

May 11, 2023

Subject: Explain for operation results for the three-month period ended 31 March 2023

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 2023.

MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

Analysis of statement of income for the three-month period ended 31 March 2023

The main business of the Company can be divided into three main divisions. Firstly, it is finished leather business that was accounted for 64% 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 2% 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 three-month period ended 31 March 2023, the Company's sales were Baht 328 million (2022: Baht 336 million), which decreased by Baht 8 million comparing to the same period of previous year. The main reason was due to the current economic situation in the world market that was uncertain, especially the economic recession causing the inflation situation, and the continued interest rate increase of the Federal Reserve. That also included production costs and various expenses that have increased considerably since the end of last year. In this quarter, the Company has implemented a policy to control production costs and expenses continuously, but it was unable to fight the above pressure events.

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 leather in the system was close to the market price. Due to the events mentioned above, the cost of chemicals and other costs increased. Although the Company could increase the efficiency and effectiveness in the production process, it could not fully compensate for the difference. In addition, the Company could not pass on the increased costs to the next producers. As a result, the Company made a lower gross profit. For the three-month period ended 31 March 2023, the Company had gross profit only Baht 1 million (2022: Baht 23 million).

1.2 Tanning Service

For cow tanning service, during the past quarter, the Company was still facing an uncertain situation where customers slowed down imports because they had to wait and see the direction of the world economy. In addition, customers did not dare to order raw leather because the demand for leather in the world market was much lower. The executives foreseen such gaps and ordered the rawhide to produce for their own use. This would allow the Company to partially reduce the cost of producing finished leather. However, in order to solve such problems and reduce the burden of short-term costs, the Company considered that it should temporarily close some of the cow tanning section in order to effectively manage the costs incurred in the system. For pig tanning service, there was a good sign for this business because of the increase in order to China. For this quarter, this BU could perform closely to the same period of previous year. However, we need to have a monitoring on this situation closely.

For the three-month period ended 31 March 2023, the Company had revenue from tanning service amounted to Baht 8 million (2022: Baht 23 million). However, the higher chemical and other costs resulted in a negative gross margin Baht 0.4 million (2022: gross profit Baht 5 million).

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 174 million (2022: Baht 162 million). After the COVID-19 situation, the sales of products related to such events decreased this quarter. However, safety shoe sales started to rebound making up for the shortfall in other safety products. As a result, overall sales remained stable at the same level as 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 60-65%. As the high inflation and high production cost, causing the lower margin. For the three-month period ended 31 March 2023, the Company could make a gross profit amounted to Baht 61 million (2022: Baht 66 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 2023, the Company had other income amounted to Baht 5 million (2022: Baht 8 million). For this quarter, the Company had a gain from exchange rate and mark-to-market of derivative contracts amounted to Baht 2 million (2022: Baht 15 million). However, the above transactions were unrealized gain 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 2023, the selling expenses were accounted for 8.48% (2022: 7.77%) of total sales and the amount increased by Baht 3 million for this quarter. The major increase came from export expenses, sales promotion, and commission expenses. On the other hand, administrative expenses were accounted for 9.90% (2022: 6.76%) to total sales and the amount increased by Baht 15 million. A major increase came from the impairment of accounts receivable in accordance with TFRS 9 amounted to Baht 7 million salary and remuneration of staff.

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. This company invested in three companies which include Itt3Ritt Co., Ltd, Elephant Cann Co, Ltd, and Now End of Waste Co.,Ltd. For the three-month period ended 31 March 2023, the Company had sharing loss from associate company amounted to Baht 1.18 million (2022: Baht 0.43 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 2023, the financial cost was Baht 11 million (2022: Baht 8 million).

Net Profit (Loss)

For the three-month period ended 31 March 2023, the Company had net loss at Baht 32 million (2022: Net profit Baht 26 million), or equivalent to net negative margin at 6.21% (2021: net profit margin 4.97%), which was lesser by Baht 58 million comparing to the previous year.

Analysis of statement of financial position as of 31 March 2023

Total assets of the Company as at 31 March 2023 were Baht 2,511 million (31 December 2022: Baht 2,483 million). The increase in assets came from accounts receivable and other receivables Baht 50 million, loan to related party Baht 12 million, and deferred taxes Baht 7 million. On the other hand, the decrease came from cash and cash equivalent Baht 41 million and properties, plant and equipment Baht 5 million.

Total liabilities of the Company as at 31 March 2023 were Baht 1,549 million (31 December 2022: Baht 1,490 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 990 million (31 December 2022: Baht 983 million), accounts payable and other payable amounted to Baht 362 million (31 December 2022: Baht 348 million), and long-term loan amounted to Baht 29 million (31 December 2022: Baht 46 million). For this quarter, the Company had loan from related party and director amounted to Baht 50 million to increase liquidity. 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 0.62 times (31 December 2022: 0.60 times).

To consider the liquidity, the Company's current ratio was at 1.19 times (31 December 2022: 1.19 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 three-month period ended 31 March	
	2023	2022
Gross profit margin	12.18%	18.00%
Net profit (loss) margin	(6.21)%	4.97%
Return on assets (ROA)	(1.26)%	1.06%
Return on equity (ROE)	(3.30)%	2.53%

Significant financial ratio	31 March 2023	31 December 2022
Current ratio	1.19	1.19
Debt to equity ratio	1.61	1.50

Please be informed accordingly.

Sincerely Yours,

Mr. Puvasith Wongcharoensin

Chief Executive Officer