

November 10, 2023

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

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

### **Analysis of statement of income for the three-month and nine-month period ended 30 September 2023**

The main business of the Company can be divided into three main divisions. Firstly, it is finished leather business that was accounted for 65% 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 34% of the total revenue of the Company.

#### **1.1 Finished Leather**

For the three-month and nine-month period ended 30 September 2023, the Company's sales were Baht 330 million and Baht 970 million, respectively (2022: Baht 446 million and Baht 1,403 million), which decreased by Baht 116 million and Baht 433 million, respectively, comparing to the same period of previous year. In this quarter, the situation remained similar to the previous quarter. The main reason was due to the current economic conditions in the world market which was uncertain. The US Federal Reserve's continued interest rate hikes and the war situation that has not yet been resolved, so this causes shoe brands that were delaying orders to release their stock in the system first. Moreover, the nature of the order was that the selling price was not high. On the contrary, production costs and various expenses have increased significantly since the end of last year. In this quarter, the Company still implemented a policy to control production costs and various expenses continuously, but they were unable to cope with the stressful 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. At present, the average cost of leather in the system is close to the market price, but due to the events mentioned above, chemical costs and other costs increased. Although the Company was able to increase efficiency and effectiveness in the production process, it was unable to fully compensate for the difference. In addition, high-priced orders have decreased and the Company was unable to pass on the increased costs to downstream producers. As a result, the Company's gross profit decreased. For the three-month and nine-month period ended 30 September 2023, the Company had negative gross profit Baht 12 million and Baht 11 million, respectively (2022: gross profit Baht 46 million and 100 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 nine-month period ended 30 September 2023, the Company had revenue from tanning service amounted to Baht 5 million and Baht 18 million, respectively (2022: Baht 26 million and Baht 68 million). As a result, the Company had a gross margin Baht 3 million and negative gross margin Baht 3 million, respectively (2022: gross profit Baht 8 million and Baht 17 million).

## 1.3 Safety Shoes and Safety Products

For the three-month and nine-month period ended 30 September 2023, the Company could generate revenue from safety shoes and other safety products amounted to Baht 147 million and 484 million, respectively (2022: Baht 158 million and Baht 481 million). Safety shoe sales were lower this quarter, but the selling price was still at a high level. The Company has increased the selling price of its products due to increased production costs. In addition, sales of personal protective equipment decreased after the COVID-19 situation, causing overall sales to be lower than the same period of last 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 and nine-month period ended 30 September 2023, the Company could make a gross profit amounted to Baht 60 million and Baht 185 million, respectively (2022: Baht 64 million and Baht 191 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 2023, the Company had other income amounted to Baht 6 million and Baht 23 million, respectively (2022: Baht 5 million and Baht 23 million). For this quarter, the Company had a loss from exchange rate and mark-to-market of derivative contracts amounted to Baht 9 million (2022: Gain Baht 4 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 nine-month period ended 30 September 2023, the selling expenses were accounted for 9.76% and 9.12%, respectively (2022: 7.64% and 7.17%) of total sales and the amount decreased by Baht 1 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 10.25% and 9.05% (2022: 6.82% and 6.22%) to total sales and the amount increased by Baht 6 million in this quarter. A major decrease came from setting up additional allowance for doubtful accounts and impairment of fixed assets.

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 nine-month period ended 30 September 2023, the Company had gain sharing from associate company amounted to Baht 0.80 million and loss sharing Baht 1.83 million, respectively (2022: loss sharing Baht 1.06 million and Baht 2.32 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 2023, the financial cost was Baht 13 million and Baht 37 million, respectively (2022: Baht 9 million and Baht 25 million). The reason for the increase was due to higher interest rates on loans due to bank policy.

## Net Profit (Loss)

For the three-month and nine-month period ended 30 September 2023, the Company had net loss at Baht 47 million and Baht 95 million (2022: Net profit Baht 22 million and net profit Baht 36 million), or equivalent to net loss margin at 9.98% and 6.60% (2022: Net profit margin 3.65% and net profit margin 1.90%). For this quarter, the loss was greater than the same period of previous year by Baht 69 million.

## **Analysis of statement of financial position as of 30 September 2023**

Total assets of the Company as at 30 September 2023 were Baht 2,483 million (31 December 2022: Baht 2,483 million). The increase in assets came from accounts receivable Baht 39 million, loan to related party Baht 27 million, and deferred tax assets Baht 22 million. On the other hand, the decrease came from cash and cash equivalents Baht 32 million, inventory Baht 29 million, and properties, plant and equipment Baht 22 million.

Total liabilities of the Company as at 30 September 2023 were Baht 1,585 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 891 million (31 December 2022: Baht 983 million), accounts payable and other payable amounted to Baht 352 million (31 December 2022: Baht 348 million), and long-term loan amounted to Baht 59 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 0.64 times (31 December 2022: 0.60 times).

To consider the liquidity, the Company's current ratio was at 1.20 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 nine-month period ended 30 September	
	2023	2022
Gross profit margin	10.76% / 11.84%	19.06% / 16.00%
Net profit (loss) margin	(9.98)% / (6.60)%	3.65% / 1.90%
Return on assets (ROA)	(1.89)% / (3.83)%	0.92% / 1.49%
Return on equity (ROE)	(5.23)% / (10.59)%	2.23% / 3.61%

Significant financial ratio	30 September 2023	31 December 2022
Current ratio	1.20	1.19
Debt to equity ratio	1.76	1.50

Please be informed accordingly.

Sincerely Yours,

Mr. Puvasith Wongcharoensin

Chief Executive Officer