

SCG DECOR PUBLIC COMPANY LIMITED

Management Discussion and Analysis

Management Discussion and Analysis: MD&A**Executive Summary**

In 2023, the ASEAN was affected by various situations, such as the conflict between Russia and Ukraine, the conflicts in the Middle East, which led to volatile energy prices, rising interest rates, and inflation, as well as the situation in Vietnam's real estate sector. These factors impacted both the cost of production and a decrease in overall purchasing power. However, energy costs showed an improving trend in the second half of the year 2023.

Based on the aforementioned situation, in 2023, SCG Decor Public Company Limited (the Company) reported Revenue from Sales of 28,312 MB, a decrease of 6% YoY and Profit attributable to owners of the company of 328 MB. However, if excluded impact from restructuring and other Non-Recurring items, the Company's Profit attributable to owners of the company for the year 2023 would be 817 MB, a decrease 30% YoY.

The Company's key business highlights in 2023

The Company focused on cost reduction, efficiency improvement, and production processes to enhance a competitiveness through investments in various key projects as follows

1. The Glazed Porcelain tiles, Semi-Glazed Porcelain tiles, and Large-sized tiles production expansion investment namely Dai Loc project phase 1 and 2 in Central region of Vietnam and Tien Phong project in Northern region of Vietnam with total investment of 911 MB, expected for commercial production in 2024.
2. A new Large-sized tiles production line project in Thailand with total investment of 340 MB, commercial production started in the middle of 2023.
3. A new SPC (Stone Plastic Composite) Vinyl tile production line project in Thailand, in response to the growing consumer demand, with total investment of 138 MB, expected for commercial production in the middle of 2024.
4. Additional installation of 14.3 megawatts solar power in 2023 to increase usage of renewable energy and reduce energy cost.
5. Hot Air Generator projects in Thailand to increase the proportion of energy from biomass and reduce energy cost have total investment of 185 MB. One project was completed in July 2023 and two more projects will be completed in May 2024.

In addition, the Company has also strengthened its distribution channels both within Thailand and internationally.

Dedicated to operate with a focus on sustainable development, following ESG principles

The Company committed to operate in line with ESG guidelines. In 2023, the Company achieved a net greenhouse gas emission of 1.03 million tons, a reduction of 0.32 million tons or 24% from the base year (2020), by installing additional solar cells to increase the renewable energy usage from 3.2% to 5.6%, and increasing the proportion of alternative fuel usage from 9.0% to 15.6%.

The Company's Restructuring to be a flagship company of SCC group for Floor Tiles, Wall Tiles and Bathroom business and IPO

In 2023, the Company underwent a business restructuring and successfully completed its listing on the Stock Exchange of Thailand on December 20, 2023. The IPO had a total value of 5,049.6 MB, divided into (a) IPO shares for the COTTO Share Swap portion amounting to 2,341.3 MB, and (b) IPO shares in cash portion amounting 2,708.3 MB. This is considered a significant success that will enhance competitiveness by creating synergies among businesses in both Thailand and ASEAN.

Moreover, the business restructuring and IPO have also strengthened the Company's financial position with cash and cash equivalent balance exceeding 10,000 MB. This enables the Company to expand its business and proceed with its strategies moving forward.

Based on the aforementioned operations, the Company is confident that it will be able to enhance its competitiveness in various aspects and achieve a sustainable business growth. Recently, the Board of Directors of the Company resolved to propose to the Annual General Meeting of Shareholders dated 25th March 2024 for the approval of a dividend payment for the year 2023 at the rate of 0.15 Baht per share, totalling 247.5 million Baht. The dividend shall be paid on Monday, 22nd April 2024 to the shareholders entitled to receive dividend and listed in the record date on Tuesday, 2nd April 2024 (The Stock Exchange of Thailand shall post the "XD" sign or the date on which the buyers of securities shall have no rights to receive dividend on Monday, 1st April 2024).

