



(Translation)

NEP-AC 003/2566

August 11, 2023

Subject : Management's Overall analysis "2<sup>nd</sup> Quarter of Year 2023 as of June 30, 2023"

To : The President

The Stock Exchange of Thailand

### **Overall achievement**

NEP Realty and Industry Public Company Limited would like to inform overall achievement of the 2<sup>nd</sup> Quarter of Year 2023 as of June 30, 2023 by comparing with the same period of last year as follows;

### **For the past 3 mounts of Quarter 2 ended of June 30, 2023**

Overall achievement of the 2<sup>nd</sup> Quarter of Year 2023 as of June 30, 2023, the net loss was 4.19 million baht to compare with the same period of year 2022, the net loss was 12.40 million baht. The performance is still consecutive loss by decreasing 8.12 million baht loss. The important causes were as follows:

#### **1.Sales revenue and other income**

Sales revenue for the 2<sup>nd</sup> Quarter of Year 2023 as of June 30, 2023, amounted to 33.17 million baht, compared to 49.91 million baht in the same period of 2022, showing a reduction of 49.91 million baht or 60.71%. The main causes were the decrease in sales of plastic woven bag orders and the cessation of production in the plastic woven bag line.

Other income for the 2<sup>nd</sup> Quarter of Year 2023 as of June 30, was 0.66 million baht, compared to the same period in 2022 when it was 0.43 million baht, increased 0.43 million baht. There were no significant changes in the reported items.

#### **2. Cost of Goods Sold/Cost of Sales & Gross Profit**

In the 2<sup>nd</sup> Quarter of Year 2023 as of June 30, COGS amounted to 38.74 million baht, which decreased by 40.46 million baht or 54.50% compared to the same period in 2022 when it was 85.14 million baht. Despite



the decrease in sales revenue by 60.07%, the COGS per unit remained high, resulting in a gross loss of 16.80%.

NEP has restructured its business type to "Outsourcing and Trading" for woven bags, working with business partners to fulfill orders and produce plastic woven bags. Hence, NEP could generate gross profit even though sales revenue decreased.

### **3. Sales & Marketing costs**

In the 2<sup>nd</sup> Quarter of Year 2023 as of June 30, sales and marketing costs amounted to 2.78 million baht, accounting for 8.38% of total sales, compared to 2.24 million baht or 2.69% of total sales in the same period of 2022. The increase in total costs was research and development of new product formats intended to be showcased as samples for customer.

### **4. Overheads**

In the 2<sup>nd</sup> Quarter of Year 2023 as of June 30, overheads were 8.85 million baht or accounted for 26.69% of sales revenue to compare with the same period of year 2022, it was 15.50 million baht or accounted for 18.65% of sales revenue. Overall were lower than same period of last year at 6.65 million baht. NEP adjusted the organizational structure to be more compact and ongoing cost reduction. However, if comparing proportion of income, it was still higher than last year due to sales order reduction.

### **5. Benefit management**

In the 2<sup>nd</sup> Quarter of Year 2023 as of June 30, benefit management amounted 1.84 million baht, a reduction of 1.18 million baht or 1.18% compared to the same period in 2022 when it was 3.38 million baht. The decrease was a result of the ordinary shareholders' meeting not approving the director's remuneration.

### **6. Financial expenses**

In the 2<sup>nd</sup> Quarter of Year 2023 as of June 30, financial expense was 0.12 million baht to compare with the same period of year 2022, it was 0.15 million baht. Overall closed to last year. The main cost of financial expense was bank interest for TR payment. NEP has not had long-term debt with financial institution.

### **7. Return on Investment**



In the 2<sup>nd</sup> Quarter of Year 2023 as of June 30, the profit from investments 14.31 million baht, compared to 10.50 million baht in the same period of 2022, resulting in an increase of 3.81million baht due to higher profits from investment companies.

