

No. TOA 01/2017

October 9, 2017

Subject : Management Discussion and Analysis for the year ended December 31, 2016

To The President  
The Stock Exchange of Thailand

TOA Paint (Thailand) Public Company Limited (the “Company” or “we” or “our” or “us”) would like to inform management discussion and analysis for its results of operations from the special purpose financial statements for the year ended December 31, 2016 as follows:

**Management Discussion and Analysis**

**For the year ended December 31, 2016**

**Results of Operations**

**Sales Revenue**

For the year ended December 31, 2015 and 2016, our sales revenue was THB16,752.6 million and THB16,297.3 million, respectively, which represent sales revenue decreased of THB455.2 million, or 2.7%. The decrease in sales revenue was largely due to political instability and an economic slowdown, as well as a decrease in average selling prices of decorative paint and coating products principally due to special promotions we offered in respect of our medium to economy grade products in 2016. The decreased sales revenue was offset by an increase in sales of our non-decorative paint and coating products. By distribution channel, the reduction in sales revenue was largely due to a decrease in sales revenue from retail dealers, while modern trade sales revenue increased. By customer location, our sales revenue decreased mainly because the sales revenue from products sold to customers in Thailand, while sales revenue from overseas increased. The following table sets forth the breakdown of our sales revenue:

Sales by product group	Year ended December 31,			
	2015		2016	
	THB millions	%	THB millions	%
Decorative Products	11,769.7	70.3	11,330.5	69.5
Premium	4,865.6	29.1	4,723.2	29.0
Medium to Economy	6,099.5	36.4	5,853.0	35.9
Other Decorative <sup>(1)</sup>	804.6	4.8	754.3	4.6
Non-decorative Products	4,413.5	26.3	4,459.6	27.4
Wood Coatings	1,527.4	9.1	1,415.2	8.7

Sales by product group	Year ended December 31,			
	2015		2016	
	THB millions	%	THB millions	%
Construction Chemicals	573.5	3.4	626.6	3.9
Heavy Duty Coatings	427.2	2.5	476.3	2.9
Hardware <sup>(2)</sup>	1,717.8	10.3	1,787.8	11.0
Other Non-decorative <sup>(3)</sup>	167.6	1.0	153.7	0.9
Other Business Products <sup>(4)</sup>	569.4	3.4	507.2	3.1
<b>Sales</b>	<b>16,752.6</b>	<b>100</b>	<b>16,297.3</b>	<b>100</b>

Notes:

- (1) "Other Decorative" comprises sales revenue from colorants used for Auto Tinting Machines, as well as decorative thinners, being solvents used to dilute paints, make paints easier to use and/or apply, or clean up paints and equipment.
- (2) "Hardware" comprises sales revenue from hardware, power tools, Shell brand products and Chaindrite brand products.
- (3) "Other Non-decorative" comprises sales revenue from special architectural coatings and Auto Tinting Machines.
- (4) "Other Business Products" comprise sales of certain products to the related companies, such as raw materials and semi-finished materials.

Sales by distribution channel	Year ended December 31,			
	2015		2016	
	THB millions	%	THB millions	%
Retail Dealers	13,112.7	78.3	12,474.5	76.5
Modern Trade	1,984.1	11.8	2,176.8	13.4
Others <sup>(1)</sup>	1,655.8	9.9	1,646.0	10.1
<b>Sales</b>	<b>16,752.6</b>	<b>100.0</b>	<b>16,297.3</b>	<b>100.0</b>

Note:

- (1) "Others" primarily comprise sales revenue from distribution through projects, exports and distribution to the Divested Companies and related companies.

Sales by geography	Year ended December 31,			
	2015		2016	
	THB millions	%	THB millions	%
Thailand	14,795.4	88.3	14,176.3	87.0
Overseas	1,957.2	11.7	2,121.0	13.0
Vietnam	1,260.2	7.5	1,332.4	8.2
Others <sup>(1)</sup>	697.0	4.2	788.6	4.8
<b>Sales</b>	<b>16,752.6</b>	<b>100.0</b>	<b>16,297.3</b>	<b>100.0</b>

Note:

- (1) "Others" mainly comprise sales revenue from customers in Laos, Myanmar, Cambodia, Indonesia, and Malaysia.

## Cost of sales

Our cost of sales decreased THB679.3 million, or 6.3%, from THB10,773.9 million for the year ended December 31, 2015 to THB10,094.6 million for the year ended December 31, 2016. This decrease was primarily attributable to lower raw materials costs primarily attributable to lower prices of key raw materials used in our production process such as titanium dioxide (TiO<sub>2</sub>), solvents, resin and latex as well as the improvement in our manufacturing process to lessen the loss of raw materials used. We are transitioning our production plants from using a conventional production process to using a production process for semi-finished products, or slurry production, which is able to reduce the waste of raw materials due to the automatic production control and closed system. In addition, our research and development department has developed product formulae in order to use substitute raw materials. These measures contributed to more effective cost management while retaining the quality of our products. The following table sets forth the breakdown of our cost of sales:

Cost of sales	Year ended December 31,			
	2015		2016	
	THB millions	%	THB millions	%
Raw materials costs	7,324.0	68.0	6,700.5	66.4
Packaging costs	1,143.3	10.6	1,118.7	11.1
Labor costs	536.1	5.0	559.1	5.5
Overhead costs <sup>(1)</sup>	355.1	3.3	370.8	3.7
Depreciation and amortization costs	216.5	2.0	189.3	1.9
Cost of trading goods	1,198.9	11.1	1,156.2	11.4
<b>Cost of sales</b>	<b>10,773.9</b>	<b>100.0</b>	<b>10,094.6</b>	<b>100.0</b>

Note:

(1) "Overhead costs" comprise costs such as utility costs, maintenance costs, rent, contract manufacturing costs (e.g. the cost for using Auto Tinting Machines paid to in the stores of retail dealers for mixing paint shades for projects) and third party service costs (e.g. security services provided to production plants).

