



บริษัท ไทยเซ็นทรัลเคมี จำกัด (มหาชน)

THAI CENTRAL CHEMICAL PUBLIC COMPANY LIMITED

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(Translation)

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23 February 2017

Subject Clarification of the year 2016 performance

To President
The Stock Exchange of Thailand

Enclosure Management Analysis and Discussion (MD&A)

Referred to rules and regulations of the SEC providing that a listed company shall clarify reason in case of difference between company including its subsidiaries' performance of the current year and that of the corresponding period of the previous year exceeding 20%, the Company would like to clarify as follows.

Performance of the Company including its subsidiaries of 2016 shows the Profit Attributable to Owners of the parent at the amount of THB 2.305 billion, increasing by 69% compared with the corresponding period of the previous year which showed the amount of THB 1.365 billion.

The reason of such result is shown in the Management Analysis and Discussion as in the attachment.

Please be informed accordingly.

Sincerely yours,

Mr. Kyosuke Sasaki
President & CEO

Management Discussion and Analysis (MD&A)

(Business Overview)

The Company reported in the Consolidated Financial Statement of 2016 from 1 January to 31 December, 2016 that the Company achieved Profit Attributable to Owners of the parent of Baht 2,305 million, an increase of 69% or Baht 940 million on the previous year of Baht 1,365 million. It was attributed to higher operational margin derived from efficient inventory management and to earnings from sales of non-performing assets.

To implement a growth strategy the Company developed business in Myanmar in 2016. The Company opened its first overseas branch in Yangon in August and established its first foreign subsidiary “TCCC Myanmar Limited” in October, 2016. Yangon branch is a marketing arm to develop fertilizer market and spread the Company’s brand in Myanmar. TCCC Myanmar Limited is constructing a packing and warehousing facility to start import and distributing the Company’s products from January 2018.

As a result, Earnings per Share for the year 2016 was 3.94 Baht, increased from 2.33 Baht in 2015.

Business Segment Information

The Company’s main business is to import, manufacture and distribute variety formulas of chemical fertilizer. The Company has 2 subsidiaries, 1) MC Agro-Chemicals Co., Ltd., an importer and distributor of herbicide, fungicide, and insecticide for agriculture, and 2) N.I.M. Co., Ltd., an owner and operator of the tank terminal for storage of liquid chemicals for industrial uses. The Company performance is analyzed in segment of Core Business and Subsidiaries Business.

- **Core Business (Chemical Fertilizers)**

Drought effect remained in agriculture in Thailand even after El Nino phenomenon since 2014 was over in the end of 2015. Due to very low level of water reserves in the irrigation system in the dry season, cultivation of the dry season crops was limited, and it made demand of fertilizers remained very weak in the first half of 2016.

Besides poor harvests due to drought, depressed prices of the agriculture products especially paddy rice in the second half of the year damaged farmers’ purchasing power. Rainfall in Thailand turned to normal level in the main crop season, and the government financial support to farmers eased difficulties, however, overall demand of fertilizer through the year of 2016 was less consequently and fertilizer prices decreased.

The Company exports the products to neighboring countries, Cambodia, Laos, and Myanmar. As Myanmar has highest potential for growth of fertilizer demand, the Company

focuses on its development. In 2016 the Company's export to Myanmar increased by 40% from the previous year, and it offset decline of sales in the home market.

In global market the fertilizer raw material prices declined throughout 2016 because of weak demand in major markets whilst an increase of suppliers capacity. In that circumstance the Company followed strictly its management policy to control procurement to maintain optimal inventory. With exchange rate of Baht against US dollar stabilized in 35-36 Baht/USD range, Cost of Sales of the Company decreased 13% in 2016 from the previous year.

- **Subsidiaries Business**

The income of the two subsidiaries was insignificant as 3.6% only of the total income (income from the sale of chemical fertilizer was 96.4%).

Net income of MC Agro-Chemicals dropped by -27% in 2016 from the previous year, resulted from a decrease of sales of herbicide due to weak demand from farmers.

Net income of N.I.M. dropped by -2% from the previous year, resulted from slight decline of volume of chemicals stored in the tanks. However, N.I.M.'s income was stable for high utilization rate.

