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บริษัท เชียงใหม่ฟรอสเฟนฟู๊ดส์ จำกัด (มหาชน)

149/34 ซอยแองโกลพลาซ่า ถนนสุรวงศ์ แขวงสุริยวงศ์ เขตบางรัก กรุงเทพฯ 10500

CHIANGMAI FROZEN FOODS PUBLIC COMPANY LIMITED.

149/34 Soi Anglo Plaza Surawongse Rd., Suriyawongse, Bangrak, Bangkok 10500 Thailand

Tel : (662) 634-0061-4, 238-4091 Fax ; (662) 238-4090

12 May 2017

Subject: Management Discussion and Analysis for the period ended 31 March 2017

To: The President

The Stock Exchange of Thailand

Performance Overview

The overall of Thailand's economy in first quarter of 2017 considered sluggish recovery as the domestic consumption started to increase and the improve situation for the agricultural sector after the drought season in the previous year. The export sector also recovery as the global economic started to rebound, especially Asian market. The economic recovery resulted from the expectation on multiples economic stimulus from governments. However, export industry still face the uncertainty of political condition in European countries and the uncertainty of the execution of economic policy from US government. On the other hand, Japan, the major exporting market of the company, currently started to slowly recover from the expansion of export sector as Japanese Yen has depreciated against USD. The economists expected Gross Domestic Consumption (GDP) to expand 2% in the first quarter of 2017 comparing to the previous quarter, this expansion considered 5 consecutive quarters. In this first quarter of 2017, the company has increased sales volume comparing to the same quarter of previous year, while Thai Baht has slightly appreciated against USD considering 35.12 THB/USD in the first quarter of 2017, comparing to 35.67 THB/USD in the first quarter of 2016. According to the financial statements of the company, sales revenue has slightly increased from THB 308.13 Million which presented in the first quarter of 2017 to THB 333.08 Million, equivalent to the increase of 8.09%. Nonetheless, due to the effective management for costing especially in the improving the harvesting activities and the increasing production activities to compensate the depleted inventory due to the drought situation last year which resulted in the lower cost of goods sold per unit, the company's financial statement has indicate the net profit THB 46.99 Million in the first quarter of 2017, equivalent to the increase of 42.65% considering the same quarter last year of THB 32.94 Million, while the gross profit margin and net profit margin in the first quarter of 2017 displayed 29.42% and 14.11% respectively which increase from 25.84% and 10.69% previously shown in the first quarter of 2016.

The financial performance has significantly change more than 20%, whereby the net profit has increased 42.65% comparing to the same quarter of previous year. The major contribution for such change is the increased of sales volume and the reduction of cost from the effective production cost management and the increasing production activities to compensate the depleted inventory due to the drought situation last year. Finally, the net profit has greatly increased.

The Company has no non-recurrent transaction indicated in the financial statements for the first quarter of 2017.



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During the period, the company has not change the accounting policy, but only the application of accounting standard which is mandatory applied. The mentioned change has not material to the financial statement.

The factors that would affect the business operation for the second quarter are as follows

1. The global economic condition especially Japan as an important business partner still considered sluggish recovery, evidently from the stagnant investment, slowdown of trading, and the decrease of commodity pricing, despite various economic stimulus implemented such as the negative interest rate policy announced by the Bank of Japan.
2. The drought in Thailand which forecast to persist this year in the less degree of impact comparing to previous year, directly cause the negative effect to quantity and quality of agricultural produces. However, the management has aware of theses factor and best attempt to reduce such negative effects. Also, the management has best attempt to determine the policies and strategies to cope with the situations such as the continuous improvement for the production costing by improving cultivating yield and production yield, the study of the demand for the products in other country rather than existing trade partner, the study for the feasibility in the investment in neighborhood country purposely to increase the agriculture area and quantity produces.
3. The volatility of exchange rate, especially THB has continuously appreciated against USD which affected to the revenue recognition for the Company. However, as JPY has depreciated against USD, the situation is negative to the competitive advantage of the Company considering the pricing as the cost of product to the customer will be perceived as higher. This could put the pressure on the pricing negotiation with the customers during the period.
4. The fuel price which continuously increased could affect the increasing of production cost.
5. The withdrawal to participate in Trans Pacific Partnership (TPP) by USA affected US product as the import tax is imposed which allowed the Company an opportunity to increasing sales volume.



