

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		
	2019	2018	2017
Assets			
Current assets			
Cash and cash equivalents	2,381.8	4,259.2	2,241.9
Derivative financial instruments	62.6	59.6	407.9
Trade accounts receivable and other receivables, net	4,978.4	5,969.5	7,212.3
Amounts due from futures brokers	729.7	976.3	810.5
Inventories, net	13,493.6	12,451.8	17,123.0
Other current assets	896.7	509.6	553.7
Total current assets	22,542.8	24,225.9	28,349.4
Non-current assets			
Fixed deposits pledged as collateral	0.7	27.4	12.1
Investments in associates	499.6	394.9	368.0
Investment in joint ventures	396.4	406.4	362.0
Long-term investments	109.9	136.5	153.3
Property, plant and equipment, net	27,801.5	26,381.9	24,189.7
Rubber and palm plantations, net	2,246.7	2,051.5	1,832.4
Intangible assets, net	385.9	425.9	460.0
Goodwill	3,174.7	3,174.7	2,953.8
Investment properties	190.3	201.5	188.9
Withholding tax deducted at source	660.0	701.7	574.8
Deferred income tax assets, net	284.2	236.1	198.0
Other non-current assets	38.0	49.9	65.7
Total non-current assets	35,788.1	34,188.5	31,358.4
Total assets	58,330.9	58,414.4	59,707.8
Liabilities and shareholders' equity			
Current liabilities			
Trade accounts payable and other payables	2,528.6	2,677.0	2,614.8
Short-term loans from financial institutions	16,948.9	15,766.9	21,786.0
Current portion of long-term loans from financial institutions	2,621.8	1,464.2	420.7
Current portion of debentures	-	810.0	600.0

13.1 Statements of Financial Position (Cont'd)

(Unit: Million Baht)	Consolidated		
	As at 31 December of		
	2019	2018	2017
Current portion of finance lease liabilities	20.7	20.7	13.2
Derivative financial instruments	143.2	171.4	231.2
Current income tax liabilities	152.3	186.7	153.5
Other current liabilities	56.8	39.5	37.0
Total current liabilities	22,472.4	21,136.4	25,856.5
Non-current liabilities			
Long-term loans from financial institutions	7,873.9	8,238.0	7,193.7
Debentures	1,455.0	1,455.0	2,265.0
Finance lease liabilities	16.3	29.0	27.5
Deferred income tax liabilities, net	606.7	774.3	745.0
Provision for retirement benefit obligations	385.0	335.4	308.2
Other non-current liabilities	33.2	35.1	35.0
Total non-current liabilities	10,370.1	10,866.8	10,574.4
Total liabilities	32,842.5	32,003.1	36,430.9
Shareholders' equity			
Issued and paid-up share capital	1,536.0	1,536.0	1,536.0
Premium on share capital	10,852.0	10,852.0	10,852.0
Deduction arising from acquisition of additional interest in subsidiaries from non-controlling interests	288.5	(173.1)	(173.1)
Asset revaluation surplus, net of accumulated depreciation	3,964.4	4,102.7	4,049.4
Unrealised gains on available-for-sale investments	7.5	11.2	16.4
Cumulative currency differences on translating financial statement	(1,096.1)	(796.2)	(666.1)
Retained earnings			
Appropriated - legal reserve	153.6	153.6	128.0
Unappropriated	8,413.1	9,019.1	7,165.4
Total parent's shareholders' equity	24,119.0	24,705.2	22,908.0
Non-controlling interests	1,369.4	394.6	-
Former interests before restructuring of the subsidiary	-	1,311.5	368.9
Total shareholders' equity	25,488.4	26,411.3	23,276.9
Total liabilities and shareholders' equity	58,330.9	58,414.4	59,707.8

13.2 Statements of Comprehensive Income

(Unit: Million Baht)	Consolidated		
	2019	2018	2017
Revenues from sales and services	60,286.4	73,135.9	89,387.0
Cost of sales and services	(55,432.0)	(65,974.6)	(85,610.6)
Gross profit	4,854.4	7,161.4	3,776.4
Other income	281.1	234.4	683.7
Selling expenses	(3,011.6)	(3,520.3)	(3,467.1)
Administrative expenses	(1,559.0)	(1,738.4)	(2,392.0)
Gains on exchange rate, net	569.0	(252.1)	522.1
Gains on change in fair value from group investment reclassification	-	-	223.6
Gain from disposals of investments in associates an general investment	-	-	132.7
Gains (losses) on change in fair value of investment properties	(2.4)	13.4	47.9
Other (losses) gains , net	(475.8)	1,189.9	99.5
Operating profit	655.6	3,088.3	(371.3)
Share of profit from investments in associates and joint ventures	132.3	223.7	129.8
Profit (loss) before net finance costs and income tax	788.0	3,312.0	(241.5)
Finance income	34.9	29.4	49.7
Finance costs, net	(855.6)	(905.8)	(1,206.1)
Profit (loss) before income tax	(67.6)	2,406.2	(1,397.9)
Income tax	15.6	(244.7)	(20.6)
Profit (loss) for the years	(52.1)	2,161.5	(1,418.5)
Other comprehensive income:			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Asset revaluation surplus, net of tax	(1.6)	240.5	2,848.9
Remeasurements of post-employment benefit obligations, net of tax	20.3	11.7	(17.9)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods - net of income tax	18.7	252.1	-
<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)	(5.2)	3.7
Currency differences on translation	302.7	(137.2)	(390.9)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods - net of income tax	(306.4)	(142.4)	-
Other comprehensive income (expense) for the years, net of tax	(287.6)	109.8	2,443.8
Total comprehensive income for the years	(339.7)	2,271.3	1,025.2
Profit for the years attributable to:			
Owners of the parent	(148.5)	2,064.4	(1,437.1)
Non-controlling interests	92.1	81.6	18.5
Former interests before restructuring of the subsidiary	4.3	15.5	-
Profit (loss) for the years	(52.1)	2,161.5	(1,418.5)
Total comprehensive income for the years attributable to:			
Owners of the parent	(433.0)	2,181.2	1,015.5
Non-controlling interests	89.0	74.6	9.7
Former interests before restructuring of the subsidiary	4.3	15.5	-
Total comprehensive income for the years	(339.7)	2,271.3	1,025.2
Earnings per share			
Basic earnings per share (Unit: Baht per share)	(0.10)	1.34	(1.05)

