

May 11, 2022

Subject: Explain for operation results for the three-month period ended 31 March 2022

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 period ended 31 March 2022.

MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

Analysis of statement of income for the three-month period ended 31 March 2022

The main business of the Company can be divided into three main divisions. Firstly, it is finished leather business that was accounted for 65% 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 4% of total revenue. Last but not least, the safety shoes and safety products were accounted for 31% of the total revenue of the Company.

1.1 Finished Leather

For the three-month period ended 31 March 2022, the Company's sales were Baht 336 million (2021: Baht 260 million), which increased by Baht 76 million. This was because the current economic conditions in the world market is recovered from the previous year. However, the COVID-19, Russia-Ukraine including the inflation rate were still major reasons for creating uncertainty and pressured the world market. During this quarter, the Company continuously controlled the production costs and expenses.

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. Although the management team tried to manage and maintain the production cost, the overall picture of production cost was increased from the pressure of inflation rate such as chemical, energy, and maintenance expenses leading to the decrease in gross profit. For the three-month period ended 31 March 2022, the Company had gross profit at Baht 23 million (2021: Baht 32 million).

1.2 Tanning Service

For cow tanning service, our customers are still closely monitoring the current market situation including a delay of the shipment due to the above matters. Furthermore, customers were not buying the rawhides as the market demand significantly dropped. 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. Currently, there were some customers used our service, but the amount was low.

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 below our expectation comparing to the budget although the Covid-19 situation was better. However, we need to have a monitoring on this situation closely.

For the three-month period ended 31 March 2022, the Company had revenue from tanning service amounted to Baht 23 million (2021: Baht 12 million). However, the Company had gross profit at Baht 5 million (2021: Baht 5 million) due to the increase in production cost.

1.3 Safety Shoes and Safety Products

For the three-month period ended 31 March 2022, the Company could generate revenue from safety shoes and other safety products amounted to Baht 162 million (2021: Baht 168 million). However, due to the COVID-19 situation, sales of safety shoes dropped considerably as the decrease in purchasing power in the country. Also, the reduction of workers and cost saving policies were the other factors. However, the PPE could fill this gap and made up for the lack of safety shoe sales during this quarter, so the overall performance of this business unit still be the same level comparing the same period of previous year.

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 period ended 31 March 2022, the Company could make a gross profit amounted to Baht 66 million (2021: Baht 69 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 three-month period ended 31 March 2022, the Company had net other income by Baht 23 million (2021: Baht 8 million). For this quarter, the Company had a gain from exchange rate amounted to Baht 26 million and loss on the mark-to-market of derivative contracts amounted to Baht 9 million (2021: Baht 2 million and none, respectively). The reason was because the Thai Baht was significantly depreciated in this quarter. However, the above transactions were unrealized gain/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 three-month period ended 31 March 2022, the selling expenses were accounted for 7.77% (2021: 8.40%) of total sales, but the amount increased by Baht 4 million this quarter. The major increase came from export expenses, and commission expenses which aligned with the sales growth. On the other hand, administrative expenses were accounted for 6.76% (2021: 7.69%) to total sales, but the amount increased by Baht 1 million.

In 2021, Integrated Leather Network Company Limited (ILN), which is an associated company had to temporarily suspend operations. 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 three-month period ended 31 March 2022, the Company had no sharing loss from associate company Baht 0.43 million (2021: Sharing gain Baht 0.37 million).

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 period ended 31 March 2022, the financial cost was Baht 8 million (2021: Baht 9 million).

Net Profit (Loss)

For the three-month period ended 31 March 2022, the Company had net profit at Baht 26 million (2021: Baht 40 million), or equivalent to net margin at 4.97% (2021: 9.08%), which was less than Baht 14 million comparing to the same period of previous year. However, if we look at profit before taxes, we found that it showed Baht 33 million for the three-month period ended 31 March 2022 (2021: Baht 35 million)

Analysis of statement of financial position as of 31 March 2022

Total assets of the Company as at 31 March 2022 were Baht 2,443 million (31 December 2021: Baht 2,439 million). The increase in assets came from inventory amounted to Baht 30 million, accounts receivable and other receivable amounted to Baht 6 million, and investment in associate amounted to Baht 5 million. On the other hand, the decrease came from cash and cash equivalent amounted to Baht 17 million, properties, plant and equipment amounted to Baht 10 million, deferred tax assets amounted to Baht 6 million, and rights of use in assets amounted to Baht 3 million.

Total liabilities of the Company as at 31 March 2022 were Baht 1,421 million (31 December 2021: Baht 1,443 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 850 million (31 December 2021: Baht 873 million), accounts payable and other payable amounted to Baht 334 million (31 December 2021: Baht 351 million), and long-term loan amounted to Baht 61 million (31 December 2021: Baht 63 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 0.58 times (31 December 2021: 0.59 times). During this quarter, the Company had loan from related party amounted to Baht 40 million. Subsequently, this loan is now repaid in full amount.

To consider the liquidity, the Company's current ratio increased to 1.26 times (31 December 2021: 1.24 times). Although the Company's liquidity slightly increased, 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 period ended 31 March	
	2022	2021
Gross profit margin	18.00%	24.15%
Net profit (loss) margin	4.97%	9.08%
Return on assets (ROA)	1.06%	1.77%
Return on equity (ROE)	2.53%	4.08%
Current ratio	1.26	1.30
Debts to equity ratio	1.39	1.31

Please be informed accordingly.

Sincerely Yours,

Mr. Puvasith Wongcharoensin
Chief Executive Officer