

Management Discussion and Analysis

1. Changes in accounting policies

As of January 1, 2022, the Group has implemented a change in its accounting policy regarding the valuation of investment properties. The previous cost method (net of accumulated depreciation and accumulated impairment loss) has been replaced by the fair value method in accordance with Accounting Standard No. 40, Investment Property. This change has been retrospectively adjusted for the comparative information presented in the previous period.

From December 1, 2022, the Group has revised its accounting policy for the valuation of buildings, building improvements, and equipment used for animal feed products, processed food, and ready-to-eat products. The previous cost method has been replaced by the revalued method in accordance with Accounting Standard No. 16, Property, Plant and Equipment, using the immediate replacement method onwards.

The aforementioned changes in accounting policies have been implemented to ensure that the financial statements accurately reflect the fair value of investment properties, buildings, building improvements, and equipment used for animal feed products, processed food, and ready-to-eat products. The aim is to provide users of financial statements with more relevant information for decision-making purposes.

2. Performance

The following financial performance analysis is the analysis of financial information in accordance with the Company's consolidated financial statements of the year ended December 31, 2022.

2.1 Performance Analysis

Overview of operating performance for the years 2021 and 2022

Unit : THB Thousand	2021	2022	Change
Revenue from sale of goods	512,704,447	614,196,968	19.8%
Gross profit margin	12.9%	13.3%	
Distribution and administrative expenses	50,880,488	55,000,802	8.0%
(Gains) losses on changes in fair value	-2,381,443	1,410,753	159.3%
Finance cost	16,596,049	20,357,997	22.7%
Income tax expense (income)	2,653,632	6,002,934	126.2%
Share of profit of associates and joint ventures	4,166,804	3,745,244	-10.1%
Gains on sale of investments and dividend income	2,451,918	2,613,321	6.6%
Gains on changes in fair value of investment properties	0	1,765,975	100.0%
Profit before one-time item	5,178,860	13,969,553	170.0%
One-time item : Gain from exchanging investments with shares	7,849,399	0	-100.0%
Profit for the year attributable to equity holders of the Company	13,028,259	13,969,553	7.2%
Net profit margin for the company	2.5%	2.3%	

Performance by business for the year 2021 and 2022

	2021		2022		Change
	THB Thousand	%	THB Thousand	%	
1. Thailand Operation	189,190,805	37%	224,355,723	37%	19%
1.1 Domestic	160,049,890	31%	191,206,117	31%	19%
Feed	43,441,164	8%	49,387,730	8%	
Farm and processing	91,892,648	18%	112,986,827	18%	
Food	24,716,078	5%	28,831,560	5%	
1.2 Export	29,140,915	6%	33,149,606	6%	14%
Feed	103,627	0%	61,453	0%	
Farm and processing	6,951,684	2%	9,370,162	2%	
Food	22,085,604	4%	23,717,991	4%	
2. Overseas operations	323,513,642	63%	389,841,245	63%	21%
2.1 Vietnam	111,110,839	22%	124,634,299	20%	12%
Feed	33,065,703	6%	37,874,713	6%	
Farm and processing	72,208,997	15%	78,999,539	13%	
Food	5,836,139	1%	7,760,047	1%	
2.2 China	30,456,643	6%	36,795,225	6%	21%
Farm and processing	20,050,398	4%	25,357,430	4%	
Food	10,406,245	2%	11,437,795	2%	
2.3 Other countries	181,946,160	35%	228,411,721	37%	26%
Feed	50,461,217	10%	58,797,037	10%	
Farm and processing	86,342,663	17%	112,972,422	18%	
Food	45,142,280	8%	56,642,262	9%	
Total sales Revenue	512,704,447	100%	614,196,968	100%	20%
Other Revenue	16,255,230		9,232,351		
Total revenue	528,959,677		623,429,319		18%

- **Thailand operation**

Revenue from sales for the Thailand operation was THB 224,356 million (accounted for 37% of the total sales revenue), increased 19% from the previous year. This increase was mainly due to the growth of Farm and processing businesses from higher meat prices compared to the previous year. Swine prices increased due to the shortage caused by the outbreak of African Swine Fever (ASF) in the previous year while broiler prices increased due to higher consumption demand following the ease of the COVID-19 pandemic both in Thailand and abroad.

