

November 12, 2021

Subject: Explain for operation results for the three-month and nine-month period ended
September 30, 2021

To: President,

The Stock Exchange of Thailand

CPL Group Public Company Limited (hereinafter refer to as "the Company") is pleased to report the operation for the three-month and nine-month period ended September 30, 2021.

MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

Analysis of statement of income for the three-month and nine-month period ended 30 September 2021

The main business of the Company can be divided into three main divisions. Firstly, it is finished leather business that was accounted for 62% of the total revenue of the Company. This product category can be divided into two groups which are skin leather and split leather. Unit of sales is area which is called "square foot". The second source is tanning service which is included cow skin and pig skin was accounted for 2% of total revenue. Last but not least, the safety shoes and safety products were accounted for 36% of the total revenue of the Company.

1.1 Finished Leather

For the three-month and nine-month period ended 30 September 2021, the Company's sales were Baht 295 million and Baht 865 million (2020: Baht 220 million and Baht 722 million), respectively, which increased by Baht 75 million and Baht 143 million comparing to the same period of the previous year. Mainly, because of the current economic conditions in the world market is getting better, people now came back to normal living causing the increase in spending. However, the COVID-19 situation is still a major reason for creating uncertainty in the market. In this quarter, the company continued to implement a policy to control production costs and expenses making the overall look better.

The cost of sales of finished leather business consists of the cost of rawhide, chemicals, and other costs such as compensation of employees in the factory, and depreciation of plant, equipment and machinery used in manufacturing. An approximately proportion of the above cost of sales was 70:20:10, respectively. Currently, the average cost of raw materials in the system was in-line with market price. In addition, the Company also increased an efficiency and effectiveness of production line leading the Company could generate more gross profit. For the three-month and nine-month period ended 30 September 2021, the Company had gross profit at Baht 40 million and Baht 88 million (2020: Baht 18 million and Baht 53 million), respectively.

1.2 Tanning Service

For cow tanning service, the Company invested in new machineries in order to expand capacity during the past two years. However, during last year, customer delayed the shipment since the economic situation. In addition, as COVID-19, our customers had to rethink for a new purchase of rawhide because the overall demand in the market reduced significantly. As a result, management had a vision to order rawhides to produce own wetblue in order that the Company could reduce the cost of production. Also, management decided to partially temporary close some tanning productions in order to manage the cost efficiently.

For pig tanning service, there is a good sign for this business because of the increase in order to China. For this quarter, this BU could perform over expectation comparing to the budget although it had Covid-19. However, we need to have a monitoring on this situation closely.

For the three-month and nine-month period ended 30 September 2021, the Company had revenue from tanning service amounted to Baht 84 million and Baht 165 million (2020: Baht 35 million and Baht 130 million) causing the Company had gross profit at Baht 4 million and Baht 35 million (2020: Baht 7 million and Baht 25 million).

1.3 Safety Shoes and Safety Products

For the three-month and nine-month period ended 30 September 2021, the Company could generate revenue from safety shoes and other safety products amounted to Baht 163 million and Baht 500 million (2020: Baht 130 million and Baht 470 million), respectively. However, due to the COVID-19 situation, sales of safety shoes dropped considerably as purchasing power in the country has started to shrink in this quarter. However, the PPE could cover this gap by selling a lot during this quarter. Most of sales were related to COVID-19 products. Also, the reduction of workers and cost saving policies were the other factors. However, sales of safety equipment and services have increased considerably, making up for the lack of safety shoe sales.

On the other hands, an approximately proportion of the above cost of sales was 55:20:25, respectively. For the safety products, the Company is authorized distributor from the top safety product manufacture around the world such as 3M, Sundstrom, Drager, Singing Rock, and Industrial Scientific. In overall, the cost of goods sold of safety shoes and safety products were normal at approximately 60%. For the three-month and nine-month period ended 30 September 2021, the Company could make a gross profit amounted to Baht 71 million and Baht 211 million (2020: Baht 50 million and Baht 191 million), respectively.

1.4 Other income (expenses)

Additionally, the Company also had other incomes that were interest from investment in bond, compensation for tax 19 bis, and gain (loss) on foreign currency translation. The company imported raw materials and exported finished products using US dollar under the credit system, so either import raw materials or export finished goods, it has a difference in the time of repayment which the Company was impacted from daily foreign exchange rate. Therefore, the Company has to recognize gains or losses on this kind of transaction. However, the Company has already hedged by doing the forward contracts with financial institutions. For the three-month and nine-month period ended 30 September 2021, the Company had net other expenses by Baht 37 million and Baht 34 million (2020: Other expenses Baht 1 million and Baht 15 million), respectively. For this quarter, the Company had a loss from exchange rate amounted to Baht 29 million and the mark-to-market of derivative contracts amounted to Baht 11 million.

