



Date 21 February 2018

Subject Management Discussion and Analysis of the financial statements for fiscal year 2017

To Managing Director of The Stock Exchange of Thailand

Thai Nippon Rubber Industry Public Company Limited (“The Company”) would like to report the operating performance for the fiscal year ended 31 December 2017 and 2016 as follows: -

ANALYSIS AND EXPLANATION OF MANAGEMENT

Explanation and analysis of financial position and operating performance

Statements of Comprehensive Income

Statements of Comprehensive Income	For the fiscal year ended 31 December		Comparison	
	2017	2016	2017 & 2016	
	Million Baht	Million Baht	Million Baht	Percent
<u>Revenue from sales of products</u>				
- Sales volume / revenue from sales of condoms	1,248.2	1,166.7	81.6	7.0
- Revenue from sales of lubricants	45.3	35.6	9.7	27.3
- Other revenue	0.4	0.7	(0.4)	(47.9)
Total Revenue from sales of products	1,293.9	1,203.0	90.9	7.6
Cost of goods sold	(999.2)	(855.9)	(143.3)	16.7
	(77.2)	(71.1)		
Gross profit	294.7	347.1	(52.4)	(15.1)
	22.8	28.9		
Other revenue	6.9	6.5	0.4	6.9
Profit before expenses	301.6	353.6	(51.9)	(14.7)
Selling expense	(110.0)	(64.2)	(45.8)	71.4
Administrative expense	(83.0)	(88.9)	5.9	(6.6)
	(14.9)	(12.7)		
Other profit (loss)	10.9	17.5	(6.6)	(37.9)
Finance costs	3.3	(21.1)	24.4	(115.9)
Total expenses	(178.8)	(156.6)	(22.1)	14.1
	(13.8)	(13.0)		
Profit before income tax	122.9	196.9	(74.1)	(37.6)
Income tax	(1.7)	(2.8)	1.1	(40.7)
Net profit for the year	121.2	194.1	(72.9)	(37.6)
	9.4	16.1		

**Revenue from sales of products**

Total Revenue	For the fiscal year ended 31 December				Comparison	
	2017		2016		2017 & 2016	
	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent
Sales volume / revenue from sales of condoms	1,248.2	96.5	1,166.7	97.0	81.6	7.0
Revenue from sales of lubricants	45.3	3.5	35.6	3.0	9.7	27.3
Other revenue	0.4	0.0	0.7	0.1	(0.4)	(47.9)
Total revenue	1,293.9	100.0	1,203.0	100.0	90.9	7.6

Revenue from sales of condoms and lubricants

Revenue from sales of condoms and lubricants	For the fiscal year ended 31 December				Comparison	
	2017		2016		2017 & 2016	
	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent
Domestic sales	144.1	11.1	98.2	8.2	45.9	46.8
Export sales	1,149.5	88.9	1,104.1	91.8	45.4	4.1
Total revenue from sales of condoms and lubricants	1,293.5	100.0	1,202.2	100.0	91.3	7.6

Although in 2017, the appreciation of baht against USD had a negative effect on the revenue growth, the company recorded higher revenue than the same period last year.

For the fiscal year ended 31 December 2017 and 2016, the Company recorded higher revenue from condoms and lubricants of 1,293.5 million baht and 1,202.2 million baht respectively (which was higher by 91.3 million baht or 7.6%) comprising mainly revenue from sales of condoms accounting for 96.5% and 97.0% respectively. Such higher revenue was derived from higher revenue from the Tender business and the products under the Company's own brands.

Revenue from sales of condoms and lubricants by business segment

Revenue by business segment	For the fiscal year ended 31 December				Comparison	
	2560		2559		2017 & 2016	
	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent
Revenue from the production and distribution of condoms and lubricants under the company's own brands	132.6	10.3	89.1	7.4	43.6	48.9
Revenue from OEM business for production and distribution of condoms and lubricants	880.2	68.0	939.6	78.2	(59.4)	(6.3)
Revenue from Tender business	280.8	21.7	173.6	14.4	107.2	61.8
Total revenue from sales	1,293.5	100.0	1,202.2	100.0	91.3	7.6



- Revenue from the production and distribution of condoms and lubricants business under the Company's own brands comprising ONETOUCH™ and Niptex™.

