



บริษัท เอ็นอีที อสังหาริมทรัพย์และอุตสาหกรรม จำกัด (มหาชน)
NEP REALTY AND INDUSTRY PUBLIC COMPANY LIMITED
Public Company Registration No. 0107537000831



(Translation)

NEP-AC 003/2565

11 Aug 2022

Subject: Management Discussion and Analysis for Q2 end of 30 June 2022

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, 2022 compare with the same period of the previous year as follows

For the past 3 months of Quarter 2 ended of June 30, 2022

The operating result for the past 3 months of quarter 2 ends of June 30, 2022 of the company show a net loss of 12.40 million baht, compare to the same period of previous year which a net loss of 2.38 million baht, the increased loss of 10.02 million, 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, 2022 at 83.08 million baht, compare with the same period of previous year with amount of 95.24 million baht which decrease by 12.16 million baht or 12.77 % decreased, due to the impact of sales from Plastic woven bag that was declined from the cancellation of plastic woven bag's production line and the Company only selected large customers. However, sales of Flexible packaging tend to be higher than last year from the opening the market with new release of new products.

Other income for Q2, 2022 are 0.43 million baht compare to 0.56 million bath last year, with 0.13 million baht decrease with no significantly changes.

2. Cost of sale , Profit margin

For Quarter 2 of the year 2022, the company had cost of sale of 85.14 million bath compare to 100.70 million baht last year with the decreasing of 15.55 million bath or 15.45 % decreased, while sale revenue decrease by 12.77% showed the decreasing in cost per unit results but still got negative gross profit margin of 2.47%.

From changing the business model to outsourcing production of plastic woven bag or Trading by hiring other partnership manufacturer to produce instead of our own manufacturing. As a results, the company has a relatively stable gross profit margin in this quarter even the sale is reduced.

However. The company still get loss in gross margin of Flexible packaging in Q2, 2022 due to the increasing cost of raw materials show 15-20% increase and fluctuates every week according to oil prices from the world economic downturn from the War between Russia and Ukraine , while the selling price has been committed with customers.

3. Selling expenses

For Quarter 2 of the year 2022, the selling expenses. was 2.24 million baht or 2.69% from sale revenue compare to 2.66 million baht or 2.79% from sale revenue of 2021 which was slightly decrease in the same proportion to the decrease in sale revenue. However, when considered in percentages of sale, the company has better control in selling expenses compare to previous year.

4. Administrative expenses

For Quarter 2 of the year 2022, the administration expenses was 15.46 million baht or 18.51% from sale revenue compared to the same period last year at 10.76 million baht or 11.23% from sale revenue, the Higher administrative expenses came from the allowance setting of the impairment of the plastic woven bag production machinery for sale at 2.57 million baht and the loss from the destruction of the finished goods at 2.09 million baht.

5. Management benefit expenses

For Quarter 2 of the year 2022, the management benefit was 3.39 million baht compare to 3.57 million baht, decrease by 0.18 million or 5.18% decreased without significantly changes in any transaction.

6. Financial cost

For Quarter 2 of the year 2022, the financial cost was 0.15 million baht compare to 0.19 million bath last year, which almost the same amount compared to last year. The financial cost of the company mainly come from the interest on hire purchase contracts and the interest payment from the payment through banking of plastic granule purchased (TR). The company has no long-term debt from financial institutions.

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

For Quarter 2 of the year 2022, share of profit from investment in associated company was 10.50 million baht compare to 19.69 million bath last year, decreased by 9.19 million baht because the associated company had less earning than previous year.

For the past 6 months ended of June 30, 2022

The operating result for the past 6 months for the year 2022 of the company show a net loss of 24.14 million baht, compare to the same period of previous year which a net loss of 12.55 million baht, the increased loss of 11.58 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, 2022 at 175.32 million baht compare with the same period of previous year with amount of 192.81 million baht which is decreased by 17.48 million baht or 9.07% decrease, due to the impact of sales from Plastic woven bag that was declined from the cancellation of plastic woven bag's production line and the Company only selected large customers. However, sales of Flexible

packaging tend to be higher than last year from the opening the market with new release of new products.

Other income for the past 6 months of 2022 are 3.14 million baht compared to 1.18 million baht last year of 1.96 million baht increased due to the company got a rental and services fees of a Woven bag production machineries from VAVA PACK co. ltd.

2. Cost of sale , Profit margin

For the past 6 month of 2022, the company had cost of sale of 182.21 million bath compare to 204.12 million baht last year with the decreasing of 21.90 million bath or 10.73% decreased, while the sale decrease by 9.07% this results show a lower cost per unit but still in Negative loss in gross profit margin of the company by 3.92%.

From changing the business model to outsourcing production of plastic woven bag or Trading by hiring other partnership manufacturer to produce instead of our own manufacturing. As a results, the company has a relatively stable gross profit margin in this quarter even the sale is reduced.

