



(Translation)

NEP-AC 002/2566

July 28, 2023

Subject : Management Discussion and analysis for Q1 end of 31 March 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 1st Quarter of Year 2023 as of March 31, 2023 by comparing with the same period of last year as follows;

The 1st quarter of year 2023 as of March 31, 2023

Overall achievement of the 1st quarter of year 2023 as of March 31, 2023, the net loss was 6.12 million baht to compare with the same period of year 2022, the net loss was 11.74 million baht. The performance is still consecutive loss by decreasing 5.62-million-baht loss. The important causes were as follows:

1. Sales revenue and other income

Sales revenue for the 1st quarter of 2023, as of March 31, amounted to 35.32 million baht, compared to 92.24 million baht in the same period of 2022, showing a reduction of 56.92 million baht or 61.71%. 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 1st quarter of 2023, as of March 31, was 0.74 million baht, a decrease of 1.97 million baht compared to the same period in 2022 when it was 2.71 million baht. The main component of other income was rental and service fees provided to VAVA Pack Company for using production facilities of woven packages.

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

In the 1st quarter of 2023, as of March 31, COGS amounted to 38.36 million baht, which decreased by 58.71 million baht or 60.48% compared to the same period in 2022 when it was 97.07 million baht. Despite the decrease in sales revenue by 61.71%, the COGS per unit remained high, resulting in a gross loss of 8.61%.

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.



However, one of the product types, "Flexible Packaging," still incurred gross losses due to lower sales orders and production process issues. Consequently, the fixed costs were not covered, waste management was below specified standards, and NEP encountered challenges in setting customer selling prices for pre-orders, mainly due to fluctuating raw material prices amid the world economic crisis.

3. Sales & Marketing costs

In the 1st quarter of 2023, as of March 31, sales and marketing costs amounted to 2.64 million baht, accounting for 7.47% of total sales, compared to 2.32 million baht or 2.52% of total sales in the same period of 2022. The increase in total costs was due to producing sample products and higher travel costs for the sales team.

4. Overheads

The 1st quarter of year 2023 as of March 31, 2023, overheads were 7.37 million baht or accounted for 20.87% of sales revenue to compare with the same period of year 2022, it was 11.46 million baht or accounted for 12.42% of sales revenue. Overall were lower than same period of last year at 4.09 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 1st quarter of 2023, as of March 31, benefit management amounted to 3.24 million baht, a reduction of 0.55 million baht or 14.51% compared to the same period in 2022 when it was 3.79 million baht. The decrease was a result of NEP's organizational structure adjustments to become more compact.

6. Financial expenses

The 1st quarter of year 2023 as of March 31, 2023, financial expense was 0.13 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 1st quarter of 2023, as of March 31, the profit from investments was 9.56 million baht, compared to 8.10 million baht in the same period of 2022, resulting in an increase of 1.46 million baht due to higher profits from investment companies.



Balance sheet

1. **Total assets:** As of March 31, 2023, NEP has total assets of 646.08 million baht, which decreased by 5.99 million baht or accounted for 0.92% from December 31, 2022.

1.1 Current assets: As of March 31, 2023, the total value was 44.42 million baht, a decrease of 10.33 million baht or accounted for 0.19% from 2022. The details of the decrease include a reduction of cash by 9.96 million baht due to losses from operations, and a decrease of debtors and inventories by 0.75 million baht and 0.57 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 March 31, 2023, the total value was 601.66 million baht, an increase of 4.34 million baht or accounted for 0.73%. The major increase was from profit sharing of investments, amounting to 9.55 million baht. Additionally, assets such as estate, buildings, and equipment reduced by 4.08 million baht due to annual depreciation.

2. **Total liability:** NEP has total liability 48.72 million baht as of March 31, 2022, increasing liability value 0.13 million baht or accounting for 0.27%. Details of major changes are as follows;

2.1 Current liability was 42.42 million baht and slightly increasing 0.21 million baht or accounted for 0.50% as of March 31, 2023. The debt payment was proceeded according to schedule.

2.2 Fix liability was 6.31 million baht, decreased 0.07 million baht or accounted for 1.10% as of March 31, 2023, the decreasing liability was according to rental contract 0.21 million baht. However, the fix liability has still increased to reserve for staffs' benefits 0.15 million baht. NEW was no long-term liability with financial institutions.

3. **Shareholder equity** was 597.36 million baht as of March 31, 2023, decreased 6.12 million baht or accounted for 1.01% from December 31, 2022. The main cause was still net loss.



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Business Outlook

Business objectives and direction are key strategies to drive business growth in 2023. The current world situation, such as the Russia-Ukrainian dispute and the Covid-19 crisis, is significant. Therefore, NEP cannot be negligent; we must adjust our business strategies to move forward and grow under these crisis situations. NEP is determined to be a "Flexible Packaging Solution and Innovation" provider.

The outsourcing strategy is to create a network of cooperation, sharing costs & profits to serve customers with the same product qualities. NEP will set up a Sales and Marketing strategy team to analyze market trends, target new customer groups, and identify customer segments for each product, such as plastic woven bags, flexible packaging, etc. Additionally, NEP will focus on designing new product innovations to serve small, medium, and large enterprises. The company believes that this is a great opportunity to increase market share, sales revenue, and cost management.

The potential employee development program, which focuses on technical skills, quality management skills, and technical knowledge transfer, aims to enhance problem-solving abilities based on concrete information. NEP will create supplier agreements/contracts for the short and long term, manage the raw material supply chain, handle material cost management, and conduct bidding for new suppliers to enhance price competitiveness.

Please be informed accordingly.

Sincerely yours,

Mr. Charnwit Phaophonng
Acting Managing Director