Revenue from the production and distribution of condoms and lubricants under the Company's own brands	For the fiscal year ended 31 December				Comparison	
	2017		2016		2017 & 2016	
	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent
Domestic sales	109.0	82.2	71.5	80.3	37.5	52.4
Overseas sales	23.7	17.8	17.6	19.7	6.1	34.7
Total revenue from the production and distribution of condoms and lubricants under the Company's own brands	132.6	100.0	89.1	100.0	43.6	48.9

For the fiscal year ended 31 December 2017 and 2016, the Company recorded higher revenue by 43.6 million baht or 48.9% compared to the same period in the previous year which was due mainly to the following: -

1. Higher domestic sales of condoms under the brand ONETOUCH™ by 37.5 million baht or 52.4% compared to the same period in the previous year. The main reason was that the market had returned to normal situation after a slowdown in the 4th quarter of 2016 and 1st quarter of 2017. Moreover, the Company had continuous promotional activities which resulted in higher sales value especially for the “Happy” model and “Maxx Dot” model (higher by 35% and 43.1% respectively). In the meantime, the Company had planed to sell the “Strawberry” model products in the convenience stores (7-11) starting in January 2018. Therefore the distributor purchased big lot of this model to build up inventory which resulted in higher sales value of this model by 177.5%. In addition, from July 2017 onwards, the Company had increased selling prices of products sold to C.P. Consumer Products Co., Ltd. which is the distributor of products in the Thai market.

2. Higher overseas sales by 6.1 million baht or 34.7% compared to the same period in the previous year mainly resulting from higher sales in Myanmar by 72.8% and new customers in Singapore, Cambodia and Vietnam.

- Revenue from the OEM business

OEM business for production and distribution of condoms and lubricants by market	For the fiscal year ended 31 December				Comparison	
	2017		2016		2017 & 2016	
	Million Baht	Percent	Million Baht	Percent	Million Baht	Percent
American market group	215.5	24.5	111.2	11.8	104.3	93.8
African market group	128.4	14.6	128.8	13.7	(0.4)	(0.3)
Asian market group	446.5	50.7	574.6	61.1	(128.1)	(22.3)
European and Oceania market group	89.7	10.2	125.0	13.3	(35.3)	(28.3)
Total Sales - OEM by Market	880.2	100.0	939.6	100.0	(59.4)	(6.3)



For the fiscal year ended 31 December 2017 and 2016, the Company recorded lower revenue by 59.4 million baht or 6.3% compared to the same period in the previous year which was due mainly to lower sales to the African market group, European market group and Oceania market group given a more competitive market atmosphere. For lower sales in Asia, such was due to lower sales from main customers in China. However, there was growth in other markets such as Pakistan, Indonesia and Taiwan. For the American market group, revenue was higher due to the successful opening of several new customers especially for one particular company being the leading company in the pharmaceutical business that had sold the products in Mexico. Moreover, the existing main customer had higher sales orders.

Also the Company's income was negatively hit by the appreciation of baht against USD.

Revenue from the Tender business

For the fiscal year ended 31 December 2017 and 2016, the Company recorded higher revenue by 107.2 million baht or 61.8% compared to the same period in the previous year which was due mainly to the Company having obtained higher Tender business compared to the previous year especially in the African market group, Asian market group and American market group. Moreover, there was higher quantity of products delivered to an NGO in the U.S. as per the long-term contract.

Cost of Goods Sold

For the fiscal year ended 31 December 2017 and 2016, the Company recorded cost of goods sold of 999.2 million baht and 855.9 million baht or 77.2 % and 71.1 % respectively.

Gross Profit and Gross Profit Margin

For the fiscal year ended 31 December 2017 and 2016, the Company's gross profit was 294.7 million baht and 347.2 million or 22.8% or 28.9% respectively. Such lower gross profit compared to the same period in the previous year was due to the following: -

1. Higher average purchase price of 60% concentrated latex compared to the previous year which resulted in higher cost of production of products.
2. Change in the proportion of sales of condoms as the Company had higher sales from the Tender business (low gross profit margin) and lower sales from the OEM business (high gross profit margin).
3. The appreciation of baht against USD.
4. Lower average selling price of products of the Tender business.



Despite of Lower cost of production per unit of direct labor and factory expenses resulting from higher production volume.

Other Revenue

For the fiscal year ended 31 December 2017 and 2016, the Company had other revenue of 6.9 million baht and 6.5 million baht respectively. The Company's other revenue comprised mainly (1) revenue from sale of scrap, (2) revenue from modifying packaging for customers, (3) interest income from financial institutions and loans, (4) revenue from money returns from provident fund and (5) others.

