

August 13, 2019

Subject: Explain for operation results for second quarter 2019 ending June 30, 2019

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 second quarter 2019 ending June 30, 2019

MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

Analysis of statement of income for the six-month period ended June 30, 2019

The main business of the Company can be divided into three main divisions. Firstly, it is finished leather business that was accounted for 66% 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 8% 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 six-month period ended 30 June 2019, the Company's sales was 930 million (30 June 2018: Baht 867 million) which increased by 63 MB comparing to the same period of prior year. The main reason was that the Company improved in human resource management and changed in machineries which could improve efficiency in the system and caused the average productivity increase. However, the Company was affected by the exchange rate that caused the sales was not as high as expected when comparing to the total volume.

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 70:20:10, respectively. During this period, the average cost in the system is gradually decreased. For the six-month period ended 30 June 2019, the Company had gross profit at Baht 9 million (30 June 2018: Baht 50 million). Although the Company could increase sales, the gross profit significantly reduced from the fixed costs. The Company invested in resources in order to produce 2.5 million sf. Currently, the Company had an average productivity around only 2 million sf.

1.2 Tanning Service

For the tanning service, the Company had vision that the current tanning business in Thailand is popular. In the past year, the Company could perform tanning service at expected rate. However, customer delayed the shipment in the first half year since the economic situation. Management expected that the incoming shipment will be normal in the rest of this year. In addition, management has a vision to order rawhides to produce own wetblue in order that the Company could reduce the cost of production.

For the six-month period ended 30 June 2019, the Company had revenue from tanning service amounted to Baht 111 million (30 June 2018: Baht 111 million). However, the Company could manage this business better than last year by reducing the loss to Baht 7 million (30 June 2018: Loss Baht 13 million).

1.3 Safety Shoes and Safety Products

For the six-month period ended 30 June 2019, the Company could generate revenue from safety shoes and other safety products amounted to Baht 371 million (30 June 2018: Baht 373 million). The cost of sales of safety shoes consists of leather cost, outsole cost, and other costs as finished leather business. 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%. However, the Company could make a gross profit slightly below the same period of last year at Baht 151 million (30 June 2018: Baht 153 million). This was because of the decrease in sales.

1.4 Other income

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 effected 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 six-month period ended 30 June 2019, the Company had other income Baht 29 million (30 June 2018: Baht 13 million).

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 to meet customers, find new customers, and business trip to study new technology to improve efficiency 4) compensation to employee and management and related payroll expenses, and other expenses i.e. depreciation and amortization, and repair and maintenance.

For the six-month period ended 30 June 2019, the selling expenses were accounted for 7.34% (30 June 2018: 6.30%). The increase in amount came from the claim expenses Baht 16.5 million, salary and commission Baht 5 million, and the change in employee benefit obligation to 400 days Baht 2.3 million. On the other hand, administrative expenses were accounted for 7.47% (30 June 2018: 7.37%) to sales. An increase in amount came from the change in employee benefit obligation to 400 days Baht 2.8 million.

In 2015, the Company did joint venture agreement with business partner in Hong Kong established Integrated Leather Network Company Limited (ILN) that engages in import and distribute all leathers. The Company holds 40% of total shares since the Company realizes an opportunity for trading leather business and reduces restrictions on the grade of leather using in the production process. Now, the installation of machinery is completed, so ILN can move forward with full capacity around end of 2017. During 2017, the ultimate shareholder would like ILN to be only serviced company, so they decided to sell all inventories and also the Company changed the method of calculation for services. For the six-month period ended 30 June 2019, the Company had loss sharing from associate company amounted to Baht 4 million (30 June 2018: Loss Baht 3.5 million). This was because their customers shipped goods significantly less than expectation.

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 six-month period ended 30 June 2019, the financial cost was Baht 25 million (30 June 2018: Baht 14 million).

Net Profit (Loss)

For the six-month period ended 30 June 2019, the Company had net loss at Baht 49.60 million (30 June 2018: Net loss Baht 0.80 million), or equivalent to net loss margin at 3.51% (30 June 2018: Net loss margin 0.06%) which was lost more Baht 48.80 million comparing to the same period of prior year. In summary, the factors that impacted to the financial performance in this period came from 3 factors which included a decrease in selling price of finished leather due to exchange rate, a missing of service order from customers, and the change in employee benefit obligation to 400 days.

Analysis of statement of financial position as of 30 June 2019

Total assets of the Company as at 30 June 2019 were Baht 2,681 million (31 December 2018: Baht 2,822 million). The major decrease came from account receivable amounted to Baht 170 million, cash and cash equivalent amounted to Baht 69 million, but there was an increase from inventory amounted to Baht 72 million, and properties, plants and equipment amounted to Baht 23 million. However, the Company could collect cash from customers better. Furthermore, an increase in inventory came from the preparation for pre-built stock to secure the business with customers including the improvement and additional part for machinery to support this expansion.

Total liabilities of the Company as at 30 June 2019 were Baht 1,654 million (31 December 2018: Baht 1,738 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 1,067 million (31 December 2018: Baht 1,200 million) and accounts payable and other payable amounted to Baht 414 million (31 December 2018: Baht 391 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. However, the significant increase of total liabilities came from an expansion of normal business operation both assets and liabilities. Thus, the ratio of total liabilities to total assets of the Company maintained the same at 0.62 times.

To consider the liquidity, the Company's current ratio slightly declined from 1.22 times as at the end of 2018 to 1.20 times. Although the Company's liquidity reduced, 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 six-month period ended	
	30 June 2019	30 June 2018
Gross profit margin	10.81%	14.02%
Net profit (loss) margin	(3.51)%	(0.06)%
Return on assets (ROA)	(1.85)%	(0.03)%
Return on equity (ROE)	(4.83)%	(0.08)%
Current ratio	1.20	1.30
Debt to equity ratio	1.61	1.43

Please be informed accordingly.

Sincerely Yours,

(Mr.Puvasith Wongcharoensin)

Chief Executive Officer