

Date 13 February 2024

Subject: Management Discussion and Analysis for the 9 months period ended 30 September 2023

Attention: Managing Director, The Stock Exchange of Thailand

Euro Creations Public Company Limited (“The Company”) provides Management Discussion and Analysis for the 9 months period ended 30 September 2023 as follows:

Explanation on financial position and operating result:

Condolidated statement of Comprehensive Income (Unit: Million Baht)	For the 9 months period ended 30 September				Change	
	2022		2023			
	Million Baht	% ⁽¹⁾	Million Baht	% ⁽¹⁾	Million Baht	%
Revenue from sales and services	720.48	100.00	958.17	100.00	237.69	32.99
Cost of sales and services	(384.53)	(53.37)	(503.45)	(52.54)	(118.92)	30.93
Gross profit	335.95	46.63	454.72	47.46	118.77	35.35
Other income	19.92	2.69	8.93	0.92	(10.99)	(55.17)
Net gain (loss) on exchange rate	(0.59)	(0.08)	4.40	0.45	4.99	(845.76)
Selling expenses	(159.86)	(21.59)	(187.26)	(19.36)	(27.40)	17.14
Administrative expenses	(63.81)	(8.62)	(89.92)	(9.30)	(26.11)	40.92
Finance cost	(10.90)	(1.47)	(13.59)	(1.40)	(2.69)	24.68
Profit before income tax	120.71	16.30	177.28	18.33	56.57	46.86
Income tax expense	(24.53)	(3.31)	(38.72)	(4.00)	(14.19)	57.85
Net profit for the period	96.18	12.99	138.56	14.33	42.38	44.06
Other comprehensive income for the period	-	-	(0.01)	(0.00)	(0.01)	100
Total comprehensive income for the period	96.18	12.99	138.55	14.33	42.37	44.05
Owner of the Company	70.61 ⁽²⁾	73.41 ⁽²⁾	131.05 ⁽²⁾	94.59 ⁽²⁾	60.44	85.60
Non-controlling interests	25.57 ⁽²⁾	26.59 ⁽²⁾	7.50 ⁽²⁾	5.41 ⁽²⁾	(18.07)	(70.67)

Notes: ⁽¹⁾ Percentage proportion compared to total revenue, except Revenue from sales and services, Cost of sales and services and Gross profit compared to the proportion of sales and service income.

⁽²⁾ Percentage proportion compared to Total comprehensive income for the period.

For the 9-month periods ended 30 September 2022 and 2023, the Company recorded revenue from sales and services amounting to Baht 720.48 million and Baht 958.17 million, respectively. This signifies an increase of 32.99% from the same period in 2022. The Company incurred cost of sales and services for the 9-month periods ended 30 September 2022 and 2023, amounting to Baht 384.53 million and Baht 503.45 million, respectively, representing an increase of 30.93% from the same period in 2022. The gross margin was 46.63% and 47.46% of revenue from sales and services for the respective periods.

The Company's net profit for the 9-month periods ended 30 September 2022 and 2023 was Baht 96.18 million and Baht 138.56 million, respectively, representing an increase of 44.06% from the same period in 2022. These figures account for 12.99% and 14.33% of total revenue, respectively. The details of the Company's operating results for 9-month period ended 30 September 2022 and 2023 are as follows:

(A) Total revenue

For the 9-month periods ended 30 September 2022 and 2023, the Company has total revenue amounting to Baht 740.40 million and Baht 967.10 million, respectively. The total revenue is comprised of (1) Revenue from sales and services amounting to Baht 720.48 million and Baht 958.17 million, respectively (2) Other income amounting to Baht 19.92 million and Baht 8.93 million, respectively. The revenue from sales and services can be divided into 2 major customer groups, Business-to-Consumer (B2C) and Business-to-Business (B2B).

Revenue from sales and services by customer groups	For the 9-month periods ended 30 September				change	
	2022		2023			
	Million Baht	%	Million Baht	%	Million Baht	%
Revenue from sales and services	720.48	97.31	958.17	99.08	237.69	32.99
• Business-to-Consumer (B2C)	490.21	66.21	651.79	67.40	161.58	32.96
1. Product for interior architecture ⁽¹⁾	67.28	9.09	223.50	23.11	156.22	232.19
2. Product for interior ⁽²⁾	239.60	32.36	211.28	21.85	(28.32)	(11.82)
3. Product for decoration and fitness equipment ⁽³⁾	183.33	24.76	217.01	22.44	33.68	18.37
• Business-to-Business (B2B)	230.27	31.10	306.38	31.68	76.11	33.05
1. Product for interior architecture ⁽¹⁾	117.16	15.82	136.93	14.16	19.77	16.87
2. Product for interior ⁽²⁾	13.75	1.86	52.71	5.45	38.96	283.35
3. Product for decoration and fitness equipment ⁽³⁾	99.36	13.42	116.74	12.07	17.38	17.49
Other income ⁽⁴⁾	19.92	2.69	8.93	0.92	(10.99)	(55.17)
Total revenue	740.40	100.00	967.10	100.00	226.70	30.62