The Company established the third subsidiary, TCCC Myanmar Limited in October, 2016. TCCC Myanmar will start operation from January, 2018, thereafter the Company will report of its business in Core Business segment.

Policy and Strategy

The Company adheres to the main policies of; 1) stably supplying high quality products for farmers to achieve high yield and good quality in farming, 2) providing best services to the customers to meet their requirement, and 3) controlling production and procurement to maintain optimal inventory, so as to generate highest income from the operation. The Company places most importance in manufacturing on safety and protection of environment, so as to be a good corporate citizen in the local societies as a part of the Company's CSR policy.

In order for sustainable growth, the Company has strategy; 1) to utilize its technology and manufacturing facilities to create distinctive value on the products, and 2) to develop fertilizer market in the neighboring countries to expand export business strongly.

By these policies and strategy the Management aims to increase the corporate value of the Company for benefit of all stakeholders.

Accounting Policies

The Company's financial year is of the period from 1 January until 31 December of every year. The financial statements have been prepared in accordance with Thai Accounting

Standard No.1 (Revised 2012) and the Regulation of the Stock Exchange of Thailand. The financial statements have been prepared under the measurement basis of historical cost. The significant accounting policies is to recognize revenue from sales when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. For inventories, it is stated at the lower of cost or net realizable value. Cost is determined on a weighted average method.

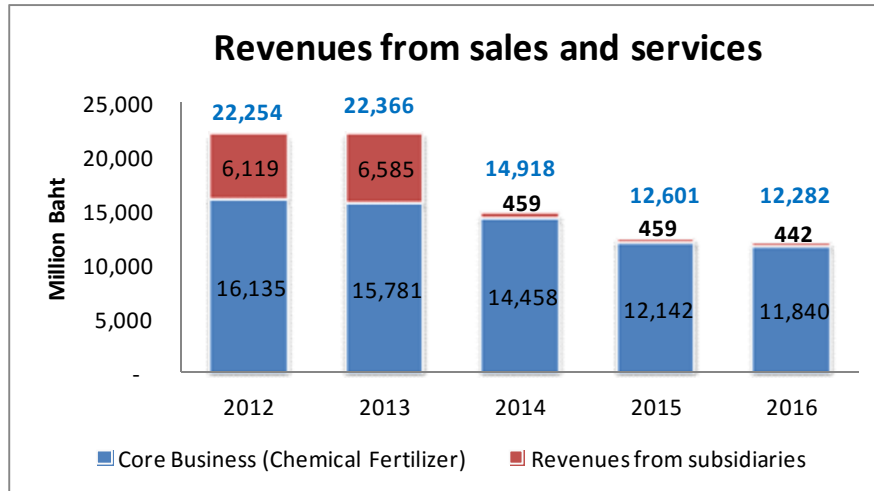
(Results of Operations)

1. Overview of the Operation

Statement of Profit or Loss and Other Comprehensive Income as of December 31, 2016 compares with the Statement of Profit or Loss and Other Comprehensive Income as of December 31, 2015

Unit : Million Baht	Year		Change
	2015	2016	%
Revenues from sales and services	12,601	12,282	(3)
Cost of Goods Sold and services	(10,400)	(9,085)	(13)
Gross Profit	2,201	3,197	45
Other Income	274	399	46
Profit Before Expense	2,475	3,596	45
Selling and Administration Expenses	(702)	(699)	(0)
Profit Before Financial Cost and Tax	1,773	2,896	63
Financial Cost	(16)	(6)	(60)
Profit Before Income Tax	1,757	2,890	64
Income Tax Expense	(364)	(575)	58
Profit (loss) for the year from discontinued operations	(2)	-	-
Profit for the year	1,391	2,315	66
Profit Attributable to Owners of the parent	1,365	2,305	69
Total Comprehensive Income Attributable to Owner of the parent	1,367	2,307	69