- **Overseas operation**

Revenue from sales for the international operation was THB 389,841 million (accounted for 63% of the total sales revenue) increased 21% from the previous year largely from Vietnam and Russia operation. This growth is mainly attributable to the increased in sales volume resulting from expansion, coupled with the rising demand for consumption following the easing of the COVID-19 pandemic.

Gross profit for the year 2022 was THB 81,873 million, an increase of 24% from the previous year as a result of the aforementioned increase in revenue as well as efficient production and cost management of raw materials. Consequently, the gross profit margin increased from 12.9% in 2021 to 13.3%. The improvement in gross profit margin was mainly due to the increased performance of Thailand operations.

In 2021, there was a loss of THB 2,381 million due to the changes in fair value of biological assets. In contrast, in 2022, a gain of THB 1,411 million was recorded mainly due to the change in fair value of swine in Vietnam.

In 2022, finance costs amounted to THB 20,358 million, an increase of 23% from the previous year. This growth was primarily due to the increase in interest-bearing debt and the rising interest rates in many countries. As a result, the company's average cost of funds increased from 3.43% in the previous year to 4.36% in 2022.

Income tax for the year 2022 was THB 6,003 million, an increase of 126% from the previous year due to higher operating profits, especially in Thailand operation.

In 2022, the share of profit from investments in associates and joint ventures amounted to THB 3,745 million, indicating a 10% decrease from the previous year. This reduction was mainly due to the lower performance of joint ventures operating swine business in Canada, which incurred losses due to rising production costs and economic impacts of the COVID-19 pandemic. Conversely, the share of profits from investments in associates and joint ventures in CTI, a company engaged in animal feed and swine businesses in China, MAKRO, which operates wholesale and retail businesses, and CPALL, a convenience store operator, increased compared to the previous year.

Gain on revaluation of investment properties in 2022 amounted to THB 1,766 million is due to change in accounting policy from January 1, 2022 on the measurement of investment properties from cost method to fair value method in accordance with TAS 40 Investment Property.

Due to the aforementioned reasons, net profit attributable to the Company in 2022 increased by 7% from the previous year, amounting to THB 13,970 million. However, if the one-time gain of THB 7,849 million recorded in 2021, resulting from the difference between the book value and the fair value of the investment in MAKRO, is excluded, net profit for 2022 would increase by 170%.

3. Financial Status

(1) Assets

As of December 31, 2022, the Company's total assets amounted to THB 926,987 million. The assets included THB 233,219 million in current assets, THB 276,664 million in property, plant and equipment, THB 272,055 million in long-term investments, THB 62,767 million in goodwill, and THB 82,282 million in other assets.

Total assets increased from the end of 2021 in the amount of THB 81,743 million, or 10%, mainly due to:

- Property, plant, and equipment increased by THB 47,811 million due to the appraisal of land and buildings by an independent appraiser. This resulted in an increase in recognized land value by THB 14,765 million and an increase in recognized building value by THB 25,963 million. Additionally, there was an expansion in the operations of animal feed, swine farm, primary processing plant, and food processing.
- An increase in inventories of THB 9,649 million from higher prices of animal feed raw materials and higher reserves of raw materials from work expansion.
- Biological assets increased by THB 8,862 million, mainly from the increase in the number of swine from business expansion in Thailand, Russia and Vietnam.

(2) Liabilities and Shareholders' Equity

As of December 31, 2022, the total liabilities of the Company amounted to THB 627,144 million, consisting of trade and other payables of THB 50,964 million, interest-bearing liabilities of THB 485,050 million, lease liabilities of THB 35,503 million, and other liabilities of THB 55,627 million.

The Company's liabilities increased by THB 71,251 million, a 13% increase from the end of 2021. The primary reason for this increment is an increase in interest-bearing debt by THB 54,334 million, which was utilized to invest in CPP and expand the Company's operations.

As of December 31, 2022, the shareholders' equity of the Company stood at THB 299,843 million, which is an increase of THB 10,492 million or 4% from the end of 2021. The increment was contributed by net profit from operations, a capital increase from the revaluation of land and buildings, and decreased resulting from the translation of financial statements, and non-controlling interests.