13.3 Statements of Cash Flows

(Unit: Million Baht)	Consolidated		
	2019	2018	2017
Cash flows from operating activities			
Profit before income tax	(67.6)	2,406.2	(1,397.9)
Adjustments for:			
Unrealised (gains) losses on foreign currency translations	(128.3)	39.8	(52.3)
Unrealised (gains) losses from revaluation of derivative financial instruments	(31.2)	288.5	(666.6)
Reversal of allowance for impairment of trade accounts receivable and write-off bad debt	(8.3)	(7.6)	6.0
(Reversal of) allowance for inventory cost in excess of net realisable value	(133.4)	(173.7)	343.7
Provision for damaged inventories from fire accident	-	-	(41.6)
Provision for retirement benefit obligations	111.7	47.5	28.0
Depreciation charges	2,405.6	2,369.6	1,783.7
Amortisation charges - rubber and palm plantations	6.4	4.0	4.2
Amortisation charges - intangible assets	74.2	72.2	64.5
Impairment loss from assets revaluation (reversal)	-	13.2	24.0
Impairment loss on long-term investment	22.0	10.0	-
Write-off withholding tax deducted at source	42.6	0.5	-
Finance costs	890.6	935.2	1,206.1
Finance income	(34.9)	(29.4)	(49.7)
Dividend income	(1.9)	(1.8)	(1.8)
Share of profit from investments in associates and joint ventures	(132.3)	(223.7)	(129.8)
(Gains) losses on disposal and write-off of property, plant and equipment and intangible assets	25.7	12.9	0.8
Gains (losses) from revaluation of investment properties	-	-	(132.7)
(Gains) on change in fair value from group investment reclassification	-	-	(223.6)
Gains from disposal of investments in associates and general investment	-	-	-
(Gains) losses on change in fair value of investment properties	2.4	(13.4)	(47.9)
Gains from account receivables by settlement land and buildings	-	-	(16.7)
Insurance claim income from fire accident	-	-	(306.8)
Profit (loss) from operating activities before change in operating assets and liabilities	3,043.3	5,750.0	393.6
Changes in operating assets and liabilities			
(Increase) decrease in operating assets			
- Trade accounts receivable and other receivables	1,019.6	1,500.0	2,344.9
- Amounts due from futures brokers	246.6	(165.7)	(176.6)
- Inventories	(908.4)	4,997.6	4,858.3
- Other current assets	(388.0)	59.2	(201.0)
- Other non-current assets	11.2	16.1	(8.2)
Increase (decrease) in operating liabilities			
- Trade accounts payable and other payables	(262.2)	84.4	(1,595.5)
- Other current liabilities	17.3	(101.1)	(22.5)
- Provision for retirement benefit obligations	(37.2)	(4.6)	(5.8)
Cash provided by (used in) operating activities	2,742.2	12,135.9	5,587.2
Interest paid	(947.9)	(952.7)	(1,196.7)
Interest received	36.0	36.7	49.7
Income tax refunded	126.0	73.9	5.7
Income tax paid	(380.3)	(574.7)	(401.5)
Net cash provided by (used in) operating activities	1,576.0	10,722.1	4,044.4

13.3 Statements of Cash Flows (Cont'd)

(Unit: Million Baht)	Consolidated		
	2019	2018	2017
Cash flows from investing activities			
Decrease in fixed deposits pledged as collateral	26.7	9.7	0.2
Dividends received	39.5	154.2	2,299.9
Cash paid for investments in subsidiaries	-	-	(5,129.5)
Cash received from disposal of investments in associates and a general investment	-	-	689.4
Cash paid for long-term investment	-	-	(100.0)
Cash received from disposal of property, plant and equipment, rubber and palm plantations and intangible assets	15.5	50.2	165.9
Cash received from capital decrease of an associate	-	-	-
Cash paid for investment in joint venture	-	-	-
Cash paid for disposal of property, plant and equipment, rubber and palm plantations and intangible assets	(4,003.7)	(2,964.4)	(3,166.8)
Cash paid for purchases of an investment property	-	240.2	-
Net cash used in investing activities	(3,921.9)	(2,510.2)	(5,241.0)
Cash flows from financing activities			
Increase (decrease) in short-term loans from financial institutions	1,293.1	(5,767.6)	(2,165.6)
Proceeds from long-term borrowings	3,068.0	2,279.4	4,172.4
Repayments of long-term borrowings	(2,162.5)	(1,488.0)	(1,886.4)
Proceeds from debentures	31.2	-	-
Repayments of debentures	(810.0)	(600.0)	-
Payments on finance lease liabilities	(21.5)	(11.1)	(6.3)
Dividend paid	(614.4)	(391.7)	(506.1)
Dividend paid from subsidiaries to non-controlling interests	-	(48.9)	(293.1)
Proceeds from capital increase from non-controlling interests	-	-	2,557.0
Dividend paid by the subsidiaries	(3.2)	-	-
Net cash provided by (used in) financing activities	784.0	(6,027.8)	1,871.8
Decrease in translation adjustments	(315.4)	(166.8)	(108.0)
Net increase (decrease) in cash and cash equivalents	(1,877.3)	2,017.3	567.3
Cash and cash equivalents at the beginning of the years	4,259.2	2,241.9	1,674.6
Cash and cash equivalents at the end of the years	2,381.8	4,259.2	2,241.9

13.4 Financial Ratios

Financial Ratio		2019	2018	2017
Liquidity Ratios				
Current ratio	Times	1.00	1.15	1.10
Quick ratio	Times	0.33	0.49	0.38
Cash flow liquidity ratio	Times	0.07	0.46	0.14
Account receivable turnover ¹	Times	12.20	12.68	12.73
Average collection period	Days	29.51	28.38	28.27
Inventory turnover ²	Times	4.27	4.46	4.50
Inventory period	Days	84.25	80.69	80.01
Account payable turnover ³	Times	46.44	48.17	56.91
Average payment period	Days	7.75	7.47	6.33
Cash Cycle	Days	106.01	101.60	101.95
Profitability Ratios				
Gross profit margin	(%)	8.05	9.79	4.22
Operating profit margin	(%)	1.09	4.22	(0.42)
Operating cashflow to operating profit ratio	(%)	0.19	0.02	(0.02)
Net profit margin	(%)	(0.25)	2.82	(1.61)
Return on equity (ROE) ⁴	(%)	(0.57)	8.31	(6.65)
Efficiency Ratios				
Return on assets (ROA) ⁵	(%)	(0.25)	3.50	(2.48)
Return on fixed assets ⁶	(%)	8.33	17.54	1.73
Fixed assets turnover ratio ⁷	Times	2.23	2.89	4.47
Total assets turnover ratio ⁸	Times	1.03	1.24	1.55
Financial Leverage Ratios				
Net debt to equity ratio	Times	1.20	1.05	1.47
Debt to equity ratio	Times	1.29	1.21	1.57
Interest bearing debt to equity ratio	Times	1.14	1.05	1.39
Dividend payout ratio	(%)	N/A	46.52	N/A

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 2017 - 2019, STA has always maintained our capital structure and complied with such covenant requirement.

