



(Translation)

NEP-AC 003/2563

13 Aug 2020

Subject: Management Discussion and Analysis for Q2 end of 30 June 2020

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 of June 30, 2020 compare with the same period of the previous year as follows

#### **For the past 3 months of Quarter 2 ended of June 30, 2020**

The operating result for the past 3 months of quarter 2 ends of June 30, 2020 of the company show a net loss of 6.55 million baht, compare to the same period of previous year which a net loss of 15.75 million baht, the decreased loss of 9.20 million or decreased loss percentages of 58.41% , 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, 2020 at 99.83 million baht, compare with the same period of previous year with amount of 92.55 million baht which increase by 7.28 million baht or 7.87% increased, due to the increased sale of Flexible packaging compared to last year.

Other income for Q2, 2020 are 1.03million baht compare to 0.66 million bath last year, with 0.37 million baht increase with no significantly transaction changes.

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

For Quarter 2 of the year 2020, the company had cost of sale of 98.72 million bath compare to 93.54 million baht last year with the increasing of 5.18 million bath or 5.54% increased, while sale revenue increase by 7.28% results in increasing gross profit margin

compare to Quarter 2 of the year 2019 by 2.09 million baht due to better cost controlling process in production and better efficiency in production line.

### **3. Selling expenses**

For Quarter 2 of the year 2020, the selling expenses was 2.66 million baht or 2.66% from sale revenue compare to 3.46 million baht or 3.74% from sale revenue with is 0.8 million baht or 23.12% decreased came from the compact of restructuring of the organization thus the better control in delivery expenses..

### **4. Administrative expenses**

For Quarter 2 of the year 2020, the administration expenses was 11.80 million baht or 11.70% from sale revenue compared to the same period last year at 12.34 million baht or 13.24% from revenues , decreased by 0.54 million baht or 4.38% decreased. This decrease is the result from a better control of expense thus the compact of the restructuring of the organization structure.

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

For Quarter 2 of the year 2020, the management benefit was 3.24 million baht compare to 3.77 million baht, decrease by 0.53 million or 14.06% decreased because the company had adjust the organization to be more compact and more cost saving.

### **6. Financial cost**

For Quarter 2 of the year 2020, the financial cost was 0.18 million baht compare to 0.47 million bath last year, decrease by 0.29 million baht or 61.70 % decreased. In the year 2019 the company has the interest payment from the payment through banking of plastic resin purchased (TR) but after the Company decided to canceled the production of tape and weaving process following the new business model to reduce the cost the purchasing of plastic resin through banking (TR) has been canceled too results in the financial cost also reduced.

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

For Quarter 2 of the year 2020, share of profit from investment in associated company was 9.19 million baht compare to 4.92 million bath last year, increased by 4.27 million baht or 86.79% increased because the associated company had better earning than previous year.

**For the past 6 months ended of June 30, 2020**

The operating result for the past 6 months for the year 2020 of the company show a net loss of 12.76 million baht, compare to the same period of previous year which a net loss of 30.49 million baht, the decreased loss of 17.73 million baht, or 58.15% decreased loss, 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, 2020 at 197.97 million baht compare with the same period of previous year with amount of 200.83 million baht which is decreased by 2.86 million baht or 1.42% decrease, which resulted from less revenue from the sale of plastic woven bags from the economic regression plus Thai baht appreciation results in less ordered from our main customer in tapioca flour production (export) , in additional , Gravure woven bags customer in rice production also has less ordered. The Company try to solve the problem by increased the order from Feed production customers.

On the contrary, sales of Flexible packaging still continue growing compared to last year, due to the market size increased of the company in the past few months, the Covid-19 effects the rice industry operators to increased their order of small sizes packaging (1kg, 2 kg, 5 kg) follow the consumer behaviors changes during Stay-home campaign from the governments, consumer start to hoarding rice products, plus the reasons that the government ordered the closure of various stores, more home cooking behaviors. The results of the expanding production line into flexible packaging group help reducing impact from uncontrollable external environmental risks for the company. Allowing the company to sustain the sale from dramatically fall in the economic crisis.