(3) Asset Management

As of December 31, 2022, the Company reported net trade and other receivables of THB 43,221 million, with an allowance for expected losses of THB 1,080 million, accounting for 2.4% of total trade and other receivables. The management has established a control policy to regularly assess credit risk, which involves analyzing the financial status of all customers requesting credit line, and considering other factors that may affect the customers' credit risk, including the risk of default in relation to the industry and country of operation.

As of December 31, 2022, the Company's inventories were reported at THB 83,080 million, including THB 44,278 million in raw materials, THB 24,761 million in finished goods, and THB 15,122 million in other inventory items. The Company also had an allowance for the decline in value of inventories of THB 1,081 million. These inventories, representing 1.3% of total inventory.

(4) Liquidity and capital adequacy

As of December 31, 2022, the Company's cash flow decreased by THB 5,759 million, resulting in an ending cash balance of THB 29,527 million, a 16% decrease from the end of 2021. The cash flows from each activity during the period were as follows:

- Cash flow from operations amounted to THB 33,544 million, contributed primarily by operating profits.
- The cash flow used in investing activities totaled THB 25,723 million, primarily due to investments in property, plant, and equipment, which amounted to THB 27,256 million.
- The cash flow used in financing activities totaled THB 12,858 million, mainly due to the purchase of non-controlling interests in subsidiaries amounting to THB 29,771 million, payment of interest totaling THB 20,692 million, and payment of dividends totaling THB 5,159 million whereby loans from financial institutions increased by THB 45,767 million.

As of December 31, 2022, interest-bearing liabilities consisted of loans from financial institutions and bills of exchange amounting to THB 270,842 million, and debentures amounting to THB 212,215 million, with long-term loans and debentures due within one year totaling THB 66,117 million.

As of December 31, 2022, net debt to equity ratios calculated in accordance with the criteria specified in terms of rights and duties of an issuer and debenture holders of debentures that had not yet been redeemed were as follows:

(unit: times)	Net Debt to Equity Ratio	
	Consolidated financial statements	Separate financial statements
Debentures issued before CPF debenture No. 2/2556 ¹	1.85	0.99
CPF debenture No. 2/2556 and CPF debenture No. 2/2561 ^{2/3}	1.44	N/A
CPF debenture No. 2/2556 and CPF debenture No. 2/2561 ^{2/4}	1.44	N/A

As of December 31, 2022, the Company's debt-to-equity ratio increased to 2.09 times from 1.92 times at the end of 2021. However, the Company's ability to pay its debts improved, as shown by the interest-bearing debt to earnings before interest, income tax, depreciation and amortization (EBITDA) ratio, which improved to 7.93 times as of December 31, 2022, compared to 8.33 times at the end of 2021, reflecting improved performance in 2022. However, the coverage ratio decreased to 0.35 times as of December 31, 2022, from 0.42 times at the end of 2021. This decrease was mainly due to an increase in interest-bearing debt that was due within a year.

In addition, the Company's liquidity ratio, as per the consolidated financial statements, decreased to 0.87 times from 1.06 times at the end of 2021, primarily due to an increase in current liabilities. The cash cycle remained unchanged at 47 days, the same as 2021.

According to the cash flow and various liquidity ratios, it can be concluded that the Company possesses sufficient liquidity to support its operations, meet its debt obligations, and comply with loan conditions.

4. Capital expenditures in 2023

Capital expenditures for 2023 for Thailand and overseas operations totalled THB 25,000 million (excluding capital expenditures for mergers and acquisitions). However, the capital expenditures may be adjusted according to changing circumstances.

5. Dividend payment

The Board of Directors' meeting held on February 24, 2023 passed a resolution approving the dividend payment according to CPF's operating results of the year 2022 to the shareholders in total at the rate of THB 0.75 per share. CPF already paid the first dividend payment to shareholders as an interim dividend at THB 0.40 per share on September 14, 2022. Therefore, the second dividend payment will be THB 0.35 per share which will be paid from dividends received from the Company's subsidiaries. Such dividends are appropriated from the taxable profits of the subsidiaries which were subject to 20% corporate income tax. Therefore, recipients are subject to withholding tax according to rules and conditions of the Revenue Code. However, recipients who are natural persons shall be entitled to a tax credit in accordance with Section 47 bis of the Revenue Code. In this regard, the Board of Directors shall propose such dividend payment to the Annual General Meeting of Shareholders No. 1/2023 which will be held on April 26, 2023 for further approval.

