

February 27, 2023

Subject: Explain for operation results for the year ended 31 December 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 year ended 31 December 2022.

MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

Analysis of statement of income for the year ended 31 December 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 4% of total revenue. Last but not least, the safety shoes and safety products were accounted for 26% of the total revenue of the Company.

1.1 Finished Leather

For the year ended 31 December 2022, the Company's sales were Baht 1,703 million (2021: Baht 1,204 million), which increased by Baht 499 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. Moreover, the Thai Baht depreciated against US dollar for the whole year except the last month that led to the sales growth this year. However, the economic recession including high inflation and gradually increase in interest rate from FED leading to Thai Baht appreciated and production cost and other expenses rise during closing period. During this year, the Company continued to implement a policy to control production costs and expenses, but did not cover the above pressures.

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 60:25:15, respectively. Currently, the average cost of raw materials in the system was in-line with market price. Although the Company also increased an efficiency and effectiveness of production line, but could not cover the increase in all costs. For the year ended 31 December 2022, the Company had gross profit at Baht 136 million (2021: Baht 101 million).

1.2 Tanning Service

For cow tanning service, during last year, customer delayed the shipment since the economic situation 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. However, we need to have a monitoring on this situation closely.

For the year ended 31 December 2022, the Company had revenue from tanning service amounted to Baht 278 million (2021: Baht 221 million). However, the chemical cost and other expenses increased as well. As a result, the Company had gross profit at Baht 21 million (2021: Baht 46 million).

1.3 Safety Shoes and Safety Products

For the year ended 31 December 2022, the Company could generate revenue from safety shoes and other safety products amounted to Baht 626 million (2021: Baht 643 million). However, after the COVID-19 situation, sales of safety products dropped regarding this situation. Although the sales of safety shoes increased comparing to the last year, but it could not cover the missing 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 60-65%. As the high inflation and high production cost, causing the lower margin. For the year ended 31 December 2022, the Company could make a gross profit amounted to Baht 242 million (2021: Baht 276 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 2022, the Company had other income amounted to Baht 28 million (2021: Baht 17 million). For this year, the Company had a loss from exchange rate amounted to Baht 11 million and loss on the mark-to-market of derivative contracts amounted to Baht 11 million (2021: Baht 37 million). The reason was because the Thai Baht was significantly fluctuated during closing period. 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 2022, the selling expenses were accounted for 7.94% (2021: 8.16%) of total sales, but the amount increased by Baht 35 million. The major increase came from export expenses, sales promotion, and commission expenses. On the other hand, administrative expenses were accounted for 6.84% (2021: 8.35%) to total sales, but the amount increased by Baht 6 million. A major increase came from salary and remuneration of staff.

In 2022, 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 2022, 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 three companies which include Itt3Ritt Co., Ltd, Elephant Cann Co, Ltd, and Now End of Waste Co.,Ltd. For the year ended 31 December 2022, the Company had sharing loss from associate company amounted to Baht 3.66 million (2021: Baht 0.17 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 year ended 31 December 2022, the financial cost was Baht 35 million (2021: Baht 33 million).

Net Profit (Loss)

For the year ended 31 December 2022, the Company had net profit at Baht 19 million (2021: Baht 69 million), or equivalent to net margin at 0.82% (2021: 3.68%), which was lesser by Baht 50 million comparing to the previous year.

Analysis of statement of financial position as of 31 December 2022

Total assets of the Company as at 31 December 2022 were Baht 2,483 million (2021: Baht 2,439 million). The increase in assets came from cash and cash equivalent Baht 24 million, inventory amounted to Baht 19 million, and investment in associate amounted to Baht 23 million. On the other hand, the decrease came from accounts receivable and other receivables amounted to Baht 15 million and rights of use in assets amounted to Baht 14 million.

Total liabilities of the Company as at 31 December 2022 were Baht 1,490 million (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 983 million (2021: Baht 873 million), accounts payable and other payable amounted to Baht 348 million (2021: Baht 328 million), and long-term loan amounted to Baht 46 million (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 0.60 times (2021: 0.59 times).

To consider the liquidity, the Company's current ratio increased to 1.19 times at the end of the year (2021: 1.24 times). Although the Company's liquidity reduced from last year, 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	
	2022	2021
Gross profit margin	16.76%	22.50%
Net profit (loss) margin	0.82%	3.68%
Return on assets (ROA)	0.78%	2.83%
Return on equity (ROE)	1.95%	6.93%
Current ratio	1.19	1.24
Debts to equity ratio	1.50	1.45

Please be informed accordingly.

Sincerely Yours,

Mr. Puvasith Wongcharoensin

Chief Executive Officer