Expenditures

Selling and administrative expenses consists of 1) export expenses that the Company negotiates with customers to eliminate double expenses which include transportation. The Company has punctuality policy for delivery goods to customers to avoid expressed delivery by plane because it is very expensive. 2) agent fee 3) travelling expenses 4) compensation to employee and management and related payroll expenses, and other expenses i.e. depreciation and amortization, and repair and maintenance.

For the three-month and nine-month period ended 30 September 2021, the selling expenses were accounted for 8.05% and 7.90% (2020: 11.89% and 9.68%) of total sales, but the amount in this quarter decreased by Baht 4 million. The major decrease came from export expenses, and commission expenses. On the other hand, administrative expenses were accounted for 8.05% and 8.12% (2020: 8.93% and 8.82%) to total sales, but the amount increased by Baht 6 million. A major increase came from salary and remuneration of staff that adjusted down due to COVID-19.

In 2021, Integrated Leather Network Company Limited (ILN), which is an associated company had to temporarily suspend operations in order to manage expenses due to the economic crisis. All investment in associate for this company was fully recognized the share losses.

For the three-month and nine-month period ended 30 September 2021, the Company had no sharing gain (loss) from associate company and share gain Baht 0.3 million (2020: No sharing gain and loss).

The Company's financial costs include interest from the trust receipts which are short-term loans with terms of repayment from financial institutions for purchase of raw materials imported from abroad, bank fees for Open PLC, and transferred fees between banks. The Company's finance costs increased slightly from the volume of raw materials imported from abroad and from factory expansion. For the three-month and nine-month period ended 30 September 2021, the financial cost was Baht 8 million and Baht 24 million (2020: Baht 10 million and Baht 31 million), respectively.

Net Profit (Loss)

For the three-month and nine-month period ended 30 September 2021, the Company had net loss at Baht 6 million and net profit Baht 58 million (2020: Baht 23 million and Baht 28 million), or equivalent to net loss margin at 1.29% and net profit margin 4.15% (2020: net loss margin 3.84% and net profit margin 1.17%), respectively, which was gained more by Baht 8 million and Baht 44 million comparing to the same period of the previous year.

Analysis of statement of financial position as of 30 September 2021

Total assets of the Company as at 30 September 2021 were Baht 2,556 million (31 December 2020: Baht 2,132 million). The increase in assets came from inventory amounted to Baht 312 million, cash and cash equivalent amounted to Baht 76 million, accounts receivable and other receivable amounted to Baht 59 million, and investment in associate amounted to Baht 21 million. On the other hand, the decrease came from the rights of use in assets amounted to Baht 21 million, properties, plant and equipment amounted to Baht 17 million, and other non-current assets amounted to Baht 13 million.

Total liabilities of the Company as at 30 September 2021 were Baht 1,571 million (31 December 2020: Baht 1,197 million). The major items were trust receipts which were short-term loans with a repayment condition with financial institutions for purchasing raw materials from foreign funds amounted to Baht 978 million (31 December 2020: Baht 662 million), accounts payable and other payable amounted to Baht 346 million (31 December 2020: Baht 249 million), and long-term loan amounted to Baht 121 million (31 December 2020: Baht 164 million). Normally, when the Company received payment from the debtor, the Company will choose to pay trust receipts prior to maturity date in order to reduce the interest burden. Thus, the ratio of total liabilities to total assets of the Company was at 0.61 times (31 December 2020: 0.56 times).

To consider the liquidity, the Company's current ratio increased to 1.22 times at the end of the period (31 December 2020: 1.30 times). Although the Company's liquidity reduced, the operating cash flow was alright because the Company could sell and collect cash from customers. The working capital was not a problem. However, the Company had a backup plan by requesting a new facility contract with financial institutions in the form of overdraft facilities and short-term loans over the past 2-3 years to support liquidity if the Company obliged to spend while the cash was not enough at any of time.

Significant financial ratio	For the three-month and nine-month period ended 30 September	
	2021	2020
Gross profit margin	24.45% / 23.78%	21.05% / 21.99%
Net profit (loss) margin	(1.29)% / 4.15%	(3.84)% / 1.17%
Return on assets (ROA)	(0.24)% / 2.27%	(0.64)% / 0.67%
Return on equity (ROE)	(0.62)% / 5.90%	(1.46)% / 1.53%

Significant financial ratio	30 September 2021	31 December 2020
Current ratio	1.22	1.30
Debts to equity ratio	1.59	1.28

Please be informed accordingly.

Sincerely Yours,

Mr. Puvasith Wongcharoensin
Chief Executive Officer