¹ Net debt to equity ratio not exceed 2.00:1.00 for consolidated financial statements and not exceed 1.15:1.00 for separate financial statements. The ratio is calculated based on the information provided in the financial statements for the accounting periods ended on June 30 and December 31 of each accounting period that the auditor has reviewed or audited, as the case may be. For the purposes of this calculation, net debt = total liabilities - Cash and cash equivalents + Guarantee to any persons or juristic persons excluded (1) guaranteed by CPF to its subsidiaries and guaranteed by CPF's subsidiaries to CPF and (2) deferred tax liabilities

² Excluded perpetual subordinated bond

³ Net debt to equity ratio not exceed 2.00:1.00 for consolidated financial statements. The calculation is based on the information contained in the consolidated financial statements for the accounting period ending on December 31 of each accounting period that the auditor has audited. For the purposes of this calculation, net debt = total interest-bearing liabilities excluded liabilities under financial lease agreements - cash and cash equivalents and current investments

⁴ Net debt to equity ratio not exceed 2.00:1.00 for consolidated financial statements. The calculation is based on the information contained in the consolidated financial statements for the accounting period ending on December 31 of each accounting period that the auditor has audited. For the purposes of this calculation, net debt = total interest-bearing liabilities from financial institutions, bills of exchange, and debentures only excluded liabilities under financial lease agreements - cash and cash equivalents and current investments

4.6 Events after the reported period

On January 31, 2023, CPF (Thailand) Public Company Limited ("CPFTH") issued unsubordinated debentures No. 1/2023 without any specified collateral and bearing the name of the bearer and a debenture holder representative has been appointed. The total value of the debentures is THB 10,000 million, with tenor of 5-10 years and a fixed interest rate of 3.20-4.00% per annum.

TRIS Rating Co., Ltd. reviewed and assigned a credit rating of "A+" on March 31, 2022. CPFTH registered the debentures with the Thai Bond Market Association on January 31, 2023.

4.7 Factors affecting future performance

The performance outlook for 2023 presents several challenges for the Company, including fluctuating meat prices, the impact of epidemics on humans and animals, international conflicts, deteriorating economic conditions in many countries, and increasing loan interest rates. Therefore, The Company remains cautious in approaching its business operations and investments. The Company places significant importance on biosafety controls to prevent potential diseases and plans to increase operational efficiency and improve raw material management to mitigate the impact of rising raw material prices.

In this regard, despite the systematically implemented risk management measures that the Company have established as stated in the guidelines specified in Part 1 Business Operations and Performance, Section 2 Risk Management, to an acceptable level. There is a possibility that the risk management measures may not be sufficient to reduce the risk to an acceptable level, which resulted in unexpected operational results due to the uncontrollable external factors such as disease outbreaks or macroeconomic issues.

4.8 Sustainability Development

The Company places a great deal of importance on sustainable development. In 2022, the company identified 7 key areas of sustainability: 1. Food security, 2. Human rights and labor practices, 3. Employees and communities, 4. Water management, 5. Climate change management, 6. Biodiversity and ecosystems, and 7. Corporate governance principle, risk management, and compliance. The 7 sustainability issues cover the 3 fundamental elements of sustainable development (economic, environmental, and social) which are essential components for sustainability development. The Company has therefore implemented various activities, guided by its sustainability guidelines which include:

Economic

The Company gives priority to economic development. This includes increasing Sustainable KPI, developing and managing innovation in modern agriculture which uses technology as a driver (Agri Tech), and the development of farm management systems with technology (Smart Farming). Additionally, the Company has developed its corporate governance practices, which is considered a major part of the economic component.

Environment

The Company has undertaken numerous environmental activities, including a water management strategy to increase the efficiency of water use within the organization, setting corporate net-zero emissions targets, and responsible sourcing operations by bringing raw materials from areas without deforestation.

Social

The Company places great importance on social development, particularly in the field of human rights, labor practices and human resource management, including the development and support of the community.