

August 10, 2022

Subject: Explain for operation results for the three-month and six-month period ended 30 June 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 and six-month period ended 30 June 2022.

MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

Analysis of statement of income for the three-month and six-month period ended 30 June 2022

The main business of the Company can be divided into three main divisions. Firstly, it is finished leather business that was accounted for 70% 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 7% of total revenue. Last but not least, the safety shoes and safety products were accounted for 23% of the total revenue of the Company.

1.1 Finished Leather

For the three-month and six-month period ended 30 June 2022, the Company's sales were Baht 605 million and Baht 942 million, respectively, (2021: Baht 310 million and Baht 570 million), which increased by Baht 295 million and Baht 372 million, respectively. This was because the current economic conditions in the world market were recovered more from the previous quarter resulted in the sales growth. Also, Thai depreciation against US dollar was another factor that supported the sales per unit. However, the COVID-19, Russia-Ukraine including the inflation rate were still major reasons that cost of production including relevant expenses increased. Although the Company continuously controlled the production costs and expenses during this quarter, we could not avoid the impact

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 65:25:10, 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 and six-month period ended 30 June 2022, the Company had gross profit at Baht 35 million and Baht 54 million, respectively (2021: Baht 16 million and Baht 47 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 and not recovered as before COVID-19. As a result, management ordered rawhides to produce own wetblue in order that the Company could reduce some 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, but our customer delayed to purchase raw material as the price fluctuation and wanted to purchase at lower price. For this quarter, this BU could perform below our expectation comparing to the budget and previous quarter although the Covid-19 situation was better. However, we need to have a monitoring on this situation closely for medium and long term.

For the three-month and six-month period ended 30 June 2022, the Company had revenue from tanning service amounted to Baht 35 million and Baht 92 million, respectively (2021: Baht 53 million and Baht 82 million). However, the Company had gross profit at Baht 0 million and Baht 9 million, respectively (2021: Baht 26 million and Baht 30 million).

1.3 Safety Shoes and Safety Products

For the three-month and six-month period ended 30 June 2022, the Company could generate revenue from safety shoes and other safety products amounted to Baht 162 million and Baht 323 million, respectively (2021: Baht 169 million and Baht 337 million). For this quarter, sales of safety shoes were getting better after the COVID-19 as our customers believed that overall situation was stable and came back to purchase. However, the sales of PPE and services declined from the related COVID-19 products, but 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 and six-month period ended 30 June 2022, the Company could make a gross profit amounted to Baht 61 million and Baht 127 million, respectively (2021: Baht 71 million and Baht 140 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 and six-month period ended 30 June 2022, the Company had net other income by Baht 12 million and Baht 17 million (2021: Baht 4 million and Baht 10 million). For this quarter, the Company had a gain from sales of land and building amounted to Baht 7 million. However, the Company also lost from exchange rate and mark-to-market of derivative contracts amounted to Baht 12 million and gain Baht 3 million, respectively (2021: Gain Baht 1 million and Baht 3 million). 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 and six-month period ended 30 June 2022, the selling expenses were accounted for 6.40% and 6.94%, respectively (2021: 7.30% and 7.82%) of total sales, but the amount increased by Baht 15 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 6.50% and 6.41%, respectively (2021: 10.50% and 9.19%) to total sales, but the amount decreased by Baht 0.4 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, Elephant Cann Co, Ltd, and NOW End of Waste Co., Ltd. For the three-month and six-month period ended 30 June 2022, the Company had loss sharing from associate company Baht 0.83 million and Baht 1.26 million, respectively (2021: Sharing gain Baht 0 million and Baht 0.34 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 and six-month period ended 30 June 2022, the financial cost was Baht 8 million and Baht 17 million, respectively (2021: Baht 8 million and Baht 16 million).

Net Profit (Loss)

For the three-month and six-month period ended 30 June 2022, the Company had net loss at Baht 12 million and net profit Baht 14 million, respectively (2021: Net profit Baht 24 million and Baht 64 million), or equivalent to net margin at (1.51)% and 1.07, respectively (2021: 4.96% and 6.09%), which was less than Baht 36 million comparing to the same period of previous year. The major reasons were from the loss from exchange rate translation and MTM derivatives and the increase of cost of production and relevant expenses as discussed earlier.

Analysis of statement of financial position as of 30 June 2022

Total assets of the Company as at 30 June 2022 were Baht 2,408 million (31 December 2021: Baht 2,439 million). The increase in assets came from cash and cash equivalent amounted to Baht 54 million and accounts receivable and other receivable amounted to Baht 91 million. On the other hand, the decrease came from inventory amounted to Baht 155 million, rights of use in assets amounted to Baht 15 million, and properties, plant and equipment amounted to Baht 5 million.

Total liabilities of the Company as at 30 June 2022 were Baht 1,420 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 851 million (31 December 2021: Baht 873 million), accounts payable and other payable amounted to Baht 395 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 0.59 times (31 December 2021: 0.59 times).

To consider the liquidity, the Company's current ratio decreased to 1.22 times (31 December 2021: 1.24 times). Although the Company's liquidity slightly decreased, 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 six-month period ended 30 June	
	2022	2021
Gross profit margin	12.28% / 14.56%	22.82% / 23.45%
Net profit (loss) margin	(1.51)% / 1.07%	4.96% / 6.90%
Return on assets (ROA)	(0.49)% / 0.58%	1.00% / 2.63%
Return on equity (ROE)	(1.20)% / 1.42%	2.45% / 6.45%

Significant financial ratio	30 June 2022	31 December 2021
Current ratio	1.22	1.24
Debts to equity ratio	1.44	1.45

Please be informed accordingly.

Sincerely Yours,

Mr. Puvasith Wongcharoensin

Chief Executive Officer