Selling Expense

For the fiscal year ended 31 December 2017 and 2016, the Company recorded selling expense of 110.0 million baht and 64.2 million baht respectively which was higher by 45.8 million baht or 71.4% due mainly to the following: -

1. Advertising expenses and marketing & promotional expenses for the businesses under the brand ONETOUCH™ which were to prepare for the plan to increase market share and co-invest in marketing & promotional activities for opening the market for a customer in the American market group.

2. Higher transportation costs which resulted from higher sales and higher proportion of products delivered to customers with the condition that included transportation costs.

3. Overseas travel expenses for contacting customers and consulting expenses for the Tender business.

Administrative Expense

For the fiscal year ended 31 December 2017 and 2016, the Company recorded administrative expense of 83.0 million baht and 88.9 million baht respectively which was lower by 5.9 million baht or 6.6% due mainly to reversal of provision of doubtful loss upon full payment of money owed by the customer.

Other Profit (Loss)

For the fiscal year ended 31 December 2017 and 2016, the Company recorded other profit (loss) of 10.9 million baht and 17.5 million baht respectively which was lower by 6.6 million baht or 37.9% due mainly to realization of gain on forward exchange contract.



Finance Costs

For the fiscal year ended 31 December 2017 the company recorded financial cost as income of 3.3 million baht compared to the same period in 2016 which recorded as expense of 21.1 million baht. It caused lower financial cost 24.4 million baht in year 2017 which was due mainly to

1. Interest expense from loans from financial institutions for the fiscal year ended 31 December 2017 amounting to 2.7 million baht which was lower by 12.9 million baht compared to the same period in the previous year.

2. Gain from exchange rate on loans from financial institutions for the fiscal year ended 31 December 2017 amounting to 6.0 million baht, resulting from baht appreciation, compared to the same period in the previous year which recorded loss 5.5 million baht caused the decrease of finance cost

Net Profit and Net Profit Margin

For the fiscal year ended 31 December 2017 and 2016, the Company recorded net profit of 121.2 million baht and 194.2 million baht respectively which was lower by 73.0 million or 37.6%.

As a whole, the Company recorded lower net profit compared to the same period in the previous year which was due to lower gross profit and higher selling expense despite the company having lower finance costs and adjustment to lower doubtful loss upon full payment of money owed for a long time by its debtor.



Financial Position

The following table shows the Company's financial position for the fiscal year ended 31 December 2017 and 2016.

Balance Sheet	As of 31 December		As of 31 December		Comparison	
	2017		2016		2017 & 2016	
	Amount	Percent	Amount	Percent	Amount	Percent
	Million Baht		Million Baht		Million Baht	
Assets						
Current assets						
Cash and cash equivalents	221.9	17.6	27.4	2.3	194.6	711.2
Short-term loan to and accrued interest from related	-	-	-	-	-	-
Trade and other accounts receivable (net)	392.5	31.1	386.7	32.2	5.8	1.5
Inventory (net)	113.4	9.0	132.5	11.0	(19.1)	(14.4)
Value added tax	10.3	0.8	78.9	6.6	(68.5)	(86.9)
Total current assets	738.1	58.5	625.4	52.1	112.7	18.0
Non-current assets						
Prepaid withholding tax	-	-	-	-	-	-
Loans to employee	0.6	0.1	0.5	0.0	0.2	36.9
Other long-term investments	-	-	-	-	-	-
Property, plant and equipment (net)	497.0	39.4	553.1	46.1	(56.1)	(10.1)
Intangible assets (net)	17.9	1.4	15.2	1.3	2.7	17.8
Deferred tax assets	6.1	0.5	3.7	0.3	2.4	0.6
Other non-current assets	2.0	0.2	2.2	0.2	(0.2)	(9.8)
Total non-current assets	523.5	41.5	574.6	47.9	(51.1)	(8.9)
Total assets	1,261.6	100.0	1,200.1	100.0	61.6	5.1
Liabilities						
Current liabilities						
Short-term loans from financial institutions	-	-	101.2	8.4	(101.2)	(100.0)
Short-term loan from related company	-	-	-	-	-	-
Short-term loan from director	-	-	-	-	-	-
Trade and other accounts payable	183.8	14.6	103.6	8.6	80.2	77.3
Current portions of liability under hire purchase contract	0.1	0.0	0.1	0.0	-	-
Current portions of long-term loans from a financial	13.5	1.1	27.5	2.3	(14.0)	(50.9)
Accrued dividends	-	-	-	-	-	-
Accrued income tax	3.6	0.3	0.7	0.1	2.9	4.0
Other current liabilities	3.2	0.3	7.5	0.6	(4.2)	(56.6)
Total current liabilities	204.2	16.2	240.6	20.0	(36.4)	(15.1)
Non-current liabilities						
Liability under hire purchase contract	0.1	0.0	0.1	0.0	(0.1)	(40.0)
Long-term loans from a financial institution	10.5	0.8	24.0	2.0	(13.5)	(56.3)
Employee benefit obligations	36.5	2.9	32.9	2.7	3.6	11.1
Share subscription received in advance	-	-	-	-	-	-
Total non-current liabilities	47.1	3.7	57.0	4.8	(9.9)	(17.4)
Total liabilities	251.3	19.9	297.6	24.8	(46.3)	(15.6)



