

August 13, 2021

Subject: Explain for operation results for the three-month and six-month period ended June 30, 2021

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 June 30, 2021.

MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

Analysis of statement of income for the three-month and six-month period ended 30 June 2021

The main business of the Company can be divided into three main divisions. Firstly, it is finished leather business that was accounted for 61% 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 36% of the total revenue of the Company.

1.1 Finished Leather

For the three-month and six-month period ended 30 June 2021, the Company’s sales were Baht 312 million and Baht 577 million (2020: Baht 181 million and Baht 526 million), respectively, which increased by Baht 131 million and Baht 51 million comparing to the same period of the previous year. Mainly, because of the current economic conditions in the world market is getting better, it was causing the leather in the customer's warehouse to start to decrease. As a result, customers had to start ordering. However, the COVID-19 situation is still a major reason for the lack of sales growth and creating uncertainty in the market. In this quarter, the company continued to implement a policy to control production costs and expenses making the overall look better.

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. Currently, the average cost of raw materials in the system was in-line with market price. In addition, the Company also increased an efficiency and effectiveness of production line leading the Company could generate more gross profit. For the three-month and six-month period ended 30 June 2021, the Company had gross profit at Baht 16 million and Baht 47 million (2020: Baht 9 million and Baht 36 million), respectively.

1.2 Tanning Service

For cow tanning service, the Company invested in new machineries in order to expand capacity during the past two years. However, during last year, customer delayed the shipment since the economic situation. In addition, as COVID-19, our customers had to rethink for a new purchase of rawhide because the overall demand in the market reduced significantly. As a result, management had a vision to order rawhides to produce own wet blue in order that the Company could reduce the cost of production. Also, management decided to partially temporary close some tanning productions in order to manage the cost efficiently.

For pig tanning service, there is a good sign for this business because of the increase in order to China. For this quarter, this BU could perform over expectation comparing to the budget although it had Covid-19. However, we need to have a monitoring on this situation closely.

For the three-month and six-month period ended 30 June 2021, the Company had revenue from tanning service amounted to Baht 53 million and Baht 82 million (2020: Baht 50 million and Baht 95 million).

However, as the Company could manage manufacturing cost more efficient, the Company had gross profit at Baht 26 million and Baht 30 million (2020: Baht 8 million and Baht 18 million).

1.3 Safety Shoes and Safety Products

For the three-month and six-month period ended 30 June 2021, the Company could generate revenue from safety shoes and other safety products amounted to Baht 169 million and Baht 337 million (2020: Baht 137 million and Baht 340 million), respectively. However, due to the COVID-19 situation, sales of safety shoes dropped considerably as purchasing power in the country has started to shrink in this quarter. Also, the reduction of workers and cost saving policies were the other factors. However, sales of safety equipment and services have increased considerably, making up for the lack of safety shoe sales. 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%. For the three-month and six-month period ended 30 June 2021, the Company could make a gross profit amounted to Baht 71 million and Baht 140 million (2020: Baht 54 million and Baht 141 million), respectively.

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 2021, the Company had net other expenses by Baht 5 million and other income Baht 3 million (2020: Baht 36 million and Baht 15 million), respectively. For this quarter, the Company had a loss from the mark-to-market of derivative contracts by Baht 9 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 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 2021, the selling expenses were accounted for 7.30% and 7.82% (2020: 10.06% and 8.77%) of total sales, but the amount in this quarter increased by Baht 3 million. The major decrease came from the salary and remuneration of sales staff, export expenses, and commission expenses. On the other hand, administrative expenses were accounted for 8.56% and 8.15% (2020: 10.42% and 8.63%) to total sales, but the amount increased by Baht 8 million. A major increase came from allowance for doubtful accounts in accordance with TFRS amounted to Baht 7 million.

In 2021, 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. For the three-month and six-month period ended 30 June 2021 and 2020, the Company had no sharing gain (loss) from associate company (2020: Loss sharing Baht 1.22 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 2021, the financial cost was Baht 8 million and Baht 16 million (2020: Baht 10 million and Baht 21 million), respectively.

Net Profit (Loss)

For the three-month and six-month period ended 30 June 2021, the Company had net profit at Baht 24 million and Baht 64 million (2020: Baht 23 million and Baht 28 million), or equivalent to net profit margin at 4.96% and 6.98% (2020: 6.91% and 3.21%), respectively, which was gained more by Baht 1 million and Baht 36 million comparing to the same period of the previous year. In summary, the factors that impacted to the financial performance in this period came from the controlling of manufacturing cost, selling & administrative expenses.

Analysis of statement of financial position as of 30 June 2021

Total assets of the Company as at 30 June 2021 were Baht 2,453 million (31 December 2020: Baht 2,132 million). The increase in assets came from accounts receivable and other receivable amounted to Baht 132 million, inventory amounted to Baht 115 million and cash and cash equivalent amounted to Baht 99 million. On the other hand, the decrease came from the rights of use in assets amounted to Baht 17 million.

Total liabilities of the Company as at 30 June 2021 were Baht 1,462 million (31 December 2020: Baht 1,197 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 794 million (31 December 2020: Baht 662 million) and accounts payable and other payable amounted to Baht 414 million (31 December 2020: Baht 249 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 the adoption of new Thai Financial Reporting Standard No.16 "Leasing" resulted in a record of additional lease liabilities. Thus, the ratio of total liabilities to total assets of the Company was at 0.60 times (31 December 2020: 0.56 times).

To consider the liquidity, the Company's current ratio increased to 1.26 times at the end of the period (31 December 2020: 1.30 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 three-month and six-month period ended 30 June	
	2021	2020
Gross profit margin	22.82% / 23.45%	21.55% / 22.37%
Net profit (loss) margin	4.96% / 6.91%	6.98% / 3.21%
Return on assets (ROA)	0.99% / 2.62%	1.08% / 1.31%
Return on equity (ROE)	2.46% / 6.48%	2.45% / 2.99%

Significant financial ratio	30 June 2021	31 December 2020
Current ratio	1.26	1.30
Debts to equity ratio	1.47	1.28

Please be informed accordingly.

Sincerely Yours,

Mr. Puvasith Wongcharoensin

Chief Executive Officer