Covenant Ratio	2019	2018	2017
Net Debt to Equity Ratio (times)	1.20	1.05	1.47

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

Throughout 2019, the natural rubber (NR) industry had to contend with numerous challenges that contributed to high volatility in NR prices, from the imbalance between NR supply and demand to the speculation in the futures markets. The average price of TSR20 on SICOM during the first half of 2019 was 145.5 cent/kg, up 16.5% because of supply concerns following the decision by members of the International Tripartite Rubber Council (ITRC) to implement the Agreed Export Tonnage Scheme (AETS). The fungal disease that afflicted rubber trees on the Sumatra Island in Indonesia, which is the second-largest NR-producing country after Thailand, also cut down supply. In the second half of 2019, the outflow of funds from the futures markets caused NR prices to go down alongside prices of other commodities. The price of TSR20 on SICOM reached the bottom in late September at 124.4 cent/kg after Bloomberg reported that Chongqing General Trading Chemical, a major NR-trading company in China, terminated all outstanding contracts with counterparties. The average price of TSR20 on SICOM in the second half of 2019 was 135.8 cent/kg, while the whole year's average was 140.6 cent/kg, up 3.0% from 2018. But NR prices experienced more volatility during 2019 than in 2018.

High volatility was the factor that directly affected the profitability of our NR business in the midstream. Weakened demand from the major NR-consuming countries also caused our sales volume to drop 17.1% to 1,103,934 tons, a figure that represents 8% of global NR consumption. For our glove business in the downstream, we continued to expand our production capacity throughout 2019 to keep up with the growing demand, both through the installation new production lines (Organic Growth) and through amalgamation (Inorganic Growth). Sales volume in 2019 rose to 19,913 million pieces, representing 7% of global glove consumption and increasing 17.5% from 2018.

Total revenue in 2019 was Baht 60,286.4 million, down 17.6% from 2018 because of lower sales volume for NR products and the appreciation of Thai Baht against US Dollar. High volatility in NR prices in the first half of 2019 led us to record a net loss in 1Q19 as we incurred losses from hedging transactions that stemmed from the sudden change in direction of NR prices following the inflow of funds into the futures market. But we were able to record a profit in all the other quarters amid the slowdown in the NR industry. Throughout 2019, we recorded a net loss of Baht 148.5 million. However, at the end of 2019 we had gains from the net realizable value of inventory in the amount of Baht 961.2 million that cannot be recorded under the accounting standards. Had we been able to record such gains, we would have had a net profit of Baht 812.7 million in 2019.

Extraordinary Event

The completion of the amalgamation of Sri Trang Gloves (Thailand) Ltd. and Thai Kong Public Limited Company, a glove producer in Trang with 4 billion pieces per annum in production capacity, on 1 April 2019, resulted in a new company named Sri Trang Gloves (Thailand) Public Limited Company, in which we hold 81.1% of the total shares, down from the 90.2% previously held in Sri Trang Gloves (Thailand) Ltd.

Income Statement Overview

(Unit : THB million)	FY19	FY18 (Restated)	%YoY	4Q19	4Q18 (Restated)	%YoY
Revenue from sales of goods and services	60,286.4	73,135.9	-17.6%	14,880.9	16,937.1	-12.1%
Cost of sales and services	(55,432.0)	(65,974.6)	-16.0%	(13,502.1)	(15,540.0)	-13.1%
Gross profit (loss)	4,854.4	7,161.4	-32.2%	1,378.7	1,490.4	-7.5%
SG&A	(4,570.6)	(5,258.7)	-13.1%	(1,204.6)	(1,354.5)	-11.1%
Other income	281.1	234.4	19.9%	97.0	57.8	67.8%
Gains (loss) on exchange rate, net	569.0	(252.1)	N/A	186.5	40.4	361.6%
Other gains, net	(478.1)	1,203.3	N/A	(270.7)	156.0	N/A
Operating profit (loss)	655.6	3,088.3	-78.8%	185.4	296.9	-37.6%
Share of profit (loss) from investments in JV	132.3	223.7	-40.8%	36.7	26.5	38.5%
EBITDA	3,274.3	5,757.8	-43.1%	857.7	1,052.7	-18.5%
EBIT	788.0	3,312.0	-76.2%	222.1	239.8	-7.4%
Finance costs, net	(855.6)	(905.8)	-5.5%	(188.5)	(223.2)	-15.6%
Income tax (expense)	15.6	(244.7)	N/A	75.9	51.8	46.4%
Net Profit (loss) for the periods	(52.1)	2,161.5	N/A	109.5	152.0	-27.9%
Attributed to Owners of the Company	(148.5)	2,064.4	N/A	74.0	139.1	-46.8%
Non-controlling interests of the subsidiary	92.1	81.6	12.9%	35.5	12.0	195.6%
Former interests before restructuring of the subsidiary	4.3	15.5	-72.1%	-	0.9	N/A

Revenue

Total revenue from products and services in 2019 was Baht 60,286.4 million, down 17.6% from 2018. Revenue from NR products went down 21.5% to Baht 48,043.6 million because of sales volume that dropped 17.1% due to weakened demand, while the average selling price declined 5.3% alongside NR prices on the global market. Revenue from gloves was Baht 12,194.8 million, up 3.5% from 2018. Thanks to our successful marketing strategy to broaden customer base, sales volume grew 17.5%, higher than the global growth in demand. But the average selling price dropped 12.0% alongside prices of latex and synthetic rubber, the primary raw materials. The lower average selling price was also caused by the appreciation of Thai Baht against US Dollar, especially when compared with Malaysian Ringgit, the currency of our major competitors. Revenue from other products and services came in at Baht 48.0 million.