### **For the past 6 mounts of Quarter 2 ended of June 30, 2023**

The operating result for Quarter 2 of the year 2023 of the company show a net loss of 10.32 million baht, compare to the same period of previous year which a net loss of 24.14 million baht, decreased 13.82 million baht due to the main reasons as follow;

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

The company had sale revenue at the end of 2<sup>nd</sup> Quarter of Year 2023 as of June 30, at 68.49 million baht, compare with the same period of previous year with amount of 175.32 million baht which decrease by 106.83 million baht or 60.93%, due to the impact of sales from Plastic woven bag that was declined from the cancellation of plastic woven bag's production line.

Other income the past 6 mounts of Quarter 2 ended of June 30, 2023 are 1.40 million baht compare to last year at 3.14 million baht, which decrease by 1.74 million baht. main decreasing from machinery production and labor services provided to Vava Pack Co., Ltd. However, currently, there is no longer any revenue from these services.

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

For end of 2<sup>nd</sup> Quarter of Year 2023 as of June 30, the company had cost of sale of 77.11 million baht compare to 182.21 million baht last year with the decreasing of 105.11million baht or 57.68% decreased, while sale revenue decreases by 60.93% this reveal that the company has lower cost per unit however still in negative gross loss profit margin of 12.58%

The product, Flexible Packaging, has experienced sales and production volumes below target, leading to production capacity not fully covering fixed costs. Quality control has not met the specified standards. Therefore, the company needs to expedite solutions to enhance production efficiency. The company has depreciation amounting to 1.33 million baht from raw materials and deteriorated products, and decrease by 0.88 million baht from the net realizable value within the cost of sales.

By transitioning business operations, such as selling plastic bags through outsourcing or trading, the company has engaged external manufacturers who are strategic partners, replacing in-house production.



This has resulted in an initial profit from the sale of plastic bags that is relatively certain for this quarter, despite a decrease in sales volume.

### 3. Selling expenses

For end of 2<sup>nd</sup> Quarter of Year 2023 as of June 30, the selling expenses. was 5.42 million baht or 7.91% from sale revenue compare to 4.56 million baht or 2.60% from sale revenue of 2022 increase because The distribution costs have increased due to research and development of new product formats intended for showcasing to potential customers.

### 4. Administrative expenses

For end of 2<sup>nd</sup> Quarter of Year 2023 as of June 30, the administration expenses were 16.22 million baht or 23.69% of revenue compared to the same period last year at 26.96 million baht or 15.38 % of revenue which almost the same with previous year. Due to the company's organizational restructuring for increased efficiency and a heightened focus on continuous cost reduction, the proportion of expenses has been minimized. However, when compared proportionally to the income, there is a higher ratio than the previous year. This is due to a decrease in sales volume.

### 5. Management benefit expenses

For end of 2<sup>nd</sup> Quarter of Year 2023 as of June 30, the management benefit was 5.08 million baht compare to 7.17 million baht, decrease by 2.09 million baht or 29.15 % The decrease was a result of the ordinary shareholders' meeting not approving the director's remuneration.

### 6. Financial cost

For end of 2<sup>nd</sup> Quarter of Year 2023 as of June 30, the financial cost was 0.24 million baht compare to 0.30 million baht last year, which is almost the same with previous year. The financial cost came from the Interest from hire purchase contract and the interest payment from the payment through banking of plastic granule purchased (TR) without the long-term debts from financial institutions. The Company has no long-term debt with any financial institution.

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

For end of 2<sup>nd</sup> Quarter of Year 2023 as of June 30, share of profit from investment in associated company



was 23.87 million baht compare to 18.60 million baht last year, increase by 5.27 million baht because the associated company had less earned than previous year.

## Balance sheet

1. Total assets: As of June 30, 2023, NEP has total assets of 639.17 million baht, which decreased by 12.90million baht or accounted for 1.98% from December 31, 2022.