However, for the past 6 months of 2022, the company Flexible packaging still got negative loss in profit margin due to the increasing cost of raw materials show 15-20% increase and fluctuates every week according to oil prices from the world economic downturn from the War between Russia and Ukraine , while the selling price has been committed with customers.

3. Selling expenses

For the past 6 month of 2022, the selling expenses was 4.56 million baht or 2.60% from sale revenue compare to 5.42 million baht or 2.81% from sale revenue which is slightly decrease in the same decreasing proportion with the reduction of sales. And when calculated into the proportion of sale, the results show that the company has a better control in selling expenses compared to last year.

4. Administrative expenses

For the past 6 month of 2022, the administration expenses was 26.96 million baht or 15.10% from revenue compare to 23.13 million baht or 11.92% from revenue which is higher when compared to last year. Due to in Quarter 2 of 2022, the company has set the allowance cost of the impairment of the plastic woven bag production machinery for sale at 2.57 million baht and the loss from the destruction of the finished goods at 2.09 million baht. However, when consider only normal transaction, the company has less administrative expenses compare to the previous year.

5. Management benefit expenses

For the past 6 month of 2022, the management benefit was 7.17 million baht compare to 6.90 million baht, increase by 0.27 million or 3.97% increased which came from the company had hires new personnel in management level in Marketing and Sales department and experienced Research and Development for packaging to focus on new product development, in order to expanding the market to increase sales in the future..

6. Financial cost

For the past 6 month of 2022, the financial cost was 0.30 million baht compare to 0.36 million bath last year, the financial cost is almost the same with previous year. The financial cost came from the interest on hire purchase contracts and the interest payment from the payment through banking of plastic granule purchased (TR). The company has no long-term debt from financial institutions.

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

For the past 6 month of 2022, share of profit from investment in associated company was 18.60 million baht compared to 33.39 million baht last year, decreased by 14.79 million baht because the associated company had a less earning than previous year.

Company Financial status

1. Total asset, the company had total asset as of June 30, 2022 with amount of 730.89 million bath decreased from December 31, 2021 at 53.91 million baht or 6.87% decreased, the details of the change are as follows:

1.1 Current asset as of June 30, 2022 with amount of 107.30 million bath decreased from December 31, 2021 by 28.74 million bath or 21.13% decreased as a results from the reduction in cash and cash equivalent at 12.56 million baht follow the negative loss from operation and the remaining inventory reduce by 14.73 million baht from the cancellation of the plastic bag in 2022.

1.2 Non-current asset as of June 30, 2022 with amount of 623.59 million bath decrease by 25.17 million bath or 3.88% decrease due to the decreasing in property, plant and equipment at 26.89 million baht from the Plastic woven bag's production machinery that sold to VAVA PACK Co,ltd. and from yearly depreciation calculation.

2. Total liability, the company had total liability as of June 30, 2022 at 97.19 million bath decrease from December 31, 2021 at 29.77 million bath or 23.45% decrease, the details of the change are as follows:

2.1 Current liability as of June 30, 2022 with amount of 88.53 million bath decrease by 26.00 million bath or 22.70% decreased, due to the reduction in trade account payable at 31.61 million baht follow the less ordering of raw materials from the cancellation of the plastic woven bag in 2022 with the lowering or raw materials ordering follow the sale trends.

2.2 Non-current liability as of June 30, 2022 with amount of 8.67 million baht decrease by 3.77 million bath or 30.32% decrease. This was a reduction from the non-current provisions for employee benefits that were recalculated due to the termination of the plastic woven bag production line. Therefore, the company has no long term liability with any financial institution.

3. Shareholder equity as of June 30, 2022 with amount of 633.69 million bath decrease from December 31, 2021 by 24.14 million bath or 3.67% decreased, since the company loss from operation by 24.14 million baht.

Future Trends

For the direction of sales in 2022, during the economic regression all over the country and the world, from the War and from the Covid-19 pandemic outbreak, The Company has project to adjust the business model of Plastic woven bag to be outsourcing or Trading format from existing customer bases. By outsourcing production from business partner manufacturers instead of producing our own which help the company to eliminate risk of economy of scale and waste control that the company cannot control, which will result in the company's stable gross profit margin. The Company will continue to focus on increasing sale and expanding market of Flexible Packaging to fulfill the production capacity to cover the fixed cost that the company have invested for the new machineries in order to improved quality and varieties of products with the standard setting of production procedure, raw materials consumption including strictly waste controlling system to followed standard setting.

The company reconstruction in this time, will reduce the loss from the production of plastic woven bags and also results in the reduction of the administrative expenses which will be shown in the last six months of the year 2022.

Another factors that the company has concern are, the rising cost of raw materials that continually increase following the oil price increasing. The Company has planned to order raw materials in advance and plan to received order from customers, setting selling price with customers in accordance with the raw material's purchase plan.

Please be informed accordingly,

Sincerely yours,

Mr. Vee Worasakyothin

Acting Managing director