

No. TOA 04/2017

November 13, 2017

Subject : Management Discussion and Analysis for the nine months ended September 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 nine months ended September 30, 2017 as follows:

Management Discussion and Analysis

For the nine months period ended September 30, 2017

Results of Operations

Sales Revenue

For the nine months ended September 30, 2016 and 2017, our sales revenue was THB12,188.8 million and THB11,457.5 million, respectively, which decreased THB731.3 million, or 6.0%. The decrease was principally driven by a decrease in sales of decorative paint products from the decrease in sales volume of 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 an 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	Nine months ended September 30,			
	2016		2017	
	THB millions	%	THB millions	%
Decorative Products	8,489.0	69.6	7,822.6	68.3
Premium	3,527.6	28.9	3,352.0	29.3
Medium to Economy	4,400.6	36.1	3,961.5	34.6
Other Decorative ⁽¹⁾	560.8	4.6	509.1	4.4
Non-decorative Products	3,317.6	27.2	3,224.1	28.1
Wood Coatings	1,026.9	8.4	962.7	8.4
Construction Chemicals	461.8	3.8	499.9	4.4
Heavy Duty Coatings	352.0	2.9	358.6	3.1
Hardware ⁽²⁾	1,349.7	11.1	1,285.5	11.2
Other Non-decorative ⁽³⁾	127.2	1.0	117.4	1.0
Other Business Products⁽⁴⁾	382.2	3.2	410.8	3.6
Sales	12,188.8	100.0	11,457.5	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	Nine months ended September 30,			
	2016		2017	
	THB millions	%	THB millions	%
Retail Dealers	9,309.6	76.4	8,402.2	73.3
Modern Trade	1,646.3	13.5	1,725.9	15.1
Others ⁽¹⁾	1,232.9	10.1	1,329.4	11.6
Sales	12,188.8	100.0	11,457.5	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	Nine months ended September 30,			
	2016		2017	
	THB millions	%	THB millions	%
Thailand	10,755.5	88.2	10,049.6	87.7
Overseas	1,433.3	11.8	1,407.9	12.3
Vietnam	859.8	7.1	800.9	7.0
Others ⁽¹⁾	573.5	4.7	607.0	5.3
Sales	12,188.8	100.0	11,457.5	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 increased THB42.8 million, or 0.6%, from THB7,492.7 million for the nine months ended September 30, 2016 to THB7,535.5 million for the nine months ended September 30, 2017. This increase was primarily attributable to the increase in raw materials costs. The following table sets forth the breakdown of our cost of sales;

Cost of sales	Nine months ended September 30,			
	2016		2017	
	THB millions	%	THB millions	%
Raw materials costs	4,953.2	66.1	5,021.7	66.6
Packaging costs	838.2	11.2	778.3	10.3
Labor costs	422.4	5.6	424.5	5.6
Overhead costs ⁽¹⁾	273.8	3.7	255.1	3.4
Depreciation and amortization costs	141.5	1.9	147.5	2.0
Cost of trading goods	863.6	11.5	908.4	12.1
Cost of sales	7,492.7	100.0	7,535.5	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 nine months ended September 30, 2016 and 2017, gross profit was THB4,696.1 million and THB3,922.0 million, respectively, or as a percentage of sales revenue, 38.5% and 34.2%, respectively. The decrease in gross profit margin was mainly attributable to higher average raw materials prices.



Selling expenses

Total selling expenses increased THB91.4 million, or 6.5%, from THB1,415.8 million for the nine months ended September 30, 2016 to THB1,507.2 million for the nine months ended September 30, 2017. This increase was primarily attributable to higher sales employee costs due 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 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	Nine months ended September 30,			
	2016		2017	
	THB millions	%	THB millions	%
Sales employee costs	455.0	32.1	547.7	36.3
Sales promotions ⁽¹⁾	147.1	10.4	166.0	11.0
Advertising expenses ⁽²⁾	332.6	23.5	273.0	18.1
Freight expenses	165.4	11.7	176.9	11.7
Commissions and incentives ⁽³⁾	199.6	14.1	202.9	13.5
Depreciation and amortization	53.0	3.7	51.2	3.4
Other selling expenses ⁽⁴⁾	63.1	4.5	89.5	6.0
Selling expenses	1,415.8	100.0	1,507.2	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 THB75.1 million, or 7.8%, from THB959.3 million for the nine months ended September 30, 2016 to THB884.2 million for the nine months ended September 30, 2017. This decrease was primarily attributable to the decrease in bad debt and allowance for doubtful accounts as we changed a provisioning policy for bad debt which resulted in higher than usual bad debt allowance for doubtful accounts in the 2016 reporting period and the 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	Nine months ended September 30,			
	2016		2017	
	THB millions	%	THB millions	%
Administrative employee costs	475.5	49.6	433.9	49.1
Rental	81.9	8.5	87.4	9.9
Fees and miscellaneous expenses ⁽¹⁾	97.4	10.1	117.9	13.3
Depreciation and amortization	71.6	7.5	55.1	6.2
Bad debt and allowance for doubtful accounts	51.9	5.4	12.2	1.4
Other administrative expenses ⁽²⁾	181.0	18.9	177.7	20.1
Administrative expenses	959.3	100.0	884.2	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 THB755.7 million, or 37.9%, from THB1,993.0 million for the nine months ended September 30, 2016 to THB1,237.3 million for the nine months ended September 30, 2017. Our net profit margin decreased from 16.1% for the nine months ended September 30, 2016 to 10.7% for the nine months ended September 30, 2017. The decrease in net profit margin was primarily due to a decrease in sales revenue, as well as the increase in raw materials costs.

Financial Position

Total Assets

As at December 31, 2016 and as at September 30, 2017, we had total assets of THB9,644.4 million and THB9,702.2 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 September 30, 2017, our total assets has not materially changed.

Total Liabilities

As at December 31, 2016 and as at September 30, 2017, we had total liabilities of THB8,866.4 million and THB7,701.4 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 September 30, 2017 was mainly attributable to the decrease in dividend payables, long-term loans from financial institutions, and income tax payables.



Shareholders' Equity

As at December 31, 2016 and as at September 30, 2017, we had shareholders' equity of THB778.0 million and THB2,000.8 million, respectively. The increase in shareholders' equity as at September 30, 2017 was mainly attributable to an increase in paid-up capital from THB900.0 million to THB1,775.0 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. Jatuphat Tangkaravakoon)

Chief Executive Officer

(Mr. Pongcherd Jameekornkul)

President