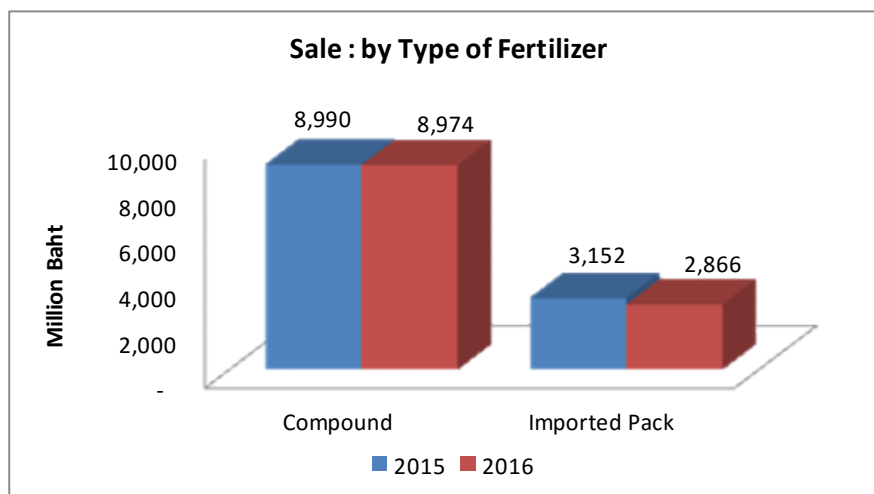
2. Revenues from Sales and Services



Remark: Income from Net Sales of 2014 was adjusted by excluding the income from MC Industrial Chemical Co., Ltd., MC Plastic Co., Ltd., and MC Solvents Co., Ltd., which the Company sold its shares in those companies out in 2015.

- **Core Business (Chemical Fertilizers)**

In 2016, the Company generated income from sales of chemical fertilizers in total of Baht 11,840 million decreasing by Baht 302 million or 2% from 2015 (Baht 12,142 million). The reason for the decrease of income came from the adjustment of sale price to be aligned with the lower raw material imported cost, and market situation in accordance to farmers had low purchasing power. While, the demand of chemical fertilizer remain unchanged compare to 2015. As the aforementioned, under such a fragile market condition in 2016, the Company strived to maintain the market and the competitiveness in the market in order to achieve the highest return for the shareholders.



The Company's chemical fertilizers can be categorized in 2 types: Compound fertilizers manufactured by the Company and Imported-Pack fertilizers. The income from selling the Compound fertilizers was in the amount of Baht 8,974 million decreasing by Baht 16 million or 0.2% from 2015, while the income from selling the Imported-Pack fertilizers was in the amount of Baht 2,866 million decreasing by Baht 286 million or 9.1% from 2015.

- **Income from the Subsidiaries' Business**

In 2016, income from the Subsidiaries' business was from selling technical pesticide and finished product which used in agriculture and servicing tank rental and terminal operation for the storage of liquid chemicals used in various industries, which was in the amount of Baht 442 million which decreasing by Baht 17 million or 3.7% comparing to Baht 459 million of 2015.

3. **Cost of Goods Sold and Services**

Cost of Goods Sold in 2016 showed at Baht 9,085 million decreasing by Baht 1,315 million Baht or 13% from 2015 (Baht 10,400 million). The overall of Cost of Goods sold had gradually decreased since 2012 due to the decrease of raw material prices in the world market. For other costs such as energy and transportation remained stable due to oversupply of crude oil in the world market. As well as, Baht currency against US Dollar was also remained stable at the level of 35 – 36 Baht per USD. Thus, the Cost of Goods Sold was decreased in the overall of 2016.

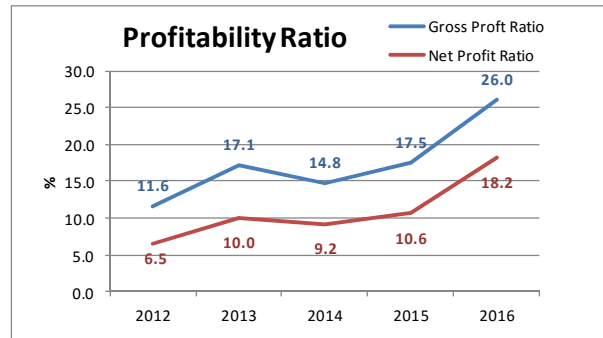
4. **Selling and Administration Expenses**

The Company bore the Selling and Administration Expenses at Baht 699 million, which was almost same level as 2015 (Baht 702 million). Despite the Company opened Yangon Branch Office, the result of Selling and Administration Expenses 2016 closed in the similar amount compare to previous year. In year 2016, the Management managed selling and administration expenses very well. In domestic market, the Company selected the effective advertising to expand sale volume and market shares. In Myanmar market, the Company paid appropriate expenses to start up our business.