Other income for the past 6 months of 2020 are 1.79 million baht which comparable to 1.61 million bath last year with no significantly transaction changes.

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

For the past 6 month of 2020, the company had cost of sale of 197.09 million baht compare to 203.57 million baht last year with the decreasing of 6.48 million baht or 3.18% decreased, results in more profit margin compare to the past 6 months of the year 2019 by 3.62 million baht due to better cost control and improvement of production efficiency.

## **3. Selling expenses**

For the past 6 month of 2020, the selling expenses was 5.66 million baht or 2.86% from sale revenue compare to 6.41 million baht or 3.19% from sale revenue of last year, decreased by 0.75 million baht or 11.70% decreased, This decrease is the result from a better control of delivery expense thus the compact of the restructuring of the organization structure.

## **4. Administrative expenses**

For the past 6 month of 2020, the administration expenses was 23.76 million baht or 11.89 % from revenues compare to 26.34 million baht or 13.01% last year, Reduced by 2.58 million baht or 9.79% 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 2020, the management benefit was 6.21 million baht compare to 7.09 million baht, decrease by 0.88 million or 12.41% 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 2020, the financial cost was 0.39 million baht compare to 0.91 million baht last year, decrease by 0.52 million baht or 57.14% decreased because of In the year 2019 the company has the interest payment from the payment through banking of plastic resin purchased (TR) but after the Company decided to canceled the production of tape and weaving process following the new business model to reduce the cost the purchasing of plastic resin through banking (TR) has been canceled too results in the financial cost also reduced.

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

For the past 6 month of 2020, Share of profit from investment in associated company was 20.58 million baht compared to 11.71 million baht last year, increased by 8.87 million baht or 75.74 % increased because the associated company had a better earning than previous year.

### **Company Financial status**

**1. Total asset**, the company had total asset as of June 30, 2020 with amount of 799.67 million bath decrease from December 31, 2019 by 11.24 million baht or 1.39% decreased, the details of the change are as follows:

**1.1 Current asset** as of June 30, 2020 with amount of 179.52 million bath decreased from December 31, 2019 by 16.64 million bath or 8.48% decreased due to the main reason of the decreasing of cash and cash equivalents of 8.90 million bath due to the loss of company operating results and the company use cash to invested in buying shares of associated companies. The trade accounts receivable decreased by 14.83 million baht, remaining inventories decreased by 2.94 million baht which was in line with the sale.

**1.2 Non-current asset** as of June 30, 2020 with amount of 620.15 million bath increase by 5.41 million bath or 0.88% increase due to the increasing in investment in associated company of 9.30 million baht from better earning of associated company and the increasing investment in associated company. Plus the effect of Right-of-use assets increased by 6.66 million baht upon initial application of TFRS 16 that was announced in 2020. With the decreasing in land properties and equipment of 10.12 million baht due to the annual depreciation calculation.

**2. Total liability**, the company had total liability as of June 30, 2020 at 85.95 million bath increase from December 31, 2019 at 6.27 million bath or 7.87% increase, the details of the change are as follows:

**2.1 Current liability** as of June 30, 2020 with amount of 72.99 million bath increase by 2.13 million baths or 3% increase is an increasing in lease liability which is deal within 1 year at 2.29 million baht following the application of TFRS 16 that was announced in 2020.

**2.2 Non-current liability** as of June 30, 2020 with amount of 12.95 million baht increase by 4.13 million bath or 46.82% increase, as a result of increasing of liability under lease agreements that has been recalculate following the application of TFRS 16 that was announced in 2020.

3. **Shareholder equity** as of June 30, 2020 with amount of 713.72 million bath decrease from December 31, 2019 by 17.50 million bath or 2.39% decreased, since the company loss from operation by 12.76 million baht. And from the adoption of the financial reporting standards regarding Financial tools for accounting, hedging and derivative accounting with the amount of 4.62 million baht and allowance for loss of trade and other current receivables with the amount of 0.12 million baht.

### **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 2020, it will continue to focus on expanding Flexible Packaging customers into 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. Weerachart Lohsiri

Managing director