

February 24, 2022

Subject: Explain for operation results for the year ended 31 December 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 year ended 31 December 2021.

## **MANAGEMENT DISCUSSION & ANALYSIS (MD&A)**

### **Analysis of statement of income for the year ended 31 December 2021**

The main business of the Company can be divided into three main divisions. Firstly, it is finished leather business that was accounted for 63% 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 3% of total revenue. Last but not least, the safety shoes and safety products were accounted for 34% of the total revenue of the Company.

#### **1.1 Finished Leather**

For the year ended 31 December 2021, the Company's sales were Baht 1,204 million (2020: Baht 970 million), which increased by Baht 234 million comparing to 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 (Omicron) situation is still a major reason for creating uncertainty in the market. During this year, 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 year ended 31 December 2021, the Company had gross profit at Baht 101 million (2020: Baht 77 million).

#### **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 year, 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 year ended 31 December 2021, the Company had revenue from tanning service amounted to Baht 221 million (2020: Baht 141 million). As a result, the Company had gross profit at Baht 45 million (2020: Baht 26 million).

### 1.3 Safety Shoes and Safety Products

For the year ended 31 December 2021, the Company could generate revenue from safety shoes and other safety products amounted to Baht 643 million (2020: Baht 613 million). However, due to the COVID-19 situation, sales of safety shoes dropped considerably as purchasing power in the country has started to shrink this year. Also, the reduction of workers and cost saving policies were the other factors. However, the PPE could cover this gap and made up for the lack of safety shoe sales during this year, so the overall performance of this business unit still at high level. Most of sales were related to COVID-19 products.

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 year ended 31 December 2021, the Company could make a gross profit amounted to Baht 276 million (2020: Baht 246 million).

### 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 year ended 31 December 2021, the Company had net other expenses by Baht 20 million (2020: Other income Baht 21 million). For this year, the Company had a loss from exchange rate amounted to Baht 27 million and loss on the mark-to-market of derivative contracts amounted to Baht 11 million (2020: Loss Baht 7 million and Baht 2 million, respectively). The reason was because the Thai Baht was significantly fluctuated around 29.89 – 33.97 Baht per 1 US Dollar. However, the above transactions were unrealized loss transactions.

### 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 year ended 31 December 2021, the selling expenses were accounted for 8.16% (2020: 9.94%) of total sales, but the amount decreased by Baht 5 million this year. The major decrease came from export expenses, and commission expenses. On the other hand, administrative expenses were accounted for 8.35% (2020: 9.11%) to total sales, but the amount increased by Baht 12 million. A major increase came from salary and remuneration of staff that adjusted down due to the peak of 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. However, during 2021, the Company setup the new subsidiary company named "CPL Venture Plus" Co., Ltd. to support the new investment. During the year, this company invested in two companies which include Itt3Ritt Co., Ltd and Elephant Cann Co, Ltd. For the year ended 31 December 2021, the Company had no sharing loss from associate company Baht 0.17 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 year ended 31 December 2021, the financial cost was Baht 33 million (2020: Baht 40 million).

#### Net Profit (Loss)

For the year ended 31 December 2021, the Company had net profit at Baht 69 million (2020: Baht 19 million), or equivalent to net margin at 3.68% (2020:1.18%), which was gained more by Baht 50 million comparing to the previous year.

#### **Analysis of statement of financial position as of 31 December 2021**

Total assets of the Company as at 31 December 2021 were Baht 2,439 million (2020: Baht 2,132 million). The increase in assets came from inventory amounted to Baht 334 million, accounts receivable and other receivable amounted to Baht 26 million, investment in associate amounted to Baht 21 million, and deferred tax assets amounted to Baht 10 million. On the other hand, the decrease came from cash and cash equivalent amounted to Baht 20 million, rights of use in assets amounted to Baht 20 million, properties, plant and equipment amounted to Baht 25 million, and other non-current assets amounted to Baht 18 million.

Total liabilities of the Company as at 31 December 2021 were Baht 1,443 million (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 873 million (2020: Baht 662 million), accounts payable and other payable amounted to Baht 350 million (2020: Baht 249 million), and long-term loan amounted to Baht 62 million (2020: Baht 58 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 0.59 times (2020: 0.56 times).

To consider the liquidity, the Company's current ratio increased to 1.24 times at the end of the year (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 year ended 31 December	
	2021	2020
Gross profit margin	22.50%	21.95%
Net profit (loss) margin	3.68%	1.18%
Return on assets (ROA)	2.83%	0.88%
Return on equity (ROE)	6.93%	2.02%
Current ratio	1.24	1.30
Debts to equity ratio	1.45	1.28

Please be informed accordingly.

Sincerely Yours,

Mr. Puvasith Wongcharoensin

Chief Executive Officer