



Date: 25 February 2019

Subject: Management Discussion and Analysis of the Financial Statements for the year ended 31 December 2018

Attention: Managing Director, The Stock Exchange of Thailand

Thai Nippon Rubber Industry Public Company Limited (“the Company”) reported performance for the year ended 31 December 2018, details are as follows.

Management Discussion and Analysis

Explanation and analysis of financial position and operating performance

Consolidated Statement of Comprehensive Income

	For the year ended 31 December					
	Condoms and Lubricants		Paper Boxes		Total	
	Consolidated	Separate	Consolidated	Separate	Consolidated	Separate
	Financial Information	Financial Information	Financial	Financial	Financial	Financial Information
	2018	2017	2018	2017	2018	2017
	THB	THB	THB	THB	THB	THB
Sales of goods	1,460,600,000	1,293,930,772	74,971,592	-	1,535,571,592	1,293,930,772
Cost of goods sold	(1,115,706,838)	(999,186,430)	(68,074,997)	-	(1,183,781,835)	(999,186,430)
Depreciation charge in excess from plant and equipment recognised under	-	-	-	-	(2,863,237)	-
Segment result	344,893,162	294,744,342	6,896,595	-	348,926,520	294,744,342
Other income (note 29)					201,249,193	6,899,053
Selling expenses					(142,915,212)	(109,992,744)
administrative expenses					(112,409,272)	(83,026,261)
Other gains (losses) (note 30)					(7,360,451)	10,898,810
Finance costs (net)(note 31)					(8,918,049)	3,343,861
Operating profit					278,572,729	122,867,061
Income tax (note 32)					(4,425,800)	(1,674,426)
Net profit for the year					274,146,929	121,192,635

Consolidated statement of comprehensive income for year ended 31 December 2018 is from the consolidation between operation results of the Company for 12- month periods and operation results of Box Asia Group International Co., Ltd. (a subsidiary) from 1 September 2018 to 31 December 2018 (4 months) including the effect from transactions arisen from business acquisition on 31 August 2018 (see details in Note to financial statements no. 13). However, the significant portion in consolidated statement of comprehensive income is mainly from the Company’s information (Except for the effect from business acquisition which was disclosed in Note to financial statement no. 13) Therefore, the analytical review of consolidated statement of comprehensive income is immaterially different from analytical review of separate statement of comprehensive income.



Separate statement of comprehensive income

	For the year ended 31 December		Comparison	
	2018	2017	2018 & 2017	
	THB	THB	THB	Percent
<i>Revenue from sales of products</i>				
- Condoms	1,402,597,619	1,248,021,376	154,576,243	12.4
- Lubricant	56,589,963	45,520,088	11,069,875	24.3
- Others	1,412,419	389,307	1,023,111	262.8
Total Revenue from sales of products	1,460,600,000	1,293,930,772	166,669,228	12.9
Cost of goods sold	(1,115,706,838)	(999,186,430)	(116,520,408)	11.7
Gross profit	344,893,162	294,744,342	50,148,820	17.0
Other income	27,988,362	6,899,053	21,089,309	305.7
Profit before expenses	372,881,524	301,643,395	71,238,129	23.6
Selling expense	(141,770,656)	(109,992,744)	(31,777,912)	28.9
Administrative expense	(102,319,001)	(83,026,261)	(19,292,740)	23.2
Other gains (losses)	(7,263,977)	10,898,810	(18,162,787)	(166.6)
Finance costs (net)	(8,838,826)	3,343,861	(12,182,687)	(364.3)
Total Expenses	(260,192,460)	(178,776,334)	(81,416,126)	45.5
Profit before income tax	112,689,064	122,867,061	(10,177,997)	(8.3)
Income tax	(3,816,331)	(1,674,426)	(2,141,905)	127.9
Net profit	108,872,733	121,192,635	(12,319,902)	(10.2)



Revenue from Sales of Products

Revenue by business segment	For the year ended 31 December				Comparison	
	2018		2017		2018 & 2017	
	THB	percent	THB	percent	THB	percent
Revenue from the production and distribution of condoms and lubricants under the Company's trademark (OBM)	203,142,740	13.9	185,868,701	14.4	17,274,039	9.3
Revenue from OEM business for production and distribution of condoms and lubricants	984,573,437	67.5	826,910,492	63.9	157,662,944	19.1
Revenue from Tender business	271,471,405	18.6	280,762,271	21.7	(9,290,866)	(3.3)
Total revenue from sales of condoms and lubricants	1,459,187,582	100.0	1,293,541,465	100.0	165,646,117	12.8

