



(Translation)

NEP-AC 003/2562

14 August 2019

Subject: Management Discussion and Analysis for Q2 ended of 30 June 2019

To : The President

The Stock Exchange of Thailand

### **Operating Result**

NEP Realty and Industry Public company Limited would like to explain the operating result for Quarter 2 ended June 30, 2019 compare with the same period of the previous year as follows

#### **For the past 3 months of Quarter 2 ended of June 30, 2019**

The operating result for the past 3 months of Quarter 2 for the year of 2019 of the company show a net loss of 15.75 million baht, compare to the same period of previous year which a net loss of 8.46 million baht, the increased loss of 7.29 million baht, the main reasons are as follow;

#### **1. Revenue from sale , Other income**

The company had sale revenue at the end of Quarter 2 ended of June 30, 2019 at 92.55 million baht, compare with the same period of previous year with amount of 93.21 million baht which decrease by 0.66 million baht or 0.71% decrease, which resulted from revenue decrease from the sale of plastic woven bag from the effects of the recessions of economic circumstance since the beginning of the year, combine with the drought condition which affected the agricultural sectors which is the main customer of the company. Anyhow, the company still have higher revenue from the sale of Flexible packaging (new production line) compared with the same period of previous year.

Other income for Q2, 2019 are 0.66 million baht which comparable to 0.84 million bath last year with no significantly transaction changes.

## **2. Cost of sale , Profit margin**

For Quarter2 of the year 2019, the company had cost of sale of 93.54 million bath compare to 92.40 million baht last year with the increasing of 1.14 million bath or 1.23% increased, while sale revenue decrease by 0.71% results in less profit margin compare to Quarter 2 of the year 2018 which is reduce by 1.79 million baht due to higher waste than the standard setting thus, production volume of Flexible packaging product still not yet full of the production capacity to cover the fixed costs.

## **3. Selling expenses**

For Quarter 2 of the year 2019, the selling expenses was 3.46 million baht or 3.74% from sale revenue compare to 2.47 million baht or 2.65% from sale revenue of last year, increased by 0.99 million baht or 40.08% increased, which is a result from higher Research and Development expenses in preparing product samples to match with customer requirement which are the results from Sale department has contact new target customer group for expanding the Flexible packaging market.

## **4. Administrative expenses**

For Quarter2 of the year 2019, the administration expenses was 12.34 million baht or 13.33% from revenue compare to 14.56 million baht or 15.62% last year, Reduced by 2.22 million baht or 15.25% decreased. This decrease is the came from better management to compact the organization structure and continuous focus on reduction of expense of the company.

## **5. Management benefit expenses**

For Quarter2 of the year 2019, the management benefit was 3.77 million baht compare to 3.69 million baht, increase by 0.08 million or 2.17% increased which is not significant changes compare to last year.

## **6. Financial cost**

For Quarter2 of the year 2019, the financial cost was 0.47 million baht compare to 0.36 million bath last year, increase by 0.11million baht or 30.55% increased due to the payment through banking of plastic resin purchased (TR) .

## **7. Share of profit (loss) from investment in associated company**

For Quarter2 of the year 2019, Share of profit from investment in associated company was 4.92 million baht decrease by 5.83 million baht or 54.23 % decreased because the associated company had a less earning than previous year.

### **For the past 6 months ended of June 30, 2019**

The operating result for the past 6 months for the year 2019 of the company show a net loss of 30.49 million baht, compare to the same period of previous year which a net loss of 14.74 million baht, the increased loss of 15.75 million baht, the main reasons are as follow;

#### **1. Revenue from sale , Other income**

The company had sale revenue for the past 6 month ended of June 30, 2019 at 200.83 million baht compare with the same period of previous year with amount of 174.21 million baht which is increased by 26.62 million baht or 15.28% increase, which resulted from higher revenue from the sale of Flexible packaging (new production line) compared with the same period of previous year.

Other income for the past 6 months of 2019 are 1.61 million baht which comparable to 1.65 million bath last year with no significantly transaction changes.

#### **2. Cost of sale , Profit margin**

For the past 6 month of 2019, the company had cost of sale of 203.57 million bath compare to 170.53 million baht last year with the increasing of 33.04 million bath or 19.37% increased, results in less profit margin compare to the past 6 months of the year 2018 which is 6.42

million baht due to higher waste than the standard setting thus, production volume of Flexible packaging product still not yet full of the production capacity to cover the fixed costs.

