

August 14, 2018

Subject : Explain for operation results for the Second Quarter 2018 ending June 30, 2018

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 second quarter ending June 30, 2018

Analysis of statement of income for the three-month period ended 30 June 2018

The main business of the Company can be divided into five divisions. Firstly, it is finished leather business that was accounted for 69% 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 and third source is tanning service which is included cow skin and pig skin was accounted for 9% of total revenue. Last but not least, the safety shoes and safety products were accounted for 22% of the total revenue of the Company.

1.1 Finished Leather

For the three-month period ended 30 June 2018, the Company’s sales was Baht 568 million (30 June 2017: Baht 458 million) which increased by 110 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 from 1.8 million sf. to 2.2 million sf. Moreover, an exchange rate (Thai Baht weak) helped the average selling price went higher than expectation.

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 decrease, but the total volume of inventory is high, so management team needs more time to restructure an average price to be at appropriate level in order that the gross profit reflects the current business situation. For the three-month period ended 30 June 2018, the Company had gross profit at Baht 43.48 million (30 June 2017: Baht 43.37 million).

1.2 Tanning Service

For the tanning service, the Company had vision that the current tanning business in Thailand is popular. During this Q2'18 starting from mid of May 2018, the Company could perform cow tanning and pig tanning service at double rate.

For the three-month period ended 30 June 2018, the Company had revenue from cow tanning service amounted to Baht 41 million (30 June 2017: Baht 26 million). However, the Company had negative gross profit margin Baht 5 million (30 June 2017: Baht 6 million). The reason was that the full capacity was not the whole quarter, but the situation will be back to normal as the Company will perform at full capacity in the next quarter. For pig tanning service, for the three-month period ended 30 June 2018, the revenue from pig tanning service was Baht 34 million (30 June 2017: Baht 13 million) and the net profit was Baht 0.89 million (30 June 2017: Baht -0.26 million). The reason why the pig tanning service did not generate a lot of margin comparing to cow tanning service was that the process is to purchase pig rawhide and then pass through the tanning process, so the costing included pig skin cost and tanning cost.

1.3 Safety Shoes and Safety Products

The Company could generate more revenue from safety shoes and other safety products. For the three-month period ended 30 June 2018, the revenue increased from Baht 110 million to Baht 128 million and Baht 46 million to Baht 50 million, respectively. The major increase came from the increase in sale volume of safety shoes and protective equipment including the rental equipment services.

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%. As such, the gross profit margin increased from Baht 42 million to Baht 54 million and Baht 17 million to Baht 22 million, respectively.

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 three-month period ended 30 June 2018, the Company had other income Baht 4 million (30 June 2017: Baht 8 million). The reason was that the Company did not receive the compensation for tax amounted to Baht 4 million in this quarter.

Expenditures

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 three-month period ended 30 June 2018, the selling expenses were accounted for 6.09% (30 June 2017: 5.28%). The increase came from the Company had sales promotion expenses and air freight shipping more than prior period of the same year. On the other hand, administrative expenses were accounted for 5.97% (30 June 2017: 7.07%) to sales. An increase came from the hiring of oversea staff as a consultant for developing efficient sales and production system.

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 that started in Q4'2017. For the three-month period ended 30 June 2018, the Company still made loss and shared loss to CPL amounted to Baht 1 million (30 June 2017: Baht 25 million). However, the associated company could work at fully capacity around mid of May 2018 and management expected that the situation will be recovered to normal in the next quarter.

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. For the three-month period ended 30 June 2018, the financial cost was Baht 7 million (30 June 2017: Baht 6 million).

Earnings Before Interests and Taxes (EBIT) and Net Profit (Loss)

For the three-month period ended 30 June 2018, the Company had a profit at Baht 3 million (30 June 2017: Baht 20 million), or equivalent to net profit margin at 0.40% (30 June 2017: 3.09%) which decreased by Baht 17 million comparing to the same period of prior year. In summary, the factors that impacted to the financial performance in this year came from 4 factors which included the recognition of bad debt reversal, a decrease in loss sharing from associate company, an increase in selling and administrative expenses, and a decrease in tax expenses.

Analysis of statement of financial position as of 30 June 2018

Total assets of the Company as at 30 June 2018 were Baht 2,607 million (31 December 2017: Baht 2,067 million). The major increase came from cash and cash equivalent amounted to 130 million, trade receivables and other receivables amounted to Baht 152 million, inventory amounted to Baht 158 million, and properties, plants and equipment amounted to Baht 96 million.

Total liabilities of the Company as at 30 June 2018 were Baht 1,535 million (31 December 2017: Baht 992 million). The major items are trust receipts which are short-term loans with a repayment condition with financial institutions for purchasing raw materials from foreign funds amounted to Baht 767 million (31 December 2017: Baht 649 million) and accounts payable and other payable amounted to Baht 634 million (31 December 2017: Baht 250 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 increased from 0.48 times to 0.59 times.

To consider the liquidity, the Company's current ratio declined from 1.55 times to 1.30 times as at the end of the year. 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	30 June 2018	30 June 2017
Gross profit margin	14.10%	16.69%
Net profit (loss) margin	0.40%	3.09%
Return on assets (ROA)	0.12%	0.97%
Return on equity (ROE)	0.30%	1.86%
Significant financial ratio	30 June 2018	31 December 2017
Current ratio	1.30	1.55
Debt to equity ratio	1.43	0.92

Please be informed accordingly.

Sincerely Yours,

(Mr.Puvasith Wongcharoensin)

Chief Executive Officer