Operating result, Financial status and key financial ratio

The Company was restructured by transferring companies that were not part of the Company's restructuring plan out of the Company's group and completing an IPO in 2023. Therefore, the past financial performance and financial status of the Company have been impacted by performance of those companies which

were not part of the Company's restructuring plan, profit/loss from transferring those companies out from the Company's group, as well as expenses related to the IPO.

Thus, the Company includes the financial performance without the aforementioned impact for the purpose of analysis and calculation of financial ratio as follows.

Financial and Operating result	Unit	As of and for the year ended December 31,		
		2023	2022	2021
Total Assets	Million Baht	41,651	40,550	46,938
Total Liabilities	Million Baht	20,339	21,726	10,026
Total Shareholders' Equity	Million Baht	21,312	18,825	36,912
Revenues from Sales	Million Baht	28,312	35,228	31,023
Revenues from Sales (Exclude Impact from restructuring and other Non-Recurring items)	Million Baht	28,312	30,254	25,938
Total Revenue	Million Baht	28,941	36,153	31,689
Total Revenue (Exclude Impact from restructuring and other Non-Recurring items)	Million Baht	28,941	31,179	26,604
EBITDA <i>(Earnings before finance cost, tax, depreciation and amortization (excluded dividend from associates and included FX gain/loss from loans)</i>	Million Baht	3,014	2,514	3,932
EBITDA (Exclude Impact from restructuring and other Non-Recurring items)	Million Baht	3,350	3,727	4,014
EBITDA Margin (Exclude Impact from restructuring and other Non-Recurring items)	%	12%	12%	15%
Net Profit	Million Baht	474	315	1,375
Net Profit (Exclude Impact from restructuring and other Non-Recurring items)	Million Baht	963	1,320	1,402
Net Profit Margin (Exclude Impact from restructuring and other Non-Recurring items) ⁽¹⁾	%	3%	4%	5%
Profit attributable to owners of the company excluding the companies which were not in the SCG Decor's	Million Baht	328	-421	321

Financial and Operating result	Unit	As of and for the year ended		
		December 31,		
		2023	2022	2021
restructuring and IPO plan but not yet completely transferred out				
Profit attributable to owners of the company	Million Baht	328	238	1,110
Profit attributable to owners of the company (Exclude Impact from restructuring and other Non-Recurring items)	Million Baht	817	1,163	1,210
Profit margin which attributable to owners of the company (Exclude Impact from restructuring and other Non-Recurring items) ⁽²⁾	%	3%	4%	5%
Return on Equity (Exclude Impact from restructuring and other Non-Recurring items) ⁽³⁾	%	4% ⁽⁶⁾	4% ⁽⁶⁾	N/A
Return on Total Assets (Exclude Impact from restructuring and other Non-Recurring items) ⁽⁴⁾	%	2% ⁽⁶⁾	3% ⁽⁶⁾	N/A
Debt to Equity ⁽⁵⁾	Times	0.95	1.15 ⁽⁶⁾	0.27 ⁽⁶⁾