5. **Profitability Analysis**

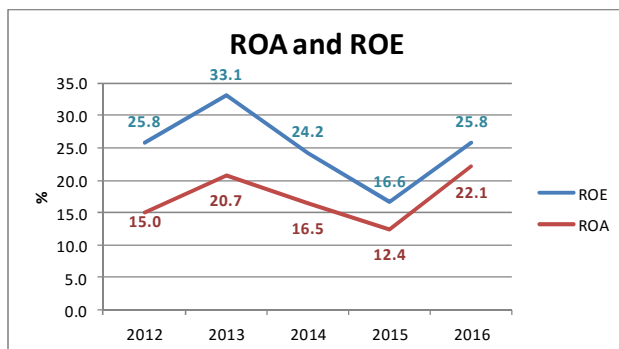
Unit	Year		Change
	2015	2016	%
Gross Profit (Million Baht)	2,201	3,197	45
Profit Attributable to Owners of the parent	1,365	2,305	69
Earning Per Share (Baht)	2.33	3.94	69

In 2016, The Company's Gross Profit showed at Baht 3,197 million increasing by Baht 996million or 45% from 2015 (Baht 2,201 million). The increase of Gross Profit was resulted from lower cost of raw materials. In the meantime, the Gross Profit Ratio of 2016 was 26.0%, which was more than 2015 that showed 17.5%.



For Profit Attributable to Owners of the parent of 2016, the Company earned at Baht 2,305 million increasing by Baht 940 million or 69% from 2015 (Baht 1,365 million). In this regard, the profit per share increased from 2.33 Baht of 2015 to 3.94 Baht in 2015 increasing by 1.61 Baht per share or 69%.

(Remark: the financial ratio of 2011 – 2014 included MC Industrial Chemical Co., Ltd., MC Plastic Co., Ltd. and MC Solvents Co., Ltd., which the Company sold its shares out in 2015)



The Return on Equity (ROE) ratio of 2016 was 25.8, which was higher than the 16.6 ratio of 2015. The Return on Asset (ROA) ratio of 2016 was 22.1, which was higher than the 12.4 ratio of 2015. The Company endeavored to maintain the capability to make profit for shareholders and substantially operate the business for the best performance by utilizing all existing

assets.

(Remark: The ratio in year 2011 – 2014 included MC Industrial Chemical Co., Ltd., MC Plastic Co., Ltd., and MC Solvents Co., Ltd., which the Company sold its shares out in 2015.)

Analysis of Liquidity and Capital Resources

1. Overview of Financial Statement

Note to Statement of Financial Position

Description	December 31, 2015		December 31, 2016	
	Million Baht	Percentage to Total Assets	Million Baht	Percentage to Total Assets
Current Assets	7,096	74	8,843	78
Non-current Assets	2,505	26	2,465	22
Total Assets	9,601	100	11,308	100
Current Liabilities	1,015	10	1,305	12
Non-current Liabilities	280	3	267	2
Shareholders' Equity	8,306	87	9,736	86
Total Liabilities and Shareholders' Equity	9,601	100	11,308	100

2. Assets

As of 31 December 2016, the Company's Total Asset showed at Baht 11,308 million increasing by Baht 1,707 million or 17.8%, from the end of 2015, details as shown in the below table:-

Description	December 31, 2015	December 31, 2016	Change %
	Million Baht	Million Baht	
Cash on Hand	4,662	6,092	31
Accounts Receivable - Trade	666	737	11
Inventories	1,545	1,678	9
Assets	9,601	11,308	18