Sales Volume

Sales volume for NR products in 2019 was 1,103,934 tons, down 17.1% from 2018. The weakened global NR demand and supply constraints as raw material prices went up higher than prices on the global markets would negatively affect our profitability had we tried to maintain the same level of sales volume as in 2018. Our market share in 2019 was 8% of global NR consumption, down from 10% in 2018 mainly due to lower sales volume to China following the imposition of tariffs on goods imported from China into the USA but domestic sales volume increased. Geographically, China still remained our largest market at 40.4% of total sales volume, followed by the other markets in Asia at 29.5%. Sales volume for the domestic market rose to 21.1%, driven by the relocation of production to Thailand by Chinese tire manufacturers and also by some domestic manufacturers benefiting from the trade war between China and the USA. America and Europe accounted for 4.8% and 4.1% of total sales volume, respectively.

Sales volume for gloves in 2019 was 19,913 million pieces, up 17.5% from 2018. Our market share was at 7% of global glove consumption in 2019, driven by a significant growth in demand for both latex and nitrile gloves. Because we have a vertically integrated business model and production facilities in Thailand, we are able to capitalize on our competitive advantage in raw material sourcing for latex glove production. Our strategy has therefore been to put a strong focus on the sale of latex gloves in previously untapped markets like India, South Africa, Latin America and other emerging markets. This explains why latex gloves accounted for 67% of our production volume while nitrile gloves accounted for 33%. Geographically, Asia was our largest market with 41.5% of total sales volume, followed by America at 28.0%, Europe at 23.8% and other markets at 6.7% of total sales volume, respectively.

Gross Profit

Gross profit in 2019 was Baht 4,854.4 million, dropping 32.2% from Baht 7,161.4 million in 2018. The drop in gross profit in our NR business resulted from the increase in prices of cup lump and field latex, which went up higher than NR prices on the global markets. In response, we had to delay the purchase of raw materials for products that were affected by heightened price competition. In addition, the decline of NR prices in the futures markets at the end of 2019 means that some of our inventory was marked down to net realizable value (NRV),

and the shortfall had to be included as part of the cost of goods sold in accordance with the accounting standards. We also had losses from hedging transactions because of the sudden increase in NR prices during the period when we had to stock up on raw materials. In the glove business, even though sales volume continued to grow, gross profit was negatively affected by the continued appreciation of Thai Baht. Gross profit margin in 2019 was 8.1%, down from 9.8% in 2018. Taking account of the reversal of inventory allowance in the amount of Baht 133.3 million and realized losses from hedging transactions in the amount of Baht 86.3 million, our adjusted gross profit margin in 2019 would have been 7.7%, up from 11.4% in 2018.

Operating Profit

Operating profit in 2019 was Baht 655.6 million and operating profit margin was 1.1%, down 78.2% from 2018. The drop in operating profit margin resulted from lower gross profit and the appreciation of Thai Baht against US Dollar. But we had Baht 569.0 million in currency exchange gains in 2019, which partially helped to offset the effect of the stronger Thai Baht. The volatility in NR prices also caused us to record losses on hedging transactions and other losses in the amount of Baht 478.1 million, which was partially offset by the Baht 961.2 million in gains from the net realizable value of inventory (NRV)*.

Administrative and selling expenses dropped by Baht 688.1 million or 13.1% from 2018. The decrease can be attributed to selling expenses that went down in tandem with lower sales volume for NR products and personnel expenses that dropped following corporate restructuring and the introduction of automation to improve efficiency. Other incomes (including dividends received) in 2019 was Baht 281.1 million, an amount that includes the Baht 46.4 million received by Sri Trang Gloves (Thailand) Plc. (STGT) from the Rubber Authority of Thailand (RAOT) as part of the interest rate subsidy scheme to help rubber producers expand production capacity as well as proceeds from insurance and rent.

*Note: *Inventory balance of the Company at net realizable value (NRV), for only RSS, LTX and TSR, is at lower of cost or net realizable value. Under the Thai Financial Reporting Standards, such surplus from inventories is not allowed to be recognized in the profit and loss until the inventories are actually sold. The amount of such difference changes over time depending on the actual price at the time of sale.*

Share of Profit from Investments in Associates and Joint Ventures

Share of profits from investments in associates and joint ventures in 2019 was Baht 132.3 million, down 40.8% from 2018 because of lower profits from the NR and high-pressure hydraulic hose joint ventures due to weakened demand and the appreciation of Thai Baht, respectively.

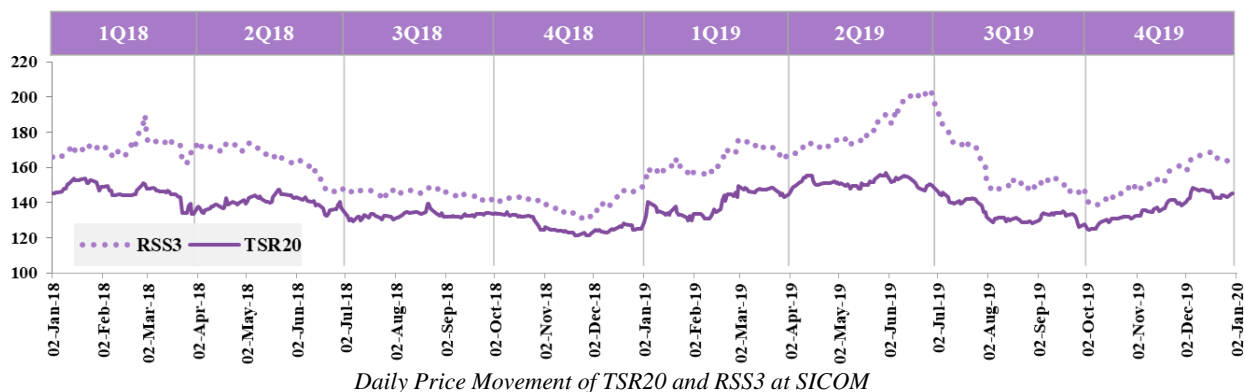
Net Loss Attributed to Owners of The Company

Net loss in 2019 was Baht 148.5 million, because volatility in NR prices negatively affected our raw material costs and hedging transactions, resulting in lower operating profit and lower share of profits from investments in associates and joint ventures. Additionally, the appreciation of Thai Baht, which moved in an opposite direction of the currency of our competitors, also had an effect on our glove business. Finance costs went down 4.8% to Baht 890.6 million because of lower interest rate. However, at the end of 2019, we had Baht 961.2 million in gains from the net realizable value of inventory that cannot be recorded in accordance with the accounting standards. Had we been able to record such gains, we would have had a net profit of Baht 812.7 million in 2019.