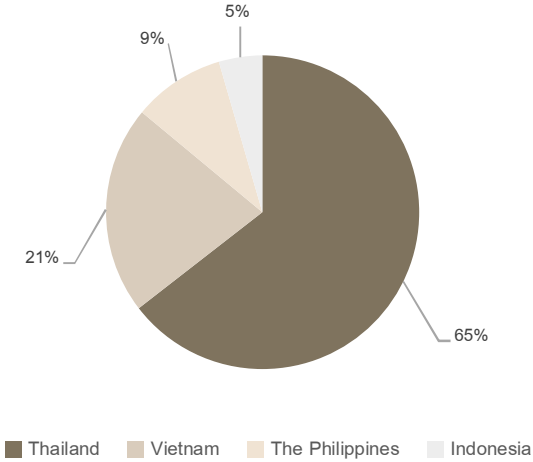
Remarks

- (1) Net profit margin was calculated by dividing Net Profit (loss) of the year/ period by Total Revenue respectively.
- (2) Profit margin which attributable to owners of the company was calculated by dividing Profit attributable to owners of the company by Revenues from Sales respectively.
- (3) Return on Equity was calculated by dividing Profit attributable to owners of the company of the year/ period by average shareholder's equity respectively.
- (4) Return of Asset was calculated by dividing Net Profit of the year/ period by average Total Asset respectively
- (5) Debt to Equity ratio was calculated by dividing Total liability by Total shareholder equity.
- (6) Total Asset value, Total liability and shareholder's equity by end of 2021 and 2022 still included some assets and liabilities of the Company that not being a part of the Company's restructuring plan.
- (7) Impact from restructuring for instance year-to-date performance of the companies which were not part of the Company's restructuring plan including Profit/Loss from transferring the companies out of the Company's group. Non-Recurring items for instance impairment of assets and inventory devaluation of the large artificial stone factory in 2022 and expenses related to the IPO.

Revenues from Sales

For the fiscal year ending on December 31, 2023, the Company reported Revenues from Sales of 28,312 MB. This represented a decrease of 6% from the same period of the previous year. By more than half the Revenue is from Decor surfaces, Bathroom, and Other businesses in Thailand. The rests are contribution from Vietnam which was impacted by the situation in real estate sector and the Philippines & Indonesia which were affected by declining purchasing power.

Proportion of Revenues from Sales in 2023 (%)

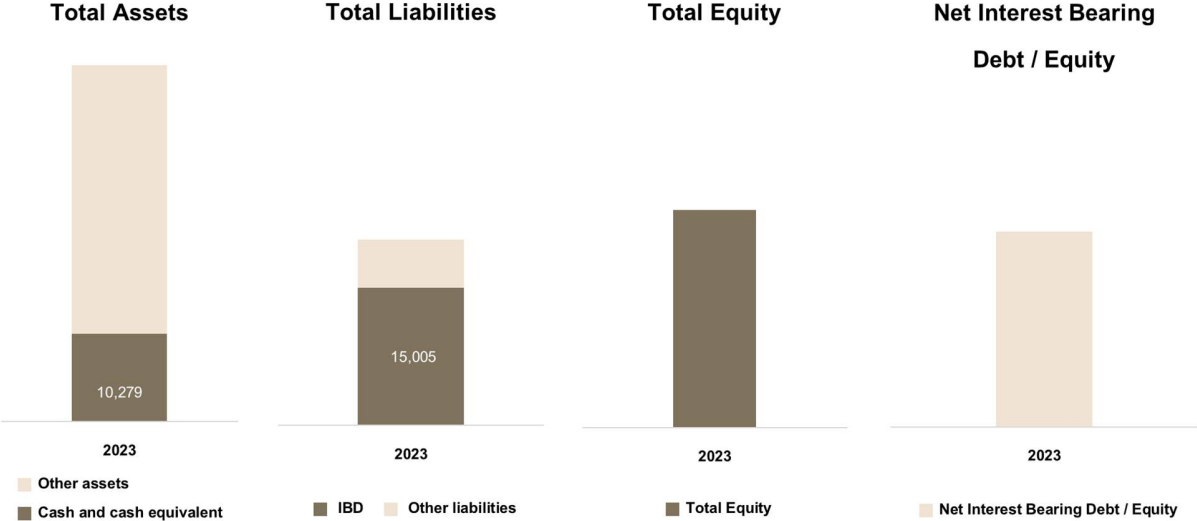


EBITDA and Profit attributable to owners of the company

For the fiscal year ending on December 31, 2023, Gross Profit was 23.6% and EBITDA was 3,014 MB which over half was contributed from the operation in Thailand. If excludes impact from restructuring and other Non-Recurring items, EBITDA would be 3,350 MB. This represented a decrease of 10% from the same period last year as a result of the decrease in sales in the regional market and the volatility of energy cost.

Profit attributable to owners of the company for the year 2023 was 328 MB. However, if exclude impact from restructuring and other Non-Recurring items, a Profit attributable to owners of the company for the year 2023 would be 817 MB, 30% decrease YoY.

The Company’s EBITDA margin was 12% and Profit margin which attributable to owners of the company was 3%. The energy costs showed an improving trend in the second half of the year 2023.