## Gross Profit

For the years ended December 31, 2015 and 2016, gross profit was THB5,978.6 million and THB6,202.7 million, respectively, or as a percentage of sales revenue, 35.7% and 38.1%, respectively. The increase in gross profit margin was mainly attributable to the decrease in the use of raw materials as mentioned above.

## Selling expenses

Total selling expenses decreased THB126.6 million, or 6.1%, from THB2,071.2 million for the year ended December 31, 2015 to THB1,944.6 million for the year ended December 31, 2016. This decrease was primarily attributable to lower sales promotions expenses primarily attributable to our efforts to effectively

manage our use of sales promotions by focusing efforts on sales promotions which incur less expense including using other methods of sales promotions and the decrease in sales promotions activities especially in the fourth quarter of 2016, as well as lower commission due to the restructuring of the payment of commissions and incentives to be more cost-effective and the decrease in sales volume. The following table sets forth the breakdown of our selling expenses:

Selling expenses	Year ended December 31,			
	2015		2016	
	THB millions	%	THB millions	%
Sales employee costs	703.4	34.0	696.8	35.8
Sales promotions <sup>(1)</sup>	490.8	23.7	375.3	19.3
Advertising expenses <sup>(2)</sup>	367.1	17.7	364.7	18.8
Freight expenses	229.5	11.1	226.7	11.7
Commissions and incentives <sup>(3)</sup>	103.6	5.0	62.6	3.2
Depreciation and amortization	76.7	3.7	70.3	3.6
Other selling expenses <sup>(4)</sup>	100.1	4.8	148.2	7.6
<b>Selling expenses</b>	<b>2,071.2</b>	<b>100.0</b>	<b>1,944.6</b>	<b>100.0</b>

Notes:

- (1) "Sales promotions" primarily comprise trade promotions such as gifts or sales promotion activities.
- (2) "Advertising expenses" are our expenditures relating to the advertising we use to drive sales.
- (3) "Commissions and incentives" are commissions paid to our sales force when they have reached certain sales targets.
- (4) "Other selling expenses" primarily comprise fees, miscellaneous expenses and rental.

### Administrative expenses

Total administrative expenses decreased THB119.8 million, or 8.5%, from THB1,402.2 million for the year ended December 31, 2015 to THB1,282.4 million for the year ended December 31, 2016. This decrease was primarily attributable to a decrease in allowance for doubtful accounts mainly due to us not having to reserve any significant allowance for doubtful accounts in 2016 that we had to prepare in 2015, namely, the THB85.0 million debt we paid in 2015 as guarantor, and the THB19.0 million owed to us by a customer based in Myanmar who did not make payment for its purchase in 2015. The following table sets forth the breakdown of our administrative expenses:

Administrative expenses	Year ended December 31,			
	2015		2016	
	THB millions	%	THB millions	%
Administrative employee costs	608.5	43.4	599.2	46.7
Rental	110.0	7.8	113.2	8.8
Fees and miscellaneous expenses <sup>(1)</sup>	201.9	14.4	240.1	18.7
Depreciation and amortization	114.0	8.1	94.8	7.4
Bad debt and allowance for doubtful accounts	133.9	9.6	29.0	2.3
Other administrative expenses <sup>(2)</sup>	233.9	16.7	206.1	16.1
<b>Administrative expenses</b>	<b>1,402.2</b>	<b>100.0</b>	<b>1,282.4</b>	<b>100.0</b>

Notes:

(1) "Fees and miscellaneous expenses" comprise expenses relating to exchange rate losses, property and land tax, and other fees.

(2) "Other administrative expenses" primarily comprise donations, service expenses, repair and maintenance and utilities.

### Profit for the year

Our profit for the year increased by THB390.6 million, or 18.5%, from THB2,116.7 million for the year ended December 31, 2015 to THB2,507.4 million for the year ended December 31, 2016. Our net profit margin increased from 12.4% for the year ended December 31, 2015 to 15.2% for the year ended December 31, 2016. The increase in net profit margin was primarily due to the decrease in cost of sales, especially the cost of the main raw materials we use.

### Financial Position

#### Total Assets

As at December 31, 2015 and 2016, we had total assets of THB12,986.4 million and THB9,644.4 million, respectively. Our assets were mainly consisting of trade and other receivables, inventories, property, plant and equipment and Investments in Trading Securities – Mutual Fund. The decrease in our total assets as at December 31, 2016 was mainly attributable to repayment of short-term loans to related parties and interest receivables and decreased in cash and cash equivalents from dividend payments.

#### Total Liabilities

As at December 31, 2015 and 2016, we had total liabilities of THB8,397.3 million and THB8,866.4 million, respectively. Our liabilities were mainly consisting of trade and other payables and short-term loans from financial institutions. The increase in our total liabilities as at December 31, 2016 was mainly attributable to dividend payables which the Company has paid the outstanding dividend in March 2017.

## Shareholders' Equity

As at December 31, 2015 and 2016, we had shareholders' equity of THB4,589.1 million and THB778.0 million, respectively. The decreased in our shareholders' equity as at December 31, 2016 was mainly due to dividend paid of THB7,213.5 million, partially offset by total comprehensive income for the year ended December 31, 2016 of THB2,527.8 million and gain from sales of the investments, and gains from the liquidation of a subsidiary, and disposal of the companies under group restructuring of THB61.8 million, THB1.6 million and THB800.5 million, respectively.

Please be informed accordingly.

Yours Sincerely,

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(Mr. Pongchird Jameekornkul)

President