Notes: ⁽¹⁾ Consists of GESSI, Robina, Basalte, DeltaLight, L&L, Lutron, Molteni&C and Dada etc.

⁽²⁾ Consists of Cassina, Calligaris, Christopher Guy, Flos, Foscarini, Gallotti&Radice, Giorgetti, Lasvit, Natuzzi Italia, Nemo, Malerba, Molteni&C, Potrona Frau, Rolf Benz Preciosa and Haworth., etc.

⁽³⁾ Consists of Technogym, Sidea, Dedon, Royal Botania, Limited Edition and Frette., etc.

⁽⁴⁾ Other income consists of rental revenue, interest income, management income and gain (loss) from sale of asset., etc.

The Company's total revenue increased by Baht 226.70 million or 30.62% from the same period in 2022. This increase is attributable to higher revenue from sales and services, particularly from B2C clients, especially in the product for interior architecture (Stage 1), and from B2B clients, notably in the product for interior (Stage 2).

(B) Cost of sales and services

The cost of sales and services for the Company consists of the cost of inventory intended for sale, including directly related cost, for example, freight and import duties. The Company classifies the cost of sales and services into 2 groups of major customer groups, Business-to-Consumer (B2C) and Business-to-Business (B2B) which are summarized as follows:

Cost of sales and services by customer groups	For the 9-month periods ended 30 September				Change	
	2022		2023			
	Million Baht	%	Million Baht	%	Million Baht	%
Cost of sales and services of B2C	254.37	66.15	309.72	61.52	55.35	21.76
Cost of sales and services of B2B	130.16	33.85	193.73	38.48	63.57	48.84
Total cost of sales and services	384.53	100.00	503.45	100.00	118.92	30.93

For the 9-month period ended 30 September 2023, the cost of sales and services for the Company increased by Baht 118.92 million, or 30.93%, compared with the same period in 2022. The increase is classified into the cost of sale and services for B2C, which increased from Baht 254.37 million in 9 months period of 2022 to Baht 309.72 million in 9 months period of 2023, equaling 21.76% increase. Similarly, the cost of sales and services for B2B increased from Baht 130.16 million in 9 months period of 2022 to Baht 193.73 million in 9 months period of 2023, equaling 48.84% increase. These are in line with the revenue from sales and services of B2C and B2B.

(C) Gross profit

For the 9-month periods ended 30 September 2023, the Company recorded a gross profit of Baht 454.72 million, an increase from Baht 335.95 million in the same period of 2022. This represents a 35.35% increase, resulting in a gross margin of 47.46%, up from 46.63% in the same period last year. This increase was in line with the growth in revenue from sales and services from both B2C and B2B segments, which details as follows:

Gross profit by customer groups	For the 9-month periods ended 30 September				Change	
	2022		2023			
	Million Baht	% ⁽¹⁾	Million Baht	% ⁽¹⁾	Million Baht	%
Gross profit of B2C	235.85	48.11	342.07	52.48	106.22	45.04
Gross profit of B2B	100.10	43.47	112.65	36.77	12.55	12.54
Total gross profit	335.95	46.63	454.72	47.46	118.77	35.35

Note: ⁽¹⁾ Gross profit compared to revenue from sales and services.

- (1) The gross profit from sale and services for B2C clients in first 9 months of 2023 amounted to Baht 342.07 million, an increase from Baht 235.85 million in the same period of the previous year, equaling a 45.04% increase. This resulted in a 9-month gross profit margin of 52.48% for 2023, compared to 48.11% in the same period of the previous year. This significant increase is primarily due to higher revenue from sales and services, especially from the sale of high value inventory, which has a high profit margin.

- (2) The Company's gross profit from sales and services of B2B clients amounted to Baht 112.65 million in first 9 months of the year 2023, an increase from Baht 100.10 million in the same period in the previous year, equaling a 12.55% increase. This resulted in a 9-month gross profit margin of 36.77% for 2023, compared to 43.47% in the same period of the previous year. This decrease in gross profit margin was primarily due to a significant increase in revenue from sales and services to clients whose transactions resulted in lower gross profit compared to other clients. Consequently, the Company's gross profit margin from sales and services of B2B clients decreased when compared with the same period of prior year.