**1.1 Current assets:** As of June 30, 2023, the total value was 41.57 million baht, a decrease of 13.18 million baht or accounted for 24.07% from 2022. The details of the decrease include a reduction of cash by 6.67 million baht due to losses from operations, and a decrease of debtors and inventories 5.77 million baht and 1.48 million baht, respectively.

It's worth noting that the most significant reason for the decrease in sales revenue was the cessation of plastic woven bag production.

**1.2 Fixed assets:** As of June 30, 2023, the total value was 597.60 million baht, an increase of 0.28 million baht or accounted for 0.05%. The major increase was from profit sharing of investments, amounting to 10.97 million baht. Additionally, assets such as estate, buildings, and equipment reduced by 8.41 million baht due to annual depreciation.

**2. Total liability:** NEP has total liability 46.01 million baht as of June 30, 2023, decreasing liability value 2.58 million baht or accounting for 5.31%. Details of major changes are as follows;

**2.1 Current liability :** was 40.03 million baht and slightly decreasing 2.18 million baht or accounted for 5.16% as of June 30, 2023, Due to a decrease in sales volume, the company has reduced its raw material orders and managed to lower its outstanding lease liabilities, as per the terms for payment within a year about 1 million baht.

**2.2 Fix liability :** was 5.99 million baht, decreased 0.39 million baht or accounted for 5.16% as of June 30, 2023, the decreasing liability was according to rental NEP was no long-term liability with financial institutions.



**3. Shareholder equity** was 593.16 million baht as of June 30, 2023, decreased 10.32 million baht or accounted for 1.71% from December 31, 2022. The main cause the company loss from operation in 6 mouths by 13.32 million baht

### **Future trends**

In the year 2023, The company's business direction has been influenced by ongoing global economic challenges and various issues such as the conflict between Russia and Ukraine, as well as the ongoing impact of the COVID-19 pandemic. While we have adapted to these circumstances, the global economy, continues to experience significant effects. Therefore, the company must continually adjust its business plan to align with the evolving situation, ensuring that NEP remains progressive and aligned with the company's vision of becoming a leader in Flexible Packaging Solution and Innovation.

The company focuses on the business of selling traditional plastic bags and extending it through the Outsourcing approach. This is due to the presence of existing customer bases and the pursuit of new clients using a Partner Strategy to boost sales and accumulate higher profits. Additionally, the company aims to accelerate sales growth in the Flexible Packaging sector by analyzing customers, competitors, markets, competitive pricing, and targeting specific customer segments. The company manages the entire production process, including marketing planning for production and continuous product innovation within the framework of NEP products, ensuring cumulative profits for each product to Fixed Costs.

A business avenues and opportunities are sought to expand revenue streams from sales and services, aiming to generate profits from the Packaging. This includes:

- **Creating New Products:** Developing new products that are accessible to customers through various channels, ensuring continuous sales.
- **Product Development:** Collaborating with customers from the beginning to add value to NEP products, creating value-added products and services and fostering customer relationships.
- **Services:** Providing consultation services for designing and planning Flexible Packaging business for interested companies or clients.
- **Partnering:** Collaborating with business partners to expand Packaging business channels, reduce production costs, minimize waste, increase product efficiency, and ensure timely deliveries.



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Emphasizing the enhancement of employee skills in Technology Transfer within relevant departments is aimed at fostering continuous work skill development. This includes leveraging tools such as Database management and Software Analysis programs to optimize work processes. The objective is to achieve efficiency and effectiveness in all aspects, including waste control in production processes, ensuring adherence to inspection standards. These efforts aim to create a reference database for troubleshooting production issues, including the procurement of raw materials. This involves direct communication with suppliers through a year Frame Supplier Contract, tracking progress with Frame Contracts every 3 months. Additionally, actively seeking new suppliers to foster competitive pricing is pursued through periodic Supplier search to encourage price competition.

Please be informed accordingly.

Sincerely yours,

Mr. Charnwit Phaophonng  
Acting Managing Director