

November 10, 2022

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

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

### **Analysis of statement of income for the three-month and nine-month period ended 30 September 2022**

The main business of the Company can be divided into three main divisions. Firstly, it is finished leather business that was accounted for 71% 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 25% of the total revenue of the Company.

#### 1.1 Finished Leather

For the three-month and nine-month period ended 30 September 2022, the Company's sales were Baht 432 million and Baht 1,374 million, respectively, (2021: Baht 295 million and Baht 865 million), which increased by Baht 142 million and Baht 522 million, respectively. This was because the current economic conditions in the world market were recovered comparing to the same period of the previous year resulted in the sales growth. Also, Thai Baht was depreciated against US dollar was another factor that supported the sales per unit. However, the high inflation rate situation and the increase of interest rate by FED pressured the cost of production including relevant expenses to increase. Although the Company continuously controlled the production costs and expenses during this quarter, we could not avoid this 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 slightly increase in gross profit although the sales amount was at high level. For the three-month and nine-month period ended 30 September 2022, the Company had gross profit at Baht 46 million and Baht 100 million, respectively (2021: Baht 40 million and Baht 88 million).

#### 1.2 Tanning Service

For cow tanning service, our customers are still delay the shipment due to the fact that the market demand significantly dropped and not recovered as before. 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 export orders, but our customer delayed to purchase raw material. For this quarter, this BU could perform below our expectation comparing to the budget, but higher than the same period of the previous year. Although the economic situation was better, we need to monitor on this situation closely for medium and long term.

For the three-month and nine-month period ended 30 September 2022, the Company had revenue from tanning service amounted to Baht 87 million and Baht 213 million, respectively (2021: Baht 84 million and Baht 165 million). However, the Company had gross profit at Baht 8 million and Baht 17 million, respectively (2021: Baht 4 million and Baht 35 million).

### 1.3 Safety Shoes and Safety Products

For the three-month and nine-month period ended 30 September 2022, the Company could generate revenue from safety shoes and other safety products amounted to Baht 158 million and Baht 482 million, respectively (2021: Baht 163 million and Baht 500 million). For this quarter, sales of safety shoes were getting better 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 nine-month period ended 30 September 2022, the Company could make a gross profit amounted to Baht 64 million and Baht 191 million, respectively (2021: Baht 71 million and Baht 211 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 nine-month period ended 30 September 2022, the Company had net other income by Baht 5 million and Baht 23 million (2021: Baht 3 million and Baht 12 million). For this quarter, the Company had a gain from sales of land and building amounted to Baht 4 million and Baht 1 million, respectively (2021: Loss Baht 40 million and Loss Baht 46 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 nine-month period ended 30 September 2022, the selling expenses were accounted for 7.64% and 7.17%, respectively (2021: 8.05% and 7.90%) of total sales, but the amount increased by Baht 9 million in 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 6.82% and 6.22%, respectively (2021: 8.05% and 8.12%) to total sales, but the amount increased by Baht 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 nine-month period ended 30 September 2022, the Company had loss sharing from associate company Baht 1.06 million and Baht 2.32 million, respectively (2021: Sharing gain Baht 0 million and Baht 0.32 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 nine-month period ended 30 September 2022, the financial cost was Baht 9 million and Baht 25 million, respectively (2021: Baht 8 million and Baht 24 million).

#### Net Profit (Loss)

For the three-month and nine-month period ended 30 September 2022, the Company had net profit at Baht 22 million and Baht 36 million, respectively (2021: Net loss Baht 6 million and profit Baht 58 million), or equivalent to net profit margin at 3.65% and 1.90%, respectively (2021: Net loss margin 1.29% and net profit margin 4.15%), which increased by Baht 28 million comparing to the same period of previous year. The major reasons were from the sales growth and the cost management including relevant expenses as discussed earlier.

#### Analysis of statement of financial position as of 30 September 2022

Total assets of the Company as at 30 September 2022 were Baht 2,444 million (31 December 2021: Baht 2,439 million). The increase in assets came from cash and cash equivalent amounted to Baht 33 million, accounts receivable and other receivable amounted to Baht 69 million, and investment in associates amounted to Baht 24 million. On the other hand, the decrease came from inventory amounted to Baht 101 million, rights of use in assets amounted to Baht 11 million, and deferred tax assets amounted to Baht 11 million.

Total liabilities of the Company as at 30 September 2022 were Baht 1,434 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 855 million (31 December 2021: Baht 873 million), accounts payable and other payable amounted to Baht 422 million (31 December 2021: Baht 351 million), and long-term loan amounted to Baht 60 million (31 December 2021: Baht 107 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 nine-month period ended 30 September	
	2022	2021
Gross profit margin	19.06% / 16.00%	24.45% / 23.78%
Net profit (loss) margin	3.65% / 1.90%	(1.29)% / 4.15%
Return on assets (ROA)	0.92% / 1.49%	(0.25)% / 2.38%
Return on equity (ROE)	2.23% / 3.61%	(0.61)% / 5.84%

Significant financial ratio	30 September 2022	31 December 2021
Current ratio	1.22	1.24
Debts to equity ratio	1.42	1.45

Please be informed accordingly.

Sincerely Yours,

Mr. Puvasith Wongcharoensin

Chief Executive Officer