Going forward, we will continue to use the selective selling strategy and spot contracts over long-term contracts in our NR business. We will use risk management tools that are appropriate to market conditions in any given moment. In the glove business, we will continue to capitalize on our fully integrated business model and competitive advantage in raw material sourcing for latex glove production to keep expanding our market share for latex gloves while also maintaining our market share for nitrile gloves.

Key Factors Affecting the Company's Operations

1. Volatility of Natural Rubber Price



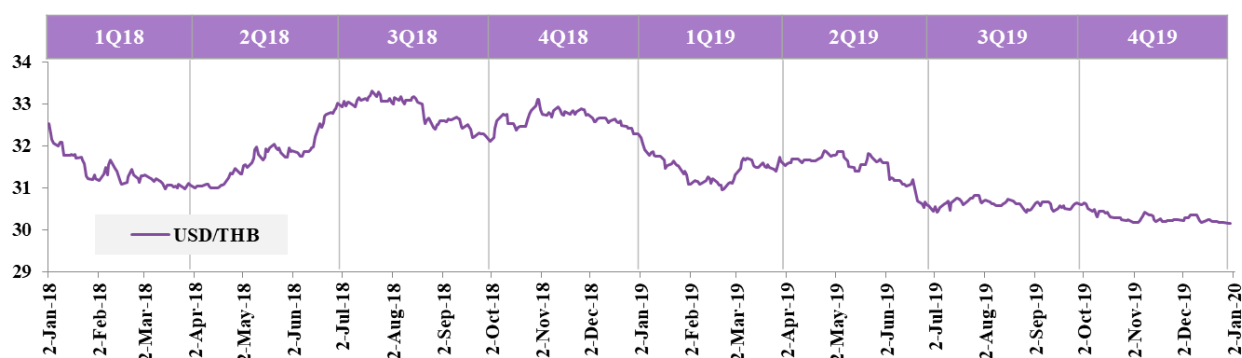
The imbalance between natural rubber supply and demand and the inflows of funds in the futures market caused natural rubber prices to experience volatility throughout 2019. In the first half of 2019, prices of RSS3 on SICOM went up 35.2% while prices of TSR20 on SICOM moved up 16.5% because of supply concerns following the decision by members of the International Tripartite Rubber Council (ITRC), namely, Thailand, Indonesia and Malaysia, to implement the Agreed Export Tonnage Scheme (AETS) during the period from 1 April 2019 to 31 July 2019 in Indonesia and Malaysia, and during the period from 20 May 2019 to 19 August 2019 in Thailand. The fungal disease that afflicted rubber trees on the Sumatra Island in Indonesia, which is the second-largest natural rubber-producing country after Thailand, also cut down supply and led to speculation in the futures markets. The average price of TSR20 on SICOM during the first half of 2019 was 145.5 cent/kg.

In the second half of 2019, the outflow of funds from the futures markets caused NR prices to go down alongside prices of other commodities. The price of TSR20 on SICOM reached the bottom in late September at 124.4 cent/kg after Bloomberg reported that Chongqing General Trading Chemical, a major NR-trading company in China, terminated all outstanding contracts with counterparties. The average price of TSR20 on SICOM in the second half of 2019 was 135.8 cent/kg, while the whole year's average was 140.6 cent/kg, up 3.0% from 2018. But NR prices experienced more volatility during 2019 than in 2018. High volatility in the natural rubber market in 2019 became the main factor affecting our profitability in both natural rubber and glove businesses as latex gloves accounted for 67% of our sales volume in 2019.

Price Movement of TSR20 and RSS3 at Singapore Commodity Exchange Limited (SICOM) during 2018-2019

(Unit : US Cent/ Kg.)	RSS3			TSR20		
	2019	2018	%Change	2019	2018	%Change
Q1 Average	164.0	171.2	-4.2%	139.4	146.5	-4.9%
Q2 Average	182.3	164.6	10.7%	151.3	140.0	8.1%
Q3 Average	158.8	145.4	9.2%	134.7	132.9	1.4%
Q4 Average	154.1	139.7	10.3%	137.0	126.7	8.1%
Yearly Average	164.7	155.1	6.2%	140.6	136.5	3.0%
Closing price as at 31 December	166.3	148.5	12.0%	145.1	124.8	16.3%

2. Foreign Exchange Rate



Historical Exchange Rate of Thai Baht against US dollar

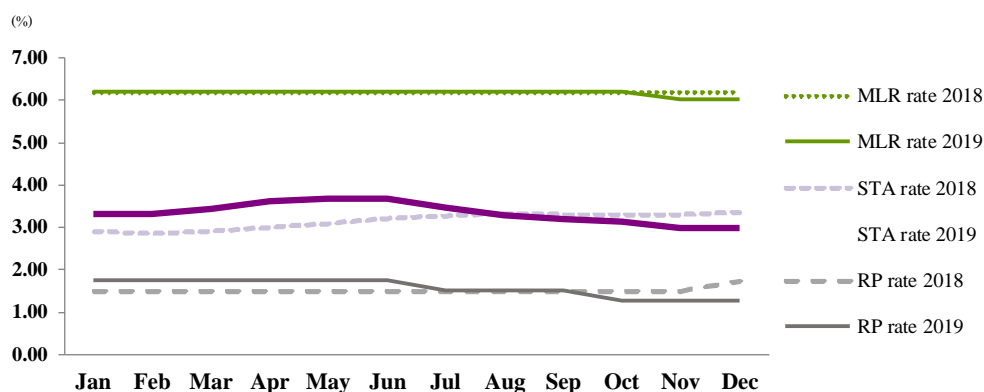
The fluctuations of Thai Baht and US Dollar directly affect our revenue since approximately 76.7% of our total revenue are denominated in US Dollars, while our financial reporting currency is Thai Baht. We therefore utilize financial derivatives to manage our currency risk and their mark-to-market values will be recognized as unrealized foreign exchange gain or loss.

