of which 32 are located in Thailand, three in Indonesia, and one in Myanmar. During the year 2017, there were new factories in Chiangrai and Sakon Nakhon. Our engineering capacity stood at 2.6\*\* million tons per annum at the end of 2017, decreasing from the previous target of 2.7 million tons per annum due to the fact that capacity expansion of the facilities for concentrated latex was delayed until 2018 and that the newly built facilities were not yet operating fully. Despite that, our engineering capacity remains the highest in the industry.

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.

### **Downstream Business – aiming to rank among the world's top three glove producers**

After the completed demerger of the joint venture and associate companies, our shareholding portion in Siam Sempermed Corporation (which is later renamed Sri Trang Gloves (Thailand) Co., Ltd (“STGT”) since 16 March 2017) increased from 40.2% to 90.2% of the total shares. As a result of this, we consolidated STGT in the group financial statement since 15 March 2017 onwards.

We intend to capitalise on its competitive advantage over competitors, which is access to high-quality concentrated latex, which is the main raw material for producing gloves. STA will also continue to produce nitrile gloves to satisfy customer demands from all over the world. To that end, STA has increased its production capacity, which is expected to reach 18 billion pieces per annum within 2019 from the existing capacity of 14 billion pieces per annum at the end of 2017.