(D) Net profit

For the 9-month periods ended 30 September 2022 and 2023, the Company recorded net profit amounting to Baht 96.18 million and Baht 138.56 million, respectively, resulting in net profit margins of 12.99% and 14.33%, respectively. The increase in net profit margin mainly came from a stronger operating result. Moreover, the Company has been able to exert more control over the costs of sales and services including selling expenses, especially when compared with the revenue from sales and services of the first 9 months of 2023.

Furthermore, when considering the adjustment of net profit to exclude one-time items and significant non-recurring items, such as gain on sale of assets amounting to Baht 16.01 million from selling the showroom Thonglor building (Euro Creations Flagship Gallery at Thonglor) to Mrs. Amarat Gambir, a director and shareholder of the Company, during the first quarter of 2022. This decision was made as the Company intends to distinguish between the assets of the Company and the personal assets of its shareholders. As a result, the adjusted net profit for the 9-month period of 2022 is Baht 83.87 million, which equals 11.26% of total revenue.

Summary of financial position:

Items	Unit	As of 31 December 2022	As of 31 December 2023	Change (Million Baht)	Change (%)
Total assets	Million baht	1,244.69	1,330.86	86.17	6.92
Total liabilities	Million baht	1,023.72	1,127.34	103.62	10.12
Total equity	Million baht	220.97	203.53	(17.44)	(7.89)

(A) Assets

At the end of 2022 and the 3rd quarter of 2023, the Company's total assets were Baht 1,244.69 million and Baht 1,330.86 million, respectively. The main assets, consisting of net inventory and net right-of-use assets, represented 40.82% and 32.51% of total assets at the end of the third quarter of 2023, respectively. Total assets increased by Baht 87.17 million, equaling a 6.92% rise from the end of 2022. This increase was primarily due to a rise in trade and other receivables, which grew in line with revenue from sales and services. Furthermore, the increase in buildings and equipment was attributed to construction in progress, as the Company is developing three new showrooms: Showroom Thonglor Soi 1, Showroom Phuket, and Showroom Thonglor Soi 5

(B) Liabilities

At the end of 2022 and the 3rd quarter of 2023, the Company's total liabilities were Baht 1,023.72 million and Baht 1,127.34 million, respectively. The main liabilities consist of bank overdrafts and short-term loans from financial institutions, trade and other payables, unearned revenue, and finance lease liabilities, representing 15.20%, 6.92%, 38.61%, and 35.61% of the total liabilities at the end of the third quarter of 2023, respectively. Total liabilities increased by Baht 103.62 million, equaling a 10.12% rise from the end of 2022. This increase resulted from a rise in bank overdrafts and short-term loans from financial institutions and finance lease liabilities, stemming from the Company entering into land rental contracts for the new showroom at Thonglor Soi 5, as well as for an office and warehouse during 2023.

(C) Equity

The Company's equity consists of issued and paid-up share capital, both legal reserve and unappropriated retained earnings. As of 30 September 2023, the Company's equity amounted to Baht 203.53 million, a decrease of Baht 17.44 million compared with the end of the year 2022, which had equity amounting to Baht 220.97 million. This decrease resulted from an announcement of an interim dividend payment from the separate financial statement's unappropriated retained earnings, thus the retained earnings of the Company decreased accordingly.

Significant financial ratio:

Significant financial ratio	Unit	For the 9-month periods ended 30	
		September	
		2022	2023
Profitability Ratio			
Gross Profit Margin	%	46.63	47.46
Earnings before Interest, Tax, Depreciation and Amortization expenses (EBITDA Margin)	%	23.52	24.79
Net Profit Margin	%	12.99	14.33

Significant financial ratio	Unit	For the year ended 31 December 2022	For the 9-month period ended 30 September 2023
Liquidity Ratio			
Current Ratio	Times	1.08	0.99
Averaged Collection Period	Days	19	17
Averaged Inventory Period	Days	295	280
Averaged Payment Period	Days	263	234
Profitability Ratio			
Return on Equity	%	57.71	73.56
Efficiency Ratio			
Return on Asset	%	12.10	14.28
Financial Policy Ratio			
Debt to Equity	Times	4.63	5.51
Interest Bearing Debt to Equity	Times	0.13	0.94

Best regards,

Euro Creations Public Company Limited