

May 13, 2024

Subject: Explain for operation results for the three-month period ended 31 March 2024

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 2024.

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

### **Analysis of statement of income for the three-month period ended 31 March 2024**

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 3% of total revenue. Last but not least, the safety shoes and safety products were accounted for 32% of the total revenue of the Company.

#### **1.1 Finished Leather**

For the three-month period ended 31 March 2024, the Company's sales were Baht 359 million (2023: Baht 328 million), which increased by Baht 31 million compared to the same period of previous year. For this quarter, the overall number of orders increased comparing to the same period of last year. The main reason was that various shoe brands have already reduced the quantity of products in the system during 2023 causing them to have to start ordering again. However, the number of orders has not returned very high due to the current economic conditions in the world market, which are uncertain and the war situation that has not yet been resolved in many areas causing various shoe brands to delay orders. Another factor was the average price of goods improving due to exchange rates. On the contrary, production costs and various expenses have increased significantly since the end of last year. In addition, the Company still implemented a policy to control production costs and various expenses continuously.

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. As a result, the Company's gross profit increased. For the three-month period ended 31 March 2024, the Company had gross profit Baht 34 million (2023: Baht 1.42 million).

## 1.2 Tanning Service

For cow tanning service, during this year, 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 compared to the previous year. However, we need to have a monitoring on this situation closely.

For the three-month period ended 31 March 2024, the Company had revenue from tanning service amounted to Baht 11 million (2023: Baht 8 million). As a result, the Company had a negative gross profit Baht 2.76 million (2023: Baht 0.38 million).

## 1.3 Safety Shoes and Safety Products

For the three-month period ended 31 March 2024, the Company could generate revenue from safety shoes and other safety products amounted to Baht 178 million (2023: Baht 174 million). Safety shoe sales slightly increased this year and the Company adjusted the price of its products due to the increase in production costs. This allows the Company to maintain a high level of gross profit. On the other hand, sales of personal protective equipment decreased after the COVID-19 situation. However, overall sales were slightly higher than the same period of last year.

Additionally, 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%. Due to the inflation situation this year, production costs increased and affected margins. As a result, the company has adjusted product prices as mentioned earlier. For the three-month period ended 31 March 2024, the Company could make a gross profit amounted to Baht 76 million (2023: Baht 61 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 2024, the Company had other income amounted to Baht 7 million (2023: Baht 5 million). For this quarter, the Company had a gain from exchange rate and mark-to-market of derivative contracts amounted to Baht 2 million (2023: Baht 2 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 2024, the selling expenses were accounted for 8.33% (2023: 8.48%) of total sales and the amount increased by Baht 3 million for this year. The major increase came from sales promotion and commission expenses. On the other hand, administrative expenses were accounted for 7.44% (2023: 9.90%) to total sales and the amount decreased by Baht 9 million in this quarter. This was due to the fact that there was an allowance for expected credit losses in the same period of the previous year.

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 2024, the Company had loss sharing from associate company amounted to Baht 0.68 million (2023: Baht 1.18 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 ended 31 March 2024, the financial cost was Baht 16 million (2023: Baht 11 million). The reason for the increase was due to the increase in the principal amount of the loan and the increase in loan interest rates due to bank policy.

## Net Profit (Loss)

For the three-month period ended 31 March 2024, the Company had net profit at Baht 10 million (2023: Net loss Baht 32 million), or equivalent to net profit margin at 1.88% (2023: Net loss margin 6.21%). For this quarter, profits were Baht 42 million higher than the same period of last year. The main reason was due to the increase in selling prices as the exchange rate resulted in higher gross profits including the sales of wetblue resulted in an extra profit of Baht 11 million and a decrease in administrative expenses of Baht 9 million since there was no allowance for expected credit losses in this quarter.

## **Analysis of statement of financial position as of 31 March 2024**

Total assets of the Company as at 31 March 2024 were Baht 2,391 million (31 December 2023: Baht 2,490 million). The decrease in assets came from inventory Baht 115 million and loan to related party Baht 5 million. On the other hand, the increase came from accounts receivable and other receivables Baht 16 million and cash and cash equivalents Baht 8 million.

Total liabilities of the Company as at 31 March 2024 were Baht 1,563 million (31 December 2023: Baht 1,672 million). The major items were bank overdraft and short-term loan from financial institutions that major part was trust receipts which were short-term loans with a repayment condition with financial institutions for purchasing raw materials from foreign funds amounted to Baht 902 million (31 December 2023: Baht 1,047 million), and accounts payable and other payable amounted to Baht 334 million (31 December 2023: Baht 360 million). For this quarter, the Company had loan from financial institutions amounted to Baht 51 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 0.65 times (31 December 2023: 0.67 times).

To consider the liquidity, the Company's current ratio was at 1.18 times (31 December 2023: 1.12 times). Although the Company's liquidity was not high, 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	
	2024	2023
Gross profit margin	19.58%	12.18%
Net profit (loss) margin	1.88%	(6.21)%
Return on assets (ROA)	0.43%	(1.26)%
Return on equity (ROE)	1.25%	(3.30)%
Current ratio	1.18	1.19
Debt to equity ratio	1.89	1.61

Please be informed accordingly.

Sincerely Yours,

Mr. Puvasith Wongcharoensin

Chief Executive Officer