Total Assets

As of December 31, 2022, and 2023, the Company had total assets of 40,550.4 MB and 41,650.8 MB, respectively. The Company’s major assets consisted of land, buildings and equipment, inventories, short-term investments, trade and other current receivables, and cash and cash equivalents, which accounted for 79.0% and 81.4% of the total assets, respectively.

The increase in total assets between December 31, 2023, and 2022, was primarily due to the cash from the IPO, and from land, buildings, and equipment, mainly from the investment projects.

Total liabilities

As of December 31, 2022, and 2023, the Company had total liabilities of 21,725.8 MB and 20,338.9 MB, respectively. The majority of the Company’s liabilities consisted of short-term loans and trade and other current payables, which accounted for 86.2% and 86.8% of the total liabilities, respectively. For the fiscal year ending December 31, 2023, interest bearing debt was 15,005 MB and the Net Interest Bearing Debt to Equity ratio was 0.2x.

	Year		
	2023	2022	2021
Short-term loans	14,395	15,503	2,925
Baht	13,997	14,277	2,333
Foreign	398	1,226	592
% of total loans	96%	96%	82%
Long-term loans	609	638	662
Baht	209	190	220
Foreign	400	448	442
% of total loans	4%	4%	18%
Total loans	15,005	16,142	3,587
Cash and cash under management	10,279	7,363	9,340
Cash and cash equivalents	5,203	1,817	3,419
Short-term investment	5,076	5,547	5,921
Net debt	4,725	8,778	(5,752)

Remark: Above Loans includes lease liabilities

Shareholders' equity

As of December 31, 2022, and 2023, the Company's equity amounted to 18,824.6 MB and 21,311.9 MB, respectively. The shareholders' equity as of December 31, 2023, increased by 2,487.3 MB from December 31, 2022, primarily due to an increase in the registered capital, while retained earnings decreased due to dividend payments.

Significant Financial Information

SCG Decor Public Company Limited and its Subsidiaries						
Consolidated statement of financial position						
As at 31 December 2023, 2022 and 2021						
	Unit : Million Baht					
Assets	2023	%	2022	%	2021	%
Current assets						
Cash and cash equivalents	5,203	12.5	1,817	4.5	3,419	7.3
Short-term investment	5,076	12.2	5,547	13.7	5,921	12.6
Trade and other current receivables	4,449	10.7	5,068	12.5	5,254	11.2
Short-term loans	-	-	31	0.1	435	0.9
Inventories	7,542	18.1	8,165	20.1	7,888	16.8
Land development for sale	394	0.9	430	1.1	430	0.9
Other current assets	54	0.1	71	0.2	90	0.2
Total current assets	22,718	54.5	21,128	52.1	23,437	49.9
Non-current assets						
Investments in associates	76	0.2	71	0.2	531	1.1
Other non-current receivables	152	0.4	204	0.5	259	0.6
Long-term loans	-	-	86	0.2	87	0.2
Investment property	622	1.5	623	1.5	649	1.4
Property, plant and equipment	11,621	27.9	11,435	28.2	14,922	31.8
Goodwill	5,684	13.6	6,071	15.0	6,074	12.9
Other intangible assets	113	0.3	130	0.3	228	0.5
Deferred tax assets	483	1.2	601	1.5	564	1.2
Other non-current assets	183	0.4	202	0.5	187	0.4
Total non-current assets	18,933	45.5	19,423	47.9	23,501	50.1
Total assets	41,651	100.0	40,550	100.0	46,938	100.0

