



No. TOA 02/2017

October 9, 2017

Subject : Management Discussion and Analysis for the six months ended June 30, 2017

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 financial statements for the six months ended June 30, 2017 as follows:

Management Discussion and Analysis

For the six months period ended June 30, 2017

Results of Operations

Sales Revenues

For the six months ended June 30, 2016 and 2017, our sales revenue was THB8,340.5 million and THB7,717.9 million, respectively, which represent sales revenue decreased of THB622.5 million, or 7.5%. The decrease was principally driven by a decrease in sales of decorative paint products both from the decrease in sales volume of premium products and medium to economy grade products as a result of the economic slowdown continuing from 2016, as well as the decreased sales revenue of our non-decorative paint and coating products. By distribution channel, the reduction in sales revenue was largely due to the decrease in sales revenue from retail dealers which was partially offset by an increase in sales revenue from other channels mainly attributable to a higher number of projects using our products, as well as a slight increase in sales revenue from modern trade. By customer location, the decrease in sales revenue was largely due to a decrease in sales revenue from products sold to customers in Thailand, as well as abroad particularly decrease in sales revenue in Vietnam as a result of the Vietnamese government requiring all business operators in Vietnam to register for value added tax during the first quarter of 2017, causing a certain number of retail dealers to slow down their orders for our products. The following table sets forth the breakdown of our sales revenue:

Sales by product group	Six months ended June 30,			
	2016		2017	
	THB millions	%	THB millions	%
Decorative Products	5,845.4	70.1	5,319.6	68.9
Premium	2,407.0	28.8	2,266.2	29.3
Medium to Economy	3,040.9	36.5	2,683.7	34.8
Other Decorative ⁽¹⁾	397.5	4.8	369.7	4.8
Non-decorative Products	2,233.6	26.8	2,123.4	27.5
Wood Coatings	712.6	8.6	650.0	8.4
Construction Chemicals	285.8	3.4	307.1	4.0
Heavy Duty Coatings	235.62	2.8	240.9	3.1
Hardware ⁽²⁾	910.7	10.9	845.7	11.0
Other Non-decorative ⁽³⁾	88.9	1.1	79.7	1.0
Other Business Products ⁽⁴⁾	261.5	3.1	274.9	3.6
Sales	8,340.5	100.0	7,717.9	100.0

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 Chindrite 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	Six months ended June 30,			
	2016		2017	
	THB millions	%	THB millions	%
Retail Dealers	6,373.1	76.4	5,707.4	73.9
Modern Trade	1,147.2	13.8	1,154.5	15.0
Others ⁽¹⁾	820.2	9.8	856.0	11.1
Sales	8,340.5	100.0	7,717.9	100.0

Note:

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

Sales by geography	Six months ended June 30,			
	2016		2017	
	THB millions	%	THB millions	%
Thailand	7,374.4	88.4	6,843.8	88.7
Overseas	966.1	11.6	874.1	11.3
Vietnam	561.1	6.7	472.8	6.1
Others ⁽¹⁾	405.0	4.9	401.3	5.2
Sales	8,340.5	100.0	7,717.9	100.0

Note:

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

Cost of sales

Our cost of sales comprises costs incurred from the manufacture of our products and the cost of our trading goods. Total cost of sales decreased THB71.8 million, or 1.4%, from THB5,092.2 million for six months ended June 30, 2016 to THB5,020.4 million for the six months ended June 30, 2017. This decrease was primarily attributable to the decrease in sales volume. The following table sets forth the breakdown of our cost of sales;

Cost of sales	Six months ended June 30,			
	2016		2017	
	THB millions	%	THB millions	%
Raw materials costs	3,403.2	66.8	3,328.5	66.3
Packaging costs	556.4	10.9	518.2	10.3
Labor costs	282.4	5.6	283.9	5.7
Overhead costs ⁽¹⁾	174.4	3.4	173.0	3.4
Depreciation and amortization costs	94.3	1.9	95.9	1.9
Cost of trading goods	581.5	11.4	620.9	12.4
Cost of sales	5,092.2	100.0	5,020.4	100.0

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 six months ended June 30, 2016 and 2017, gross profit was THB3,248.3 million and THB2,697.5 million, respectively, or as a percentage of sales revenue, 38.9% and 35.0%, respectively. The decrease in gross profit margin was mainly attributable to higher average raw materials prices.