Revenue from Manufacture and Sales of Condoms and Lubricants under Company's Trademark, ONETOUCH™ and PLAYBOY

Revenue from the production and distribution of condoms and lubricants under the company's trademark (ONETOUCH™ & PLAYBOY)	For the year ended 31 December				Comparison	
	2018		2017		2018 & 2017	
	THB	percent	THB	percent	THB	percent
ONETOUCH™	128,549,994	63.3	132,620,720	71.4	(4,070,726)	(3.1)
PLAYBOY	74,592,746	36.7	53,247,981	28.6	21,344,765	40.1
Total revenue from the production and distribution of condoms and lubricants under the company's trademark	203,142,740	100.0	185,868,701	100.0	17,274,039	9.3

*The Company reclassified PLAYBOY revenue segment in 2017 from Original Equipment Manufacturer (OEM) to revenue from manufacture and sales under Company's Trademark (OBM) for the comparative purpose with year 2018.

ONETOUCH™

The total revenue for year 2018 decreased 4.1 million Baht or 3.1% compared with last year due to revenue from international market decreased by 5.3 million Baht, however the revenue from domestic market increased by 1.2 million Baht.

PLAYBOY

The total revenue for year 2018 increased 21.3 million Baht or 40.1% compared with last year due to an increase in revenue from international market for 22.4 million Baht. It results from new market penetration to Europe and USA after the Company acquired the rights to sell and market PLAYBOY condom and lubricants globally. However, the revenue from domestic market decreased 1.1 million Baht.

**Revenue from Original Equipment Manufacturer (OEM)**

OEM business for condoms and lubricants by market	For the year ended 31 December				Comparison	
	2018		2017		2018 & 2017	
	THB	percent	THB	percent	THB	percent
Asian market group	518,487,213	52.7	417,451,439	50.5	101,035,774	24.2
African market group	188,370,394	19.1	123,410,438	14.9	64,959,955	52.6
European and Oceania market group	97,083,962	9.9	75,154,022	9.1	21,929,940	29.2
American market group	180,631,868	18.3	210,894,593	25.5	(30,262,725)	(14.3)
Total revenue from OEM business for condoms and lubricants	984,573,437	100.0	826,910,492	100.0	157,662,944	19.1

The total revenue for year 2018 increased 157.7 million Baht or 19.1% which is mainly from an increase in sales in Asia, Africa, Europe, and Oceania markets for 187.9 million Baht while sales in America has decreased 30.2 million Baht.

 Asian Market Group

Revenue in 2018 increased 101.0 million Baht or 24.2% due to a major customer in Pakistan planned to expand its market then ordered more especially new SKUs. Customers from Indonesia and Japan continuously placed orders throughout the year which resulted in higher sales in Asian market.

 African Market Group

Revenue in 2018 increased 65.0 million Baht or 52.6% due to a major customer in Nigeria placed higher orders to support its market growth. Customers in Ethiopia were granted government supports to promote condom usage and prevent the spread of STDs which contributed to higher sales.

 European and Oceania Market Group

Revenue in 2018 increased 22 million Baht or 29.2% due to major customers from Australia and Spain placed higher orders.

 American Market Group

Revenue in 2018 decreased 30.2 million Baht or 14.3% due to availability of products in customer's stock since last order in 2017. The Company anticipates that orders will recover in the first quarter of 2019.

Revenue from Tender Business Segment



The total revenue decreased 9.3 million Baht or 3.3% due to Company's decision to have less participation in bidding tender project particularly African Market Group and American Market Group.

Gross Profit and Gross Profit Margin

Gross profit margin increased from 22.8% to 23.6% due to higher average selling price per condom unit for 2018 compared to 2017, mainly from average selling price under company's trademark segment.

Other Income

Other income in 2018 increased 21.1 million Baht or 305.7% due to royalty fee recognition from PLAYBOY licensees since the 2nd quarter of 2018.

Selling Expenses

Selling expenses in 2018 increased 31.8 million Baht or 28.9% due to higher marketing and promotional expenses, marketing consultation expenses for brands under company's trademark segment.