SCG Decor Public Company Limited and its Subsidiaries						
Consolidated statement of financial position						
As at 31 December 2023, 2022 and 2021						
Unit : Million Baht						
Liabilities and shareholders' equity	<u>2023</u>	<u>%</u>	<u>2022</u>	<u>%</u>	<u>2021</u>	<u>%</u>
Current liabilities						
Bank overdrafts and short-term borrowings from financial institutions	338	0.8	500	1.2	262	0.6
Trade and other current payables	3,768	9.0	3,891	9.6	4,369	9.3
Current portion of lease liabilities	162	0.4	167	0.4	194	0.4
Short-term borrowings	13,896	33.4	14,835	36.6	2,469	5.3
Corporate income tax payable	193	0.5	219	0.5	151	0.3
Other current liabilities	93	0.2	129	0.3	83	0.2
Total current liabilities	18,450	44.3	19,742	48.7	7,529	16.0
Non-current liabilities						
Lease liabilities	609	1.5	638	1.6	662	1.4
Deferred tax liabilities	208	0.5	235	0.6	266	0.6
Non-current provisions for employee benefits	1,015	2.4	1,046	2.6	1,514	3.2
Other non-current liabilities	57	0.1	64	0.2	54	0.1
Total non-current liabilities	1,889	4.5	1,984	4.9	2,497	5.3
Total liabilities	20,339	48.8	21,726	53.6	10,026	21.4
Shareholders' equity						
Share capital						
Authorized share capital	16,550		7,909		7,909	
Issued and paid share capital	16,500	39.6	7,909	19.5	7,909	16.8
Other surpluses	584	1.4	0	0.0	0	0.0
Other deficits	(5,709)	(13.7)	(4,680)	(11.5)	(1,478)	(3.1)
Retained earnings						
Appropriated						
Legal reserve	284	0.7	130	0.3	130	0.3
Unappropriated	10,997	26.4	14,870	36.7	13,665	29.1
Other components of shareholders' equity	(2,959)	(7.1)	(2,375)	(5.9)	(3,252)	(6.9)
Total equity attributable to owners of the Company	19,697	47.3	15,854	39.1	16,974	36.2
Shareholders' equity before business restructuring	-	-	-	-	15,725	33.5
Non-controlling interests	1,615	3.9	2,971	7.3	4,213	9.0
Total shareholders' equity	21,312	51.2	18,825	46.4	36,912	78.6
Total liabilities and shareholders' equity	41,651	100.0	40,550	100.0	46,938	100.0

SCG Decor Public Company Limited and its Subsidiaries

Consolidated income statement

For the year ended 31 December 2023, 2022 and 2021

Unit : Million Baht

	2023	%	2022	%	2021	%
Revenue from sales	28,312	100.0	35,228	100.0	31,023	100.0
Cost of sales	(21,633)	(76.4)	(27,019)	(76.7)	(23,140)	(74.6)
Gross profit	6,679	23.6	8,209	23.3	7,883	25.4
Other income	628	2.2	925	2.6	665	2.1
Profit before expenses	7,307	25.8	9,134	25.9	8,549	27.6
Distribution costs	(3,499)	(12.4)	(4,227)	(12.0)	(3,897)	(12.6)
Administrative expenses	(2,085)	(7.4)	(3,583)	(10.2)	(2,677)	(8.6)
Loss from sale of investment in subsidiaries from business restructuring	(249)	(0.9)	(592)	(1.7)	-	-
Total expenses	(5,833)	(20.6)	(8,402)	(23.9)	(6,574)	(21.2)
Profit from operations	1,474	5.2	733	2.1	1,975	6.4
Finance costs	(548)	(1.9)	(160)	(0.5)	(126)	(0.4)
Share of profit of associates accounted for using equity method	1	0.0	4	0.0	21	0.1
Profit before income tax	928	3.3	576	1.6	1,869	6.0
Tax expense	(454)	(1.6)	(261)	(0.7)	(495)	(1.6)
Profit for the period	474	1.7	315	0.9	1,375	4.4
Profit (loss) attributable to						
Owners of the Company	328	1.2	(421)	(1.2)	321	1.0
Other company in the Group before business restructuring	-	-	659	1.9	789	2.5
Non-controlling interests	147	0.5	77	0.2	264	0.9
	474	1.7	315	0.9	1,375	4.4
Basic earnings (loss) per share (in Baht)						
Attributable to owners of the Company	0.28		(0.53)		4.06	