All major assets of the Company increased, Cash on hand was increase from 2015 by 31%, Accounts Receivable – Trade increase by 11%, and Inventory increased by Baht 133 million or 9%. The Company remains concentrate on the policy to keep the inventory at the low level, but it would still be sufficient for the market demands for maintaining the competitiveness in the market. At the end of the year, the sale of chemical fertilizers during the off-season cultivation shown upward tendency, which the Company prepare slightly increase in stock for next year delivery. Accounts Receivable – Trade as shown in the table was 737 Million Baht as of 31 December 2016 increased by Baht 71 million or 11% from 2015. The allowance for doubtful accounts was set at Baht 38 million, which would cover the Accounts Receivable that overdue more than 12 months as showed at Baht27million.

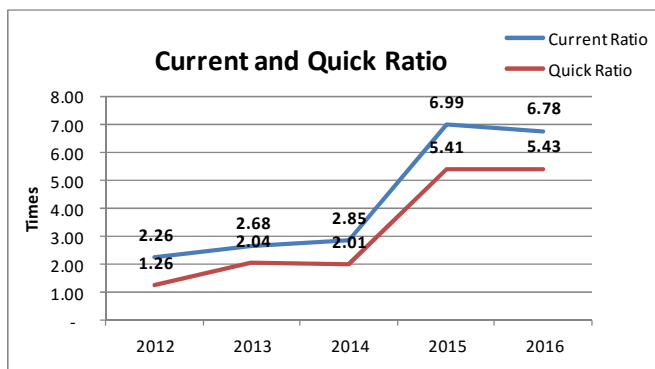
- **Investments Goodwill and Amortization**

The main intangible asset is Right for use of trademarks .The Company engaged an independent appraiser to determine the fair value of the right to use the trademarks referred to above in accordance with the Notification of the Stock Exchange Commission dated 30 April 2004 regarding the opinion for accounting treatment for intangible assets. According to the reports of the independent appraiser dated 5 January 2017 and 11 January 2016, the appraisal values of the fair value of such right as of 30 December 2016 and 30 December 2015, respectively, by using the Discounted Cash Flow Approach were higher than the carrying values.

3. Liabilities and Equity

- On 31 December 2016, the Company had Total Liabilities at Baht 1,572 million, increasing by Baht 277 million or 21% from the end of 2015.
- On 31 December 2016, the Company had Total Equity at Baht 9,736 million, increasing by Baht 1,430 million or 15% from the end of 2015.

4. Liquidity



The Company's Liquidity was considered to be very well. The Current Ratio was decreased a little from 6.99 at the end of 2015 to 6.78 at the end of 2016; the Quick Ratio was remaining almost unchanged 5.41 at the end of 2015 and 5.43 at the end of 2016. In the year 2016, the Company could keep good condition of sales collection and inventory time. Thus, the Company could significantly

escalated the Current and Quick Ratio.

The Net Cash Flow provided by operating activities of 2016 was Baht 2,233 million, increasing by Baht 609 million or 37.5% from 2015 (Baht 1,624 million). Meanwhile, the Net Cash Flow used in financing activities in 2016 was Baht 907 million, decreasing by Baht 784 million or 46.4 % from 2015 (Baht 1,691 million).

For the financing source and activities and the suitability of finance structure, the Company's policy is to spend the investments for business operation effectively by managing the borrowing for business operation to be at the least. In the end of 2016, the Company had bank overdrafts and short-term borrowings from financial institutions, and the amounts were Baht 11 million. It decreased by Baht 11 million or 50% from the end of 2015 (Baht 22 million).

For the investing activities in 2016, the Company invested on property, plant and equipment in the total amount of Baht 309 million. The major investment was for improving the plants' logistic system in order to deliver the products much faster and more effective.

5. COMMITMENT AND CONTINGENT LIABILITIES AND OUT BALANCE SHEET

5.1 The Company had capital commitment for capital expenditure as at 31 December 2016 and 2015 of Baht 97.31 million and Baht 96.23 million, respectively.

