

August 10, 2023

Subject: Explain for operation results for the three-month and six-month period ended 30 June 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 and six-month period ended 30 June 2023.

MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

Analysis of statement of income for the three-month and six-month period ended 30 June 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 1% of total revenue. Last but not least, the safety shoes and safety products were accounted for 35% of the total revenue of the Company.

1.1 Finished Leather

For the three-month and six-month period ended 30 June 2023, the Company’s sales were Baht 302 million and Baht 640 million, respectively (2022: Baht 615 million and Baht 957 million), which decreased by Baht 313 million and Baht 317 million, respectively, comparing to the same period of previous year. The main reason was due to the fact that our customers had a lot of stock which sales target could not be met caused by the current economic situation in the world market that was uncertain, especially the economic recession leading the high inflation situation, and the interest rate continued to increase by the Federal Reserve. Thus, they delayed the usual orders. That 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 55:30:15, 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 and six-month period ended 30 June 2023, the Company had negative gross profit Baht 0.28 million and gross profit Baht 1.14 million, respectively (2022: Baht 35 million and 54 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 negative sign that impacted to this business. For this quarter, this BU could perform below expectation comparing to the same period of previous year. However, we need to have a monitoring on this situation closely.

For the three-month and six-month period ended 30 June 2023, the Company had revenue from tanning service amounted to Baht 6 million and Baht 14 million, respectively (2022: Baht 20 million and Baht 43 million). However, the higher chemical and other costs resulted in a negative gross margin Baht 5 million and Baht 6 million, respectively (2022: gross profit Baht 0 million and Baht 9 million).

1.3 Safety Shoes and Safety Products

For the three-month and six-month period ended 30 June 2023, the Company could generate revenue from safety shoes and other safety products amounted to Baht 162 million and 336 million, respectively (2022: Baht 162 million and Baht 323 million). Safety shoe sales started to rebound in this quarter, but the other personal protective equipment reduced after the COVID-19 situation. As a result, overall sales remained stable at the same level as the same period of previous year. Moreover, the Company increased its price as the cost of production increased.

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 and six-month period ended 30 June 2023, the Company could make a gross profit amounted to Baht 63 million and Baht 125 million, respectively (2022: Baht 61 million and Baht 127 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 2023, the Company had other income amounted to Baht 11 million and Baht 16 million, respectively (2022: Baht 12 million and Baht 17 million). For this quarter, the Company had a loss from exchange rate and mark-to-market of derivative contracts amounted to Baht 0.38 million (2022: Baht 13 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 and six-month period ended 30 June 2023, the selling expenses were accounted for 9.19% and 8.81%, respectively (2022: 6.40% and 6.94%) of total sales and the amount decreased by Baht 8 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 6.88% and 8.46% (2022: 6.50% and 6.41%) to total sales and the amount decreased by Baht 19 million. A major decrease came from the salary and remuneration of staff including the reversal of allowance for doubtful account.

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 and six-month period ended 30 June 2023, the Company had sharing loss from associate company amounted to Baht 1.45 million and Baht 2.63 million (2022: Baht 0.83 million and Baht 1.26 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 2023, the financial cost was Baht 13 million and Baht 24 million, respectively (2022: Baht 8 million and Baht 17 million).

Net Profit (Loss)

For the three-month and six-month period ended 30 June 2023, the Company had net loss at Baht 16 million and Baht 48 million (2022: Net loss Baht 12 million and net profit Baht 14 million), or equivalent to net loss margin at 3.57% and 4.96% (2022: Net loss margin 1.51% and net profit margin 1.07%), which was lesser by Baht 4 million comparing to the previous year.

Analysis of statement of financial position as of 30 June 2023

Total assets of the Company as at 30 June 2023 were Baht 2,430 million (31 December 2022: Baht 2,483 million). The decrease in assets came from inventory Baht 67 million, cash and cash equivalent Baht 33 million, and properties, plant and equipment Baht 14 million. On the other hand, the increase came from accounts receivable and other receivables Baht 21 million, loan to related party Baht 27 million, and deferred taxes Baht 10 million, and right of use in assets Baht 8 million.

Total liabilities of the Company as at 30 June 2023 were Baht 1,485 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 887 million (31 December 2022: Baht 983 million), accounts payable and other payable amounted to Baht 313 million (31 December 2022: Baht 348 million), and long-term loan amounted to Baht 14 million (31 December 2022: Baht 46 million). For this quarter, the Company had loan from related party and director amounted to Baht 155 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 0.61 times (31 December 2022: 0.60 times).

To consider the liquidity, the Company's current ratio was at 1.22 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 and six-month period ended 30 June	
	2023	2022
Gross profit margin	12.58% / 12.37%	12.28% / 14.56%
Net profit (loss) margin	(3.57)% / (4.96)%	(1.51)% / 1.07%
Return on assets (ROA)	(0.68)% / (1.98)%	(0.49)% / 0.58%
Return on equity (ROE)	(1.74)% / (5.09)%	(1.20)% / 1.42%

Significant financial ratio	30 June 2023	31 December 2022
Current ratio	1.22	1.19
Debt to equity ratio	1.57	1.50

Please be informed accordingly.

Sincerely Yours,

Mr. Puvasith Wongcharoensin

Chief Executive Officer