Administrative Expenses

Administrative expenses in 2018 increased 9.1 million Baht* or 9.8 % due to more management officer to support international market expansion, other consultant expenses and professional fees.

** For the year ended 31 December 2017, TNR recorded reversal of allowance for doubtful accounts in the amount of 10.2 million Baht which decreased administrative expenses from 93.2 million Baht to 83.0 million Baht.*

Other Gains (Losses)

Other gains (loss) in 2018 decreased 18.2 million Baht or 166.6% because of net loss from exchange rate. The Company encountered the fluctuation of exchange rate, particularly USD and Thai Baht. However, the Company has managed the risk through FX contract led to net loss from exchange rate approximately 4.4 million Baht in 2018 while the Company had net gain from exchange rate approximately 10.8 million Baht in 2017.

Finance costs (net)

Finance costs (net) in 2018 increased 6.2 million Baht* from additional long-term borrowings 320.0 million Baht from financial institution to be used as working capital and pay for PLAYBOY trademark license, resulted in higher interest rate compared to last year.

** For the year ended 31 December 2017, the Company had net gain from exchange rate of 6.0 million Baht arising from borrowings. The result was positively changed the finance costs (net) from 2.7 million Baht expenses to finance cost (net) 3.3 million Baht income.*



Consolidated and separated statement of financial position

	Consolidated			Comparison	
	financial information	Separate financial information		2018 & 2017	
	2018 THB	2018 THB	2017 THB	THB	Percent
Assets					
Current assets					
Cash and cash equivalents	86,672,714	75,313,943	221,905,128	(146,591,185)	(66.1)
Trade and other accounts receivable (net)	549,838,781	501,312,344	392,453,221	108,859,123	27.7
Inventories (net)	159,368,188	137,032,624	113,431,152	23,601,472	20.8
Value added tax	32,667,635	32,277,441	10,306,587	21,970,854	213.2
Loans to employee	588,567	588,567	633,667	(45,100)	(7.1)
Other current assets	2,000,000	-	-	-	-
Total current assets	831,135,885	746,524,919	738,729,755	7,795,164	1.1
Non-current assets					
Cash at a financial institution pledged as security	584,896	-	-	-	-
Investment in a subsidiary	-	25,822,529	-	25,822,529	100.0
Property, plant and equipment (net)	667,718,205	477,634,629	496,960,698	(19,326,069)	(3.9)
Intangible assets (net)	479,823,206	479,415,861	17,883,353	461,532,508	2,580.8
Deferred tax assets	7,316,467	7,316,467	6,064,104	1,252,363	20.7
Other non-current assets	2,156,887	2,134,687	1,994,958	139,729	7.0
Total non-current assets	1,157,599,661	992,324,173	522,903,113	469,421,060	89.8
Total assets	1,988,735,546	1,738,849,092	1,261,632,868	477,216,224	37.8
Liabilities and equity					
Current liabilities					
Short-term loans from financial institutions	6,276,839	6,276,839	-	6,276,839	100.0
Trade and other accounts payable	392,882,292	341,868,170	183,805,242	158,062,928	86.0
Current portions of					
- Liabilities under finance lease contracts (net)	3,846,274	57,600	57,600	-	-
- Long-term loans from a financial institution	90,540,000	90,540,000	13,500,000	77,040,000	570.7
Accrued income tax	982,023	982,023	3,584,067	(2,602,044)	(72.6)
Other current liabilities	3,810,072	3,601,528	3,240,538	360,990	11.1
Total current liabilities	498,337,500	443,326,160	204,187,447	239,138,713	117.1
Non-current liabilities					
Liabilities under finance lease contracts (net)	676,613	28,800	86,400	(57,600)	(66.7)
Long-term loans from a financial institution	239,960,000	239,960,000	10,500,000	229,460,000	2,185.3
Deferred tax liabilities	24,040,888	-	-	-	-
Employee benefit obligations	37,226,971	32,314,754	36,512,376	(4,197,622)	(11.5)
Total non-current liabilities	301,904,472	272,303,554	47,098,776	225,204,778	478.2
Total liabilities	800,241,972	715,629,714	251,286,223	464,343,491	184.8
Equity					
Share capital					
Authorised share capital					
300,000,000 ordinary shares of par Baht 1 each	300,000,000	300,000,000	300,000,000	-	-
Issued and fully paid-up share capital					
300,000,000 ordinary shares of par Baht 1 each	300,000,000	300,000,000	300,000,000	-	-
Share premium (net)	549,079,673	549,079,673	549,079,673	-	-
Retained earnings					
Appropriated - legal reserve	30,000,000	30,000,000	30,000,000	-	-
Unappropriated	309,674,006	144,399,810	131,527,077	12,872,733	9.8
Other components of equity (net)	(260,105)	(260,105)	(260,105)	-	-
Total equity	1,188,493,574	1,023,219,378	1,010,346,645	12,872,733	1.3
Total liabilities and equity	1,988,735,546	1,738,849,092	1,261,632,868	477,216,224	37.8