5.2 As at 31 December 2016 and 2015, the Company and its subsidiaries had leased office buildings, warehouse, vehicles and office equipment under operating lease agreements. The future lease payments are summarized as follows:

	CONSOLIDATED FINANCIAL STATEMENTS		SEPARATE FINANCIAL STATEMENTS	
	2016 Baht	2015 Baht	2016 Baht	2015 Baht
Within 1 year	24,133,281	19,105,482	21,659,385	19,105,482
1 - 5 years	20,887,945	9,625,621	15,462,149	9,625,621
Total	<u>45,021,226</u>	<u>28,731,103</u>	<u>37,121,534</u>	<u>28,731,103</u>

5.3 The Company had commitments with banks for letters of guarantee issued as at 31 December 2016 and 2015 of Baht 8.66 million and Baht 8.66 million, respectively. Certain subsidiaries had commitment with banks for letters of guarantee issued in the amount of Baht 0.17 million and Baht 0.17 million as at 31 December 2016 and 2015, respectively.

5.4 The Company had commitment with bank regarding the outstanding letters of credit amounting to Baht 289.46 million (USD 7.98 million and EUR 0.06 million) and Baht 93.93 million (USD 2.58 million and EUR 0.01 million) as at 31 December 2016 and 2015, respectively.

Certain subsidiaries had commitments with banks regarding the outstanding letters of credit amounting to Baht 3.42 million (USD 0.09 million) as of 31 December 2015 (as at December 31, 2016 = nil).

5.5 SIGNIFICANT AGREEMENTS

5.5.1 Technical assistance agreement

The Company had a technical assistance agreement with a company in Japan. The Company was obligated to pay a basic retaining fee of USD 50,000 per annum. The agreement was in effect for a period of one year and is automatically renewed on a yearly basis unless either party expresses its intention not to renew the agreement by written notice to other party at least three months before the expiring date.

5.5.2 Energy performance agreement

The Company entered into Energy Performance Contract (EPC) with a company. The Company would be advised to improve the efficiency of energy saving and had to pay monthly advisory fees based on percentage of the electricity power saving value in each month as specified in the agreement. The period of payment started when the cogeneration project was complete and would pay some saving amount according to Energy Performance Contract.

Economic & Business Forecast 2017

The Management views that uncertainty is growing in global economy for rising of protectionism. America-First policy of the new U.S. administration and intense negotiation of Brexit may turn around evolving of free trade in global economy. Despite these political uncertainties it is anticipated that economy in the leading industrialized countries like the U.S., Japan and Germany will have steady growth in 2017, and it will bring positive impact to Thailand economy as a recovering of export. For Thailand it is viewed that economy will speed up its recovering pace attributed to vigorous investments by the government and stronger export.

For agriculture the Management views that the government policy to support farmers and its stimulus package for local economy would be the key factors to enhance farmers' confidence to invest in agriculture production, that affect demand of chemical fertilizer. In this regard, the Management sees the major factors that impact our operation in 2017 as follows.

1. Domestic Factors

Major factors affecting fertilizer demand are; 1) water supply for farmland, and 2) purchasing power of farmers. For the year 2017, the Management sees that water supply should be better than the past two years as water reserve of the main dams are sufficient in the midst of the dry season, although rainfall in the coming rain season is still unknown. Farmers' purchasing power is expected to recover gradually for better harvesting and continuing financial support by the government. As a result the Management anticipates that chemical fertilizer demand in 2017 will recover from very low level in the last two years.

2. Global Factors

Coping with the rises of fertilizer raw material prices in global market is the key issue for the Company's operation in 2017. The raw material prices started upward movement from the 4th quarter of 2016, and it is anticipated that this trend continues through 2017. On the other hand, the U.S. monetary policy to hike interest rate may lead to depreciation of Baht against U.S. dollar. They will push the Company's cost of production up.

The Management will deal with these factors and strive to achieve best performance of the Company by carrying out the following measures, so that the Company will grow sustainably for benefit of all stakeholders.

- Retain customers and farmers' satisfaction.
- Keep high standard of quality of the products.
- Keep monitoring the market carefully so as to flexibly adjust production and procurement plan according to the market demand. As well, keep inventory at most appropriate level.
- Control all expenses effectively for lowering costs.
- Keep developing better manufacturing process and productivity improvement.
- Manage risks by never speculating on raw material prices and foreign currency.

