



(Translation)

NEP-AC 002/2560

9 November 2017

Subject : Management Discussion and Analysis for 3<sup>rd</sup> Quarter ended 30 September 2017

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 the 3<sup>rd</sup> quarter and nine months period ended September 30, 2017 compare with the same period of the previous year as follows

#### **For the three months in Q3/2017 ended September 30, 2017**

The company had the operating result for the three months ended September 30, 2017 show a net loss of Baht 5.43 million, compare to the same period of previous year which a net loss of Baht 24.73 million, the loss decrease Baht 19.3 million or decrease by 78.03% , the main reasons are as follow

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

The company had revenue from sale for Q3/2017 ended September 30, 2017 of Baht 92.19 million, compare with the same period of previous year amount to Baht 70.65 million which increase Baht 21.54 million or 30.49%, which main result from the company increased its flexible packaging production line, in Q3/2017 the revenue from flexible packaging was increase recognized and the sale on plastic sack also increased.

For other income, the company had other income for Q3/2017 ended September 30, 2017 of Baht 0.91 million compare with the same period of previous year amount to Baht 0.97 million , decrease Baht 0.59 million or 6.08%, both period not very difference.

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

In Q3/2017 the company had cost of sale Baht 85.71 million compare with the same period of previous year amount to Baht 67.85 million, increase Baht 17.86 million or increase 26.33%, which increase by the same direction of sale increased and the profit margin increase by Baht 3.68 million or increase 131.34%, due to the company has improved its production efficiency and gain from sale of flexible packaging.

### **3. Selling expenses**

In Q3/2017, the selling expenses was Baht 2.63 million compare with the same period of previous year amount to Baht 2.39 million, increase Baht 0.24 million or increase 10.03%, this is due to the company has added sales staff for new product.

### **4. Administrative expenses**

In Q3/2017, the administration expenses was Baht 14.77 million compare with the same period of previous year amount to Baht 17.36 million, decrease by Baht 2.59 million or decrease 14.93%, because the company has strict control in spending .

### **5. Loss from impairment on asset (reversal)**

In Q3/2017 the loss from impairment on asset was revert Baht 2.62 million compare with the same period of previous year amount to Baht 8.91 million, decrease Baht 11.53 million or decrease 129.37% , due to sale on obsolete machine cause to revert allowance for decline value which was previously recorded as a loss from impairment on asset.

### **6. Management benefit expenses**

In Q3/2017, the management benefit was Baht 4.68 million compare with the same period of previous year amount to Baht 3.66 million, increase Baht 1.02 million or increase 27.74% , because the company added the employee at management level to align with appropriate organizational restructuring .

### **7. Financial cost**

In Q3/2017, the financial cost was Baht 0.47 million compare with the same period of previous year amount to Baht 0.94 million, decrease Baht 0.47 million or decrease 50.16%, since the company repaid the loan cause this expense has been reduced.

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

In Q3/2017, Share of profit (loss) from investment in associated company was Baht 7.14 million compare with the same period of previous year amount to Baht 2.77 million, increase Baht 4.37 million or increase 157.86%, because the associates company had a better performance than previous year

### **For the nine months ended September 30, 2017**

The company had the operating result for the nine months ended September 30, 2017 show a net loss of Baht 30.08 million, compare to the same period of previous year which a net loss of Baht 52.22 million, the loss decrease Baht 22.14 million or decrease by 42.39% , the main reasons are as follows

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

The company had revenue from sale ended September 30, 2017 of Baht 251.32 million, compare with the same period of previous year amount to Baht 227.16 million which increase Baht 24.16 million or 10.64%, which result from the revenue of flexible packaging was recognized and the sale on plastic sack also increased.

other income, for nine months ended September 30, 2017 the company had other income of Baht 2.31 million compare with the same period of previous year amount to Baht 1.94 million , increase Baht 0.37 million or 19.09%, because in nine months of 2017 there is an interest income from current investment.

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

For nine months ended September 30, 2017 the company had cost of sale Baht 243.64 million compare with the same period of previous year amount to Baht 220.20 million, increase Baht 23.44 million or increase 10.65%, which is increase with the same direction of sale increase , an profit margin increase from the same period of previous year Baht 0.72 million or increase 10.32% , due to the company has improved its production efficiency and increase in sale of new product with high margin.