Balance Sheet	As of 31 December		As of 31 December		Comparison	
	2017		2016		2017 & 2016	
	Amount	Percent	Amount	Percent	Amount	Percent
	Million Baht		Million Baht		Million Baht	
Equity						
Share capital						
Authorised share capital						
300,000,000 ordinary shares of par Baht 1 each	300.0	23.8	300.0	25.0	-	-
1,920,000 ordinary shares of par Baht 100 each	-	-	-	-	-	-
Issued and fully paid-up share capital						
300,000,000 ordinary shares of par Baht 1 each	300.0	23.8	300.0	25.0	-	-
1,920,000 ordinary shares of par Baht 100 each	-	-	-	-	-	-
Share premium (net)	549.1	43.5	549.1	45.8	-	-
Retained earnings						
Appropriated - legal reserve	30.0	2.4	28.0	2.3	2.0	7.3
Unappropriated	131.5	10.4	27.4	2.3	104.2	380.6
Other components of equity (net)	(0.3)	(0.0)	(2.0)	(0.2)	1.7	(86.9)
Total equity	1,010.3	80.1	902.4	75.2	107.9	12.0
Total liabilities and equity	1,261.6	100.0	1,200.1	100.0	61.6	5.1

Overview of Assets

As of 31 December 2017 and 2016, the Company recorded total assets of 1,261.6 million baht and 1,200.1 million baht respectively which was higher by 61.6 million baht or 5.1% due mainly to the following: -

1. Higher cash and cash equivalents.
2. Lower property, plant and equipment (net).
3. Lower inventory (net) caused by higher amount of finished goods delivered to customers in the 4th quarter of 2017 compared to the same period in 2016.
4. Lower accrued value added tax resulting from receiving refund of value added tax for 2013-2016 (under the tax refund audit by the Revenue Department in 2016).

Liabilities

As of 31 December 2017 and 2016, the Company recorded total liabilities of 251.3 million baht and 297.6 million baht which was lower by 46.3 million baht or 15.6% due mainly to the following: -

1. Higher trade accounts payable and other payables from the Company changing its policy with respect to its transferring of money for payment to trade accounts payable from the last day of the month to the first day of the month, accrued employee benefits, reserve for marketing & promotional expenses for the products under the brand ONETOUCHTM and advance payments from customers.



2. Short-term loans from financial institutions

As of 31 December 2017, the Company had no short-term loans outstanding with any financial institutions.

3. Long-term loans from financial institutions

As of 31 December 2017 and 2016, the Company recorded long-term loans from financial institutions of 24.0 million baht and 51.5 million baht which was lower by 27.5 million baht or 53.4% resulting from the long-term loan repayment as scheduled.

Shareholders' Equity

As of 31 December 2017 and 2016, the Company's shareholders' equity was 1,010.3 million baht and 902.4 million baht respectively which was higher by 107.9 million baht or 12.0% coming from net profit in 2017 amounting to 121.2 million and dividend payment of 15.0 million baht.

Summary of financial position

The computation on financial statements for the fiscal year ended 31 December 2017 and 2016 has an important impact on the financial ratio as follows: -

- Debt-to-equity ratio (D/E) is lower from 0.33 time in 2016 to 0.25 time in 2017 due to lower total liabilities resulting from loan repayment.

- Basic earnings per share as of 31 December 2017 is equal to 0.40 baht per share (by computing from weighted common shares of 300,000,000 shares) and as of 31 December 2016 equal to 0.84 baht per share (by computing from weighted common shares of 230,157,534 shares) which is lower due to an increase in the Company's capital and lower net profit.

Please be informed accordingly.

Best Regards,

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Suwat Sukalapvanit

Chief Financial Officer

Authorized to disclose information

Thai Nippon Rubber Industry Public Company Limited