Consolidated statement of financial position as at 31 December 2018

As due to the Company has entered to business acquisition over Box Asia Group International Co., Ltd. as at 31 August 2018, consolidated statement of financial position as at 31 December 2018 is from consolidation of financial information between the Company's and Box Asia Group International Co., Ltd.'s of which it is incomparable with 2017 as due to its first year consolidation. However, except for financial information of subsidiary that included in consolidated financial statements, the analytical review of consolidated statement of financial position is like the analytical review of separate statement of financial position.

Separate statement financial position as at 31 December 2018

Current assets

Current assets increased 7.8 million Baht from previous year as due to trade and other accounts receivable (net) increased 108.0 million Baht, inventories (net) increased 23.6 million Baht and value added tax increased 22.0 million Baht while cash and cash equivalents decreased 146.6 million Baht with details as follows:

1. Trade and other accounts receivable (net) increased because of an increase in overall sale amount and the customers are in normal term and condition to pay the debts to the Company.
2. Inventories (net) increased because of an increase in finished goods prepared to deliver to customers in 1Q/2019. In addition, the Company keeps higher amount of raw materials for high production volume in coming months.
3. Value Added Tax (net) increased because the Company has VAT incurred in 2018 that is currently under the process of claim for refund and under investigation of Revenue Department's officer and is expected to recover the full amount of refund.
4. Cash and cash equivalents decreased 146.6 million Baht compared to last year because of the Company's activities as follows;

- Net cash receipts from operating activities	64.7 million Baht
- Net cash payments from investing activities	(419.3) million Baht*
- Net cash receipts from financing activities	206.3 million Baht**

** During the year ended 31 December 2018, besides investment in property, plant and equipment of 71.6 million Baht, the Company paid for the rights to use PLAYBOY's trademark in the amount of 319.2 million Baht and paid for the acquisition of ordinary shares in Box Asia Group International Co., Ltd. (the subsidiary) in the amount of 24.8 million Baht.*



*** During the year ended 31 December 2018, the Company entered into 320.0 million Baht long-term loan agreement with a financial institution to be used as working capital and pay for PLAYBOY trademark license. The Company also paid dividend in amount of 96 million Baht to shareholders.*

Non-current assets

Other non-current assets increased 469.4 million Baht because intangible assets (net) increased 461.5 million Baht and investment in a subsidiary increased 25.8 million Baht with details as follows;

5. Intangible assets (net) increased because the Company has acquired the license in relation to sale and marketing rights for condoms and lubricant under PLAYBOY trademark in April 2018.
6. Investment in a subsidiary increased because the Company has acquired 100% of Box Asia Group International Co., Ltd's ordinary shares. This makes Box Asia Group International Co., Ltd. become a subsidiary of the Company since 31 August 2018.

Liabilities

Liabilities increased 464.3 million Baht resulted from net increase in long-term borrowings in the amount of 306.5 million Baht and an increase in trade and other accounts payable 158.1 million Baht as details below;

7. Long-term borrowings increased by net 306.5 million Baht because the Company sourced more funds to be used as working capital and paid the PLAYBOY license obligation. However, the Company paid back 13.5 million Baht for long-term borrowing to a financial constitution during the year.
8. Trade and other accounts payable increased because the Company recorded the outstanding payable related to purchase of PLAYBOY license at USD 5 million or 163.1 million Baht which is due in 2019.

Equity

Increase in equity in the amount of 12.9 million Baht is from net profit from operation of 108.9 million Baht, however the Company paid dividend payment for 2017 performance of 96.0 million Baht to shareholders since May 2018.

Sincerely Yours,

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Sumate Masileerungsri
Chief Financial Officer

Authorized to Disclose Information
Thai Nippon Rubber Industry Public Company Limited