### **3. Selling expenses**

For nine months ended September 30, 2017 the selling expenses was Baht 7.13 million compare with the same period of previous year amount to Baht 7.72 million, decrease Baht 0.59 million or decrease 7.62%, this is due to the company set measures to control appropriate spending.

### **4. Administrative expenses**

For nine months ended September 30, 2017 the administration expenses was Baht 41.58 million compare with the same period of previous year amount to Baht 41.49 million, increase by Baht 0.09 million or increase 0.21%, both period have similar amount.

### **5. Loss from impairment on asset (reversal)**

For nine months ended September 30, 2017 the loss from impairment on asset was revert Baht 2.83 million compare with the same period of previous year amount to Baht 8.91 million, decrease Baht 11.74 million or decrease 131.69% , due to sale on obsolete machine cause to revert allowance for decline value which was previously recorded as a loss from impairment on asset.

## **6. Management benefit expenses**

For nine months ended September 30, 2017 the management benefit expenses was Baht 12.61 million compare with the same period of previous year amount to Baht 12.29 million, increase Baht 0.33 million or increase 2.64% , because the company added the employee at the management level to align with appropriate organizational restructuring .

## **7. Financial cost**

For nine months ended September 30, 2017 the financial cost was Baht 1.43 million compare with the same period of previous year amount to Baht 3.14 million, decrease Baht 1.70 million or decrease 54.27%, since the company repaid the loan cause this expense has been reduced.

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

For nine months ended September 30, 2017 Share of profit (loss) from investment in associated company was Baht 18.66 million compare with the same period of previous year amount to Baht 14.07 million, increase Baht 4.59 million or 32.63%, because the associates had better earning than previous year.

## **Financial Position**

**1. Total asset**, the company had total asset as at September 30, 2017 of Baht 758.24 million decrease from December 31, 2016 by Baht 11.23 or 1.46% , the details of the change are as follow :

**1.1 Current asset** as at September 30, 2017 of Baht 173.57 million decrease by Baht 47.54 million or 21.50%, due to cash and cash equivalents decrease Baht 57.25 million, current investment decrease Baht 20 million, since the company spent money on new production lines and repay loans. In addition trade accounts receivable increase by Baht 7.99 million, which was in line with the increase in sale, an inventory increase Baht 20.29 million , because reserve of raw material for new product and work in process increase by customer order.

**1.2 Non current asset** as at September 30, 2017 amount of Baht 584.67 million increase Baht 36.31 million or 6.62% , an increase of investment in associated company Baht 9.56 million and increase in property, plant and equipment by Baht 25.81 million, due to the investment in machinery of new production lines.

**1.3 Intangible assets** as at September 30, 2017 amount of Baht 2.43 million increase Baht 1.16 million or 91.12% , due to the company has upgrade a computer program used to process accounting data.

2. **Total liability**, the company had total liability as at September 30, 2017 of Baht 109.91 million increase from December 31, 2016 to Baht 18.85 or 20.70% , the details of the change are as follow :
- 2.1 Current liability** as at September 30, 2017 amount of Baht 76.30 million increase Baht 25.63 million or 50.60%, This is an increase in raw material creditor amount of Baht 25.83 million ,due to the fact that the company has a rising sale trend, so it has to order more raw material.
- 2.2 Non current liability** as at September 30, 2017 amount of Baht 33.61 million decrease Baht 6.79 million or 16.80%, as a result of repayment of long-term loans from financial institutions Baht 9.67 million, and increase in liability under hire purchase agreement amount of Baht 4.07 million.
3. **Shareholder equity** as at September 30, 2017 amount of Baht 648.33 million decrease from December 31, 2016 by Baht 30.08 or 4.43% , since the company still has operating loss, however the loss likely to decrease gradually.

**Trend of year 2 017**

The company is focus on increasing the efficiency of the manufacturing process, control cost and expanding its customer base for new production lines, as well as maintaining its existing customers to enable the company to make a profit from the operation.

Please be informed accordingly.

Sincerely yours,

Mr.Vee Worasakyotin

Managing director