In 2019, Thai Baht moved up 3.8% against US Dollar, from an average of 32.15 Baht/US dollar in 2018 to 30.94 Baht/US dollar in 2019. During 2019, Thai Baht was going to be stronger from quarter to quarter as a result of capital flows following the delay in interest rate increase by the Federal Reserve and a record of Thailand's current account surplus. As a result of hedging transaction operation, as the world's leading natural rubber and glove exporter, we recorded Baht 569.0 million in foreign exchange gain in 2019, improved from a loss of Baht 252.1 million in 2018.

3. Finance Costs

The key factors affecting our finance costs are NR prices, sales volume and long-term loans for capacity expansion. In 2019, our interest expenses went down from 2018 on account of a decrease in short-term borrowings to support raw material purchasing in line with the sales volume. As a result, our overall finance costs decreased 4.8% from Baht 935.2 million in 2018 to Baht 890.6 million in 2019.

The graph below illustrates that our average interest rate during 2018-2019 was lower than the average Minimum Loan Rate (MLR) of three large commercial banks, Bangkok Bank, Kasikorn Bank, and Siam Commercial Bank.



STA Effective Interest Rate vs. Average MLR Rate

4. Government Policy

Policies issued by the governments of Thailand and other major natural rubber-exporting countries may benefit or negatively affect our operations. For instance, in a joint effort to combat low natural rubber prices, the governments of Thailand, Indonesia and Malaysia, the three major natural rubber-producing countries, agreed to implement the Agreed Export Tonnage Scheme (AETS) in 2012, in 2016, then in 2018. The latest implementation, in 2019, the three governments again imposed a quota of 240,000 tons of rubber exports dropped from the reduction quota of 350,000 tons in 2018. For the latest implementation, Indonesia and Malaysia started implement this scheme the period from 1 April 2019 to 31 July 2019 and Thailand implemented the period from 20 May 2019 to 19 August 2019. These policies may cause domestic natural rubber prices to be inconsistent with natural rubber prices on the global markets or cause our sales volume to be inconsistent with global natural rubber demand.

Nevertheless, Thai government has executed various programs to deal with the low natural rubber price and to help rubber farmers with no impact on market mechanism such as the price guarantee offered to rubber farmers, which lasts from October 2019 to March 2020, and whereby the government will compensate rubber farmers the differential between the guaranteed prices and prices on the market. The guaranteed prices are 60 Bath/kg. for good quality unsmoked sheets, 57 Baht/kg. for fresh latex and 23 Baht/kg. for cup lump. Other measures aimed at promoting NR consumption include the interest rate subsidy of no more than 3% offered to businesses that consume natural rubber and the encouragement for rubber plantations to be certified by the Forest Stewardship Council (FSC) in order to increase the value natural rubber products from Thailand and broaden export base.

Our gloves operations are also affected by policies such as the ban issued by the US Food and Drug Administration on the use of powdered medical gloves, which could lead to shifting in demand for latex gloves to powder-free latex gloves or nitrile gloves.

Business Segmentation Analysis

Revenue breakdown by product segment (Baht million)

	FY 2019	FY 2018	% YoY
Technically Specified Rubber (TSR)	39,019.7	50,008.1	-22.0%
%	64.7%	68.0%	
Gloves	12,194.8	11,788.0	3.5%
%	20.2%	16.0%	
Ribbed Smoked Sheet (RSS)	6,117.3	6,816.0	-10.3%
%	10.1%	9.3%	
Concentrated Latex (LTX)	2,906.6	4,366.7	-33.4%
%	4.8%	6.0%	
Others*	48.0	157.2	-69.5%
%	0.1%	0.2%	
Total	60,286.4	73,135.9	-17.6%

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 TSR, which accounted for 64.7% of total revenue, dropped 22.0% from 2018 as a result of sales volume that declined 16.9% due to weakened demand, especially in China. Heightened price competition in China and in raw material sourcing negatively affected sales volume and profitability. As a result, gross profit for TSR in 2019 went down 36.1% from 2018 and gross profit margin was also down.

Gloves

Revenue from gloves, which accounted for 20.2% of total revenue, rose 3.5% from 2018 on the back of sales volume that grew 17.5% following the capacity expansion. We saw a significant increase in demand from the emerging markets and were able to also increase our market share in the developed markets such as European countries, the USA and Japan. However, the drop in prices of latex and synthetic rubber, the primary raw material in latex and nitrile glove production, respectively, which moved down alongside oil prices on the global market*, and the appreciation of Thai Baht against US Dollar, brought the average selling price down by 12.0%. As a result, gross profit dropped 23.3% from 2018. Gross profit margin was also down but still comparable to that of other leading glove producers.

*Synthetic rubber is derived from crude oil.

Ribbed Smoked Sheet (RSS)

Revenue from RSS, which accounted for 10.1% of total revenue, dropped 10.3% from 2018 as a result of a sales volume that declined 9.0% because of lower export volume, while the average selling went down 1.4%. Because prices of RSS experienced less volatility than those of the other NR products in 2019, gross profit for RSS improved 1.6% from 2018 and gross profit margin also went up as a result.

Concentrated Latex (LTX)

Revenue from LTX, which accounted for 4.8% of total revenue, went down 33.4% from 2018 as a result of a 9.2% decline in average selling price and a 26.7% drop in sales volume, which resulted from lower sales volume from customers outside of Sri Trang Group. Even though LTX consumption within the Group increased 26.5%, sales within the Group are deemed connected transactions and cannot be stated on the consolidated financial statements. Gross profit for LTX dropped 82.2% because of the mismatch between supply and demand of field latex during the first half of 2019, which coincided with the wintering season and a period of speculation that led to heightened price competition in raw material sourcing. Gross profit margin also went down considerably as a result.

Consolidated Balance Sheet***Current Assets***

Current assets as of 31 December 2019 amounted to Baht 22,542.8 million, representing 38.6% of total assets and down by Baht 1,683.1 million or 6.9% from the previous year. The decrease in current assets primarily resulted from trade accounts receivable and other receivables that declined by Baht 991.1 million due to lower sales volume of NR products and cash and cash equivalents that decreased by Baht 1,877.3 million in line with the Company's operation.

Non-Current Assets

Non-current assets as of 31 December 2019 amounted to Baht 35,788.1 million, representing 61.4% of total assets and increasing by Baht 1,599.6 million or 4.7% from the previous year. The increase in non-current assets primarily consists of an increase in property, plants and equipment in the amount of Baht 1,419.6 million (net of depreciation and write-off) as a main result of the capacity expansion of Glove facilities. An increase in rubber plantations in the amount of Baht 195.2 million also contributed to the increase in non-current assets.