### **3. Selling expenses**

For the past 6 month of 2019, the selling expenses was 6.41 million baht or 3.19% from sale revenue compare to 5.02 million baht or 2.88% from sale revenue of last year, increased by 1.40 million baht or 27.88% increased, which is in line with the increasing revenue and from Sale department support to continuously increase new target customer.

### **4. Administrative expenses**

For the past 6 month of 2019, the administration expenses was 26.34 million baht or 13.11% from revenue compare to 30.06 million baht or 17.25% last year, Reduced by 3.72 million baht or 12.38% decreased. This decrease is the came from better management to compact the organization structure and continuous focus on reduction of expense of the company.

### **5. Management benefit expenses**

For the past 6 month of 2019, the management benefit was 7.09 million baht compare to 8.04 million baht, decrease by 0.94 million or 11.69% decreased which came from better management to compact the organization structure and continuous focus on reduction of expense of the company.

### **6. Financial cost**

For the past 6 month of 2019, the financial cost was 0.91 million baht compare to 0.74 million bath last year, increase by 0.17 million baht or 22.97% increased due to the payment through banking of plastic resin purchased (TR) .

### **7. Share of profit (loss) from investment in associated company**

For the past 6 month of 2019, Share of profit from investment in associated company was 11.71 million baht compared to 23.48 million baht last year, decreased by 11.77 million baht or 50.13 % decreased because the associated company had a less earning than previous year.

## **Company Financial status**

**1. Total asset**, the company had total asset as at June 30, 2019 with amount of 864.99 million bath decrease from December 31, 2018 by 21.36 million baht or 2.41% decreased, the details of the change are as follows:

**1.1 Current asset** as of June 30, 2019 with amount of 203.42 million bath increased by 0.64 million bath or 0.32% increased due to the company received dividend from associated company with

Cash and cash equivalents decrease by 15.36 million bath as a result of the company has taken cash of 25 million baht to a 6-month fixed deposit, therefore, the temporary investment increased by 25 million baht. The trade accounts receivable decreased by 2.44 million baht, remaining inventories decreased by 6.72 million baht which was in line with the increasing in sale. This transaction shows that the company has ability to faster the collectable payment periods from customer and faster turnover rate of inventory.

**1.2 Non-current asset** as of June 30, 2019 with amount of 661.57 million bath decrease by 22.00 million bath or 3.22% decrease, is reduced in an investment in associated company of 10.73 million baht from less operating profit results of associated companies with a decreased in property, plant and equipment at 9.99 million baht due to the annual depreciation calculation.

**2. Total liability**, the company had total liability as of June 30, 2019 at 110.86 million bath increase from December 31, 2018 at 9.13 million bath or 8.97% increase, the details of the change are as follows:

**2.1 Current liability** as of June 30, 2019 with amount of 100.64 million bath increase by 9.76 million bath or 10.74% increase, is an increasing of short-term loans from financial institutions with the amount of 21.42 million baht, which is part of the purchase of plastic resin by bank payment (TR) with the decrease in account payable and other payable by 10.77 million bath. Overall short-term loans and Account payable in Q2, 2019 has increased compare to 2018 at 10.65 million baht or 16.65 % following the fact that the company has a rising sale trend, so it has to order more raw materials.

**2.2 Non-current liability** as of June 30, 2019 with amount of 10.21 million baht decrease by 0.63 million bath or 5.81% decrease, as a result of reduction in the payment of hire-purchase payable with the amount of 0.55 million baht and the decreased in employee benefit obligation payment at 0.08 million baht.

**3. Shareholder equity** as of June 30, 2019 with amount of 754.13 million bath decrease from December 31, 2018 by 30.49 million bath or 3.88% decrease, since the company loss from operation.

### **Future Trends**

From the problem of making gross profit in accordance to the business plan, The company will continues to focus on solving production problems follows the below details

- Recruiting, adjusting and developing personnel to be ready at all levels.
- Prepare manual work process for each department to control quality and reduce losses
- Create motivation by rewarding, if able to produce and control waste according to the target
- Improved data storage system and production reports for monitoring and controlling

For the direction of sales in 2019, it will continue to focus on expanding Flexible Packaging customers in the rice industry, Pet food industry, because it is a group that the company has the opportunity to receive an order of sacks, printed sacks or gravure sacks as well, and is a product that is not very complicated. This type of products are regularly produces by the factory which will help in waste controls and effectively manage the raw materials.

Please be informed accordingly,

Sincerely yours,

Mr.Saton Samerphark

Managing Director