SCG Decor Public Company Limited and its Subsidiaries			
Consolidated statement of cash flows			
For the year ended 31 December 2023, 2022 and 2021			
	Unit : Million Baht		
	2023	2022	2021
Cash flows from operating activities			
Profit for the year	474	315	1,375
Adjustments for			
Tax expense	454	261	495
Depreciation and amortization	1,540	1,781	1,947
Loss on inventories devaluation	47	140	26
Non-current provisions for employee benefit expense	88	35	158
(Gain) loss on foreign currency exchange	(1)	19	(2)
Share of profit of associates accounted for using equity method	(1)	(4)	(21)
Interest income	(379)	(337)	(289)
Finance costs	548	160	126
Loss on impairment of assets (reversal)	(1)	747	24
Loss from sale of investments and others	253	586	29
Cash flows generated from operations before changes in			
operating assets and liabilities	3,021	3,704	3,868
Decrease (increase) in operating assets			
Trade and other receivables	134	(609)	(714)
Inventories	362	(1,243)	(866)
Land development for sale	35	-	57
Other assets	10	6	66
Net decrease (increase) in operating assets	541	(1,846)	(1,457)

SCG Decor Public Company Limited and its Subsidiaries			
Consolidated statement of cash flows			
For the year ended 31 December 2023, 2022 and 2021			
	Unit : Million Baht		
	2023	2022	2021
<i>Increase (decrease) in operating liabilities</i>			
Trade and other payables	435	714	469
Non-current provisions for employee benefits	(76)	(131)	(113)
Other liabilities	(18)	36	(60)
Net increase in operating liabilities	340	619	296
Net cash flows generated from operations	3,903	2,477	2,707
Income tax paid	(408)	(374)	(681)
Net cash flows provided by operating activities	3,494	2,103	2,025
<i>Cash flows from investing activities</i>			
Proceeds from sale of subsidiaries, net of cash disposed	246	2,525	-
Acquisition of subsidiaries and business, net of cash acquired	-	(17,083)	-
Proceeds from sale of interests in associates net of cash disposed	-	478	14
Proceeds from transfer business under common control	-	230	-
Proceeds from sale of short-term investment, net	120	-	-
Proceeds from (payment of) sales of debt instruments of other entities	-	(363)	145
Proceeds from sale of property, plant and equipment	49	47	66
Acquisition of property, plant and equipment and investment property	(1,720)	(1,578)	(1,025)
Proceeds from sale of intangible assets	-	-	4
Acquisition of intangible assets	(22)	(35)	(39)
Proceeds from repayment of loans to related parties	102	-	-
Payments of loans to related parties	-	(32)	(122)
Dividends received	-	-	10
Interest received	360	303	210
Net cash flows used in investing activities	(865)	(15,507)	(738)

SCG Decor Public Company Limited and its Subsidiaries			
Consolidated statement of cash flows			
For the year ended 31 December 2023, 2022 and 2021			
	Unit : Million Baht		
	2023	2022	2021
Cash flows from financing activities			
Proceeds from issue of shares, net	6,833	-	-
Proceeds from increase in other surpluses	79	-	-
Proceeds from changes in ownership interests in subsidiaries that do not result in a loss of control	-	-	815
Payments of changes in ownership interests in subsidiaries that do not result in a loss of control	(3)	-	(961)
Proceeds from (payments of) borrowings			
Proceeds from (payments of) bank overdrafts and short-term borrowings, net	(163)	415	(240)
Proceeds from (payments of) short-term borrowings from related party, net	(939)	12,951	(69)
Payments of lease liabilities	(281)	(269)	(291)
Net increase (decrease) in borrowings	(1,384)	13,096	(599)
Dividends Paid			
Dividends paid to owners of the Company	(4,080)	-	-
Dividends paid to shareholders' equity before business restructuring	-	(1,058)	-
Dividends paid to non-controlling interests	(110)	(114)	(126)
Total dividends paid	(4,191)	(1,172)	(126)
Interest and other finance costs paid	(533)	(141)	(127)
Net cash flows provided by financing activities	802	11,783	(998)
Net increase (decrease) in cash and cash equivalents	3,432	(1,622)	289
Effect of exchange rate changes on cash and cash equivalents	(45)	19	117
Cash and cash equivalents at beginning of the year	1,817	3,419	3,013
Cash and cash equivalents at end of the year	5,203	1,817	3,419