Current Liabilities

Current liabilities as of 31 December 2019 amounted to Baht 22,472.4 million, representing 68.4% of total liabilities and rose by Baht 1,336.0 million or 6.3% from the previous year. The rise in current liabilities primarily resulted from an increase in short-term borrowings from financial institutions as working capital to support the purchase of raw materials in the amount of Baht 1,182.0 million and the borrowings that will be due within one year increased by Baht 1,157.5 million.

Non-Current Liabilities

Non-current liabilities as of 31 December 2019 amounted to Baht 10,370.1 million, representing 31.6 % of total liabilities and down by Baht 496.7 million or 4.6% from the previous year. The decrease in long-term borrowings from financial institutions (not including those that will be due within one year) amounted to Baht 7,873.9 million, down Baht 364.1 million from the end of 2018. Such borrowings are used to support the capacity expansion of our glove facilities.

Shareholders' Equity

Shareholders' equity as of 31 December 2019 amounted Baht 25,488.4 million, decreasing by Baht 922.9 million or 3.5% from the previous year. The decrease in shareholders' equity primarily resulted from unappropriated retained earnings in the amount of 606.0 million from the net profit that dropped during the year.

Research and Development (R&D) Expenditure

In 2019, we had Baht 49.6 million, up 5.5% from the previous year, in expenses associated with research and development in relation to all our products, from TSR, LTX, RSS to Gloves. Such expenses went toward improving the production efficiency and product quality to satisfy customer demand and also toward the sustainable environmental management. Throughout the year 2019, we have developed 60 projects for R&D and 12 projects of that will be continued to conduct in 2020.

The National Science and Technology Development Agency (NSTDA) also approved in 2019 that two of our R&D projects satisfy the criteria laid out in a Ministry of Finance Announcement regarding taxation. As a result, R&D expenses in the amount of Baht 0.25 million were exempt from corporate taxation and we were able to record three times the amount, equaling Baht 0.75 million, as expenditure.

Source of Funds

In 2019, our capital expenditure was Baht 4,126.2 million, up 48.4% from the previous year, which primarily consisted of Baht 3,461.4 million in expenditure for gloves facilities accounted around 83.9% of total capital expenditure. Followed by, the maintenance expenditure of our TSR, RSS and LTX facilities Baht 441.0 million accounted around 10.7% of total capital expenditure and the investment for rubber plantation business and others expenditure in the amount of Baht 183.3 million, and Baht 39.9 million respectively. Our primary sources of funds were cash and long-term borrowings from financial institutions.

The Ability to Service Debt and Comply with Loan Covenants

Short-term and long-term borrowings from financial institutions, debentures and financial leases as of 31 December 2019 amounted to Baht 28,936.7 million (Please find details about payment term, interest rate and ending balance in each foreign currency in Note to the Consolidated and Separate Financial Statements under item 22). In May 2019, Baht 810 million in mature debentures was redeemed.

Our net debt to equity ratio was at 1.20 times as of 31 December 2019, dropping from 1.05 times in 2018, mainly due to the decrease in cash and cash equivalence in the amount of Baht 1,877.3 million and the increase in interest bearing debt in the amount of 1,152.8 million.

Financial Ratios*Current ratio*

Current ratio is calculated by dividing total current assets by total current liabilities. Our current ratio as of 31 December 2018 and 31 December 2019 was 1.15 times and 1.00 times, respectively. The decrease in current ratio primarily resulted from trade accounts receivable and other receivables that declined by Baht 991.1 million due to lower sales volume and cash and cash equivalents that decreased by Baht 1,877.3 million in line with the Company's operation

Fixed asset turnover ratio

Fixed asset turnover ratio is calculated by dividing the sales of goods and services by the average value of property, plants and equipment (net). As of 31 December 2018 and 31 December 2019, our fixed asset turnover ratio was 2.69 and 2.06 times, respectively. The decrease in fixed asset turnover ratio can be attributed to revenue that went down as a result of lower sales volume of NR products in accordance with the market situation together with the appreciation of Thai Baht comparing to US Dollar while the fix assets went up as a result of the capacity expansion.

Return on assets ("ROA")

ROA is calculated by dividing net profit (of the parent company) for the year by the average value of total assets. As of 31 December 2018 and 31 December 2019, our ROA was 3.50% and 0.25%, respectively. The decrease in ROA mainly resulted from the drop in profitability comparing to the previous year.

Return on equity ("ROE")

ROE is calculated by dividing net profit (of the parent company) for the year by the average total equity. As of 31 December 2018 and 31 December 2019, our ROE was 8.31% and -0.57%, respectively. The increase in ROE resulted from our drop in financial performance.

Debt to equity ratio ("D/E")

D/E is calculated by dividing total debt by total equity. As of 31 December 2018 and 31 December 2019, our D/E was 1.21 and 1.29 times, respectively. The slightly decrease in D/E resulted from an increase in short-term borrowings from financial institutions to support raw material purchasing in the amount of Baht 1,182.0 million and a decrease in total equity following the slowdown of retained earnings, respectively.

Business Outlook**Rubber Industry**

	2018	2019F	2020F
%Global Growth (GDP)	3.6%	3.0%	3.4%
<i>China (the world's largest NR consumer)</i>	6.6%	6.2%	6.0%
<i>Europe (the world's second largest NR consumer)</i>	1.9%	1.3%	1.6%
<i>India (the world's third largest NR consumer)</i>	6.8%	7.0%	7.2%
Vehicle production (mil. Unit)	98	94	95
<i>% change</i>	-0.8%	-3.4%	0.8%
Tire production (mil. Unit)	1,907	1,909	1,956
<i>% change</i>	1.8%	0.1%	2.4%
NR consumption ('000 tons)	13,764	13,754	14,011
<i>% change</i>	4.1%	-0.1%	1.9%

Source: International Rubber Study Group (IRSG), *The World Rubber Industry Outlook, Review and Prospects to 2028, December 2019 and Rubber Industry Report (July – September 2019)*

Since the growth of the global economy reflects purchasing power of consumers. As for the natural rubber consumption, the key factors affecting natural rubber demand are the vehicle production and tire production over the world because tire manufacturers account around 70% of global natural rubber demand. According to IRSG report, in 2019, demand from tire manufacturers increased 0.6% on the back of growth in the Chinese, Indian, and European markets. At the same time, NR demand from other sectors decreased by 1.7%, due to the delay in consumption from Indian and European markets. However, in 2019, demand for synthetic rubber, which needs to be used together with natural rubber for tire production and can be used in place of natural rubber in the production of some rubber products, dropped by 2.8%, a much higher rate than a drop in natural rubber consumption.