Selling expenses

Total selling expenses increased THB39.7 million, or 4.2%, from THB941.8 million for the six months ended June 30, 2016 to THB981.5 million for the six months ended June 30, 2017. This increase was primarily attributable to higher sales employees cost primarily attributable to higher number of product consultants, an increase in annual salaries and the transfer of some administrative employees to the sales support function and higher other selling expenses primarily attributable to higher car rental expenses for sales employees, partially offset by the decrease in advertising expenses primarily attributable to our efforts to focus on effectively managing our advertising expenses through the use of various media. The following table sets forth the breakdown of our selling expenses:

Selling expenses	Six months ended June 30,			
	2016		2017	
	THB millions	%	THB millions	%
Sales employee costs	300.7	31.9	361.8	36.8
Sales promotions ⁽¹⁾	98.9	10.5	107.6	11.0
Advertising expenses ⁽²⁾	221.2	23.5	171.7	17.5
Freight expenses	108.7	11.5	115.5	11.8
Commissions and incentives ⁽³⁾	135.1	14.4	132.3	13.5
Depreciation and amortization	35.2	3.7	35.1	3.6
Other selling expenses ⁽⁴⁾	42.0	4.5	57.5	5.8
Selling expenses	941.8	100.0	981.5	100.0

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 THB43.7 million, or 6.7%, from THB652.8 million for the six months ended June 30, 2016 to THB609.1 million for the six months ended June 30, 2017. This decrease was primarily attributable to the decrease in bad debt and allowance for doubtful accounts as we had already made provisions for doubtful accounts in 2016 and decrease in administrative employee costs primarily attributable to the transfer of some administrative employees to the sales support function. The following table sets forth the breakdown of our administrative expenses;

Administrative expenses	Six months ended June 30,			
	2016		2017	
	THB millions	%	THB millions	%
Administrative employee costs	320.0	49.0	290.8	47.7
Rental	54.4	8.3	59.9	9.8
Fees and miscellaneous expenses ⁽¹⁾	59.2	9.1	77.7	12.8
Depreciation and amortization	47.7	7.3	37.3	6.1
Bad debt and allowance for doubtful accounts	48.6	7.5	14.3	2.4
Other administrative expenses ⁽²⁾	122.9	18.8	129.1	21.2
Administrative expenses	652.8	100.0	609.1	100.0

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 period

Our profit for the period decreased by THB511.1 million, or 36.4%, from THB1,405.6 million for the six months ended June 30, 2016 to THB894.5 million for the six months ended June 30, 2017. Our net profit margin decreased from 16.6% for the six months ended June 30, 2016 to 11.5% for the six months ended June 30, 2017. The decrease in net profit margin was primarily due to a decrease in sales revenue, as well as an increase in raw material costs.

Financial Position

Total Assets

As at December 31, 2016 and as at June 30, 2017, we had total assets of THB9,644.4 million and THB9,488.5 million, respectively. Our assets were mainly consisting of trade and other receivables, inventories, property, plant and equipment and Investments in Trading Securities – Mutual Fund. As at June 30, 2017, our total assets has not materially changed

Total Liabilities

As at December 31, 2016 and as at June 30, 2017, we had total liabilities of THB8,866.4 million and THB7,010.7 million, respectively. Our liabilities were mainly consisting of trade and other payables and short-term loans from financial institutions. The decrease in our total liabilities as at June 30, 2017 was mainly attributable to the decrease in dividend payables, short-term loans from financial institutions, and trade and other payables.

Shareholders' Equity

As at December 31, 2016 and as at June 30, 2017, we had shareholders' equity of THB778.0 million and THB2,477.9 million, respectively. The increase in shareholders' equity as at June 30, 2017 was mainly attributable to an increase in paid-up capital from THB900 million to THB1,775 million in preparation for the initial public offering and an increase in unappropriated retained earnings from our operations.

Please be informed accordingly.

Yours Sincerely,

(Mr. Pongchird Jameekornkul)

President