Natural Rubber Demand and Supply***World Natural Rubber production and consumption during 2018 - 2020***

Unit : 000'tons	2018	2019F	2020F
NR production	13,887	13,731	14,050
<i>% change</i>	2.5%	-1.1%	2.3 %
NR consumption	13,764	13,754	14,011
<i>% change</i>	4.1%	-0.1%	1.9%
NR Balance	123	(23)	39

Source: International Rubber Study Group (IRSG), *The World Rubber Industry Outlook, Review and Prospects to 2028, December 2019*

According to the World Rubber Industry Outlook, Review and Prospects to 2028, published by the International Rubber Study Group (IRSG) in December 2019, global NR demand in 2019 was 13,754,000 tons, slightly down 0.1% from 2018. Demand from tire manufacturers increased in most countries except in China, where demand remained flat from 2018, up by only 0.6%. Meanwhile, demand from non-tire consumers declined 1.7% because of the slowing economy. Global demand for synthetic rubber was also down by 2.8% from 2018, outpacing a drop in NR demand.

Global NR supply went down 1.1% to 13,731,000 tons in 2019, mainly because of the fungal disease that affected rubber trees in Indonesia and some provinces of Thailand, cutting down supply by 9.7% and 3.9%, respectively, or 540,000 tons collectively. Meanwhile, NR supply from other countries such as India, Vietnam, the CAMAL* countries, as well as African countries, continued to grow from 2018.

The IRSG expects an oversupply of NR in 2020, a result of the planting during a period of high NR prices from 2010 to 2012 (the average price TSR20 on SICOM at during the period was 368 cent/kg), which saw the area of rubber plantations in the Asia-Pacific region expand by 18.9%. The rubber trees planted during this period has been providing yield since 2017, perpetuating the oversupply. But the oversupply was alleviated in 2019 because the fungal disease cut down supply from Thailand and Indonesia, the world's largest and second-largest NR-producing countries, by 540,000 tons. The IRSG anticipates NR supply surplus to be around 39,000 tons in 2020, compared with a deficit of 23,000 tons in 2019.

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

Rubber Glove Industry

Gloves are products that help to effectively protect against germs, chemicals and other contaminants. As such, they are widely used in industries as diverse as the healthcare industry, the food industry, the electronics industry and the cosmetics industry. Gloves that are consumed nowadays can be broadly categorized into three types, namely, powdered and powder-free latex gloves, nitrile gloves and vinyl gloves.

Rubber Glove Demand and Supply

Demand for gloves from all industries, especially the healthcare industry, is growing steadily. The Malaysian Rubber Glove Manufacturers Association (MARGMA) estimated that demand for gloves in 2019 was approximately 300 billion pieces, grew in average 10% - 12% during 2016 - 2019. The growth in demand was mainly driven by the healthcare industry and the increased consumption of personal hygiene products among emerging countries in the Asia-Pacific region, in Africa and in Latin America.

While gloves are consumed in countries around the world, glove production is concentrated in Southeast Asia and China. MARGMA estimated that in 2019, 63% of the world's gloves were produced in Malaysia and 18% in Thailand, while China and Vietnam accounted for 10% and 3% of global production, respectively.

Our business strategy and progress of expansion plan

Upstream Business – 7,200 odd hectares of land already secured for rubber plantations

As of 31 December 2019, we had approximately 7,200 hectares of rubber plantations in 19 provinces of Thailand, with the majority located in the north and northeast. We have planted rubber trees in 89% of the total area and some lots have been providing yields since 2015, facilitating the raw material sourcing for our midstream operations. We estimate that in 2020, the rubber trees that can be tapped would account for 25% of total rubber trees, up from 11% in 2019, a development that would benefit our core business in the midstream.

In July 2019, STA group received Forest Management Certification and Chain-of-Custody Certification from the Forest Stewardship Council (FSC). ***We are the first fully integrated NR producer to be recognized by the FSC throughout the supply chain.***

Midstream Business – keeping profitability and moving toward “STA 20”

As of 31 December 2019, we had 36 production facilities, of which 32 are located in Thailand, three in Indonesia, and one is in Myanmar. Together they provide a total of 2.86 million tons per annum in production capacity*. For this year, we plan to utilize more automation in our facilities to improve efficiency, reduce energy consumption and become more environmentally friendly. In the long run, we are focused on maintaining relationships with our existing customers as well as cultivating new ones like tire manufacturers from overseas who have set up production base in Thailand and consumers of concentrated latex worldwide. We intend to eventually achieve “**STA 20**,” that is, to capture **a market share of 20% of “global NR consumption.”** (In 2019, our market share was 8% of global NR consumption.)

*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 – targeting to achieve 50 billion pieces of gloves per annum by 2025

We intend to capitalize on our competitive advantage over competitors in latex glove production, which is our ready access to quality concentrated latex at favorable prices. We will also continue to produce nitrile gloves to satisfy customer demand from all over the world for both medical and lifestyle uses. In 2019, our market share was 7% of global glove consumption.

As of 31 December 2019, our production capacity has been increased to 27 billion pieces of gloves per annum. **We will reach 33 billion pieces per annum in installed production capacity in 2020.** We will continue to expand our production capacity to keep up with demand for gloves, which is growing 10-12% per annum*, and **aim to achieve 50 billion pieces per annum in production capacity by 2025.**

On July 8, 2019 the Board of Directors of STA resolved to **approve the issuance and initial public offering (IPO) of shares of STGT.** The number of newly-issued shares to be offered will not exceed 31.00% of the paid-up capital of STGT after the IPO, which is expected to take place in 3Q20. STA is expected to receive the following benefits from the IPO: 1. Lessening STA's burden in providing financial support to STGT; 2. Lowering STA's overall financial costs in the long run; 3. The business structure of STA will be clearly delineated; and 4. The value of STGT's shares will be reflected in STA's share prices.

Note: *MARGMA Industry Brief 2019 on the Rubber Glove Industry