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Summary of Financial Performance

Revenue Structure

1. Sales Revenue

The Company has sales revenue majorly from the sales of frozen vegetables such as frozen soy beans, frozen green beans, frozen sweet corns and frozen mixed vegetables. The details of sales revenue, according to the consolidated financial statement categorized by the geographic is as follows,

Sales Revenue	Value (THB Million)		Increase (decrease)	
	1 st Quarter 2016	1 st Quarter 2017	THB Million	%
Export Sales Revenue	303.82	327.82	23.99	7.90
Domestic Sales Revenue	4.31	5.26	0.95	22.04
Total Sales Revenue	308.13	333.08	24.95	8.09

In the first quarter of 2017, sales revenue indicated totaling THB 333.08 Million, of which domestic sales proportion is 1.58% of total sales revenue, increasing from proportion 1.40% comparing to same quarter of 2016. In this regard, the proportion of export sales for the first quarter of 2017 is to 98.42%, slightly decreased from 98.60% in the same quarter of 2016.

Total sales revenue in the first quarter of 2017 totaling THB 333.08 Million increasing from THB 308.13 Million in the first quarter of 2016, equivalent to the increase of 8.09%. This due to the increase of sales volume despite the continuously appreciation of THB against USD in the first quarter of 2017 which the average exchange rate is 35.12 THB/USD comparing to average exchange rate for the first quarter of 2016 is 35.67 THB/USD.

2. Other Revenue

In the first quarter of 2017, the company has indicated other revenue of THB 4.11 Million which increased from THB 3.05 Million in the first quarter of 2016, equivalent to the increase of 34.75%, majorly cause by the revenue from the other assets disposal activities.

Cost of Goods Sold

Cost of goods sold in the first quarter of 2017 presented THB 235.90 Million, equivalent to the increase of 2.88%, comparing to THB 228.51 Million in the first quarter of 2016. The major reasons for the increase is as follows,

- The total cost of goods sold has increase due to the increase of production activities and increase of raw material purchased to compensate the depletion of inventory from the drought in the previous year as the Company has effective management for the quality controlling in the raw material purchased activities which derive



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from the change of cultivation process resulted in the enhancing of production yield.

- The decrease overhead production cost per unit as the increase of production activities despite the increasing of oil price comparing to the first quarter of the year 2016. The average fuel oil price in the first quarter 2017 is THB 23.10 per litre while reveal THB 16.59 per litre in the first quarter of 2016. Besides, the labor cost and electricity cost per unit is also reduce due to the increase of production activities.

Selling and Administration Expenses

In the first quarter of 2017, the Company has reported the selling and administration expenses of THB 42.07 Million which reduce from THB 38.84 Million as reported in the first quarter of 2016, equivalent to the increase of 8.31% which derive from the following factors,

- The domestic transportation expenses is increase due to the surge of fuel price and the production activities.
- The export expenses which is the cost for the transportation of finished goods to be delivered at domestic sea port and the custom fee, is increase due to the increasing volume export.

Gross Profit Margin and EBIT Margin

The Gross Profit Margin for the Company presented in financial statement for the period ended 31 March 2017 is 29.42% increase from 25.84% indicated in the same quarter of previous year, while the EBIT Margin reveal 17.65% significantly increase from 12.67% comparing to the same quarter of 2016. This is majorly contribute to the increase of sales volume, at the same time cost of goods has been decrease due to the effective management of production and inventory costing as the production activities is increased to compensated the depleted of inventory due to the drought in previous year.

Income Tax Expenses

According to the financial statement for period ended 31 March 2017, the company has income tax expenses totaling THB 11.75 Million, significantly increase from tax expenses in the first quarter of 2016 which shown THB 6.11 Million. The major reason for this increase is due to the improving performance of the Company.

Net Profit

The Company has indicated net profit in the financial statements or the first quarter of 2017 of THB 46.99 Million, increase from THB 32.94 Million presented in the first quarter of 2016, equivalent to the increase of 42.65%. The major contribution to the significant increase of net profit derive from the increase sales volume and the reduction of cost of goods per unit as the production activities has increased to compensate the depleted inventory from the drought in previous year, despite the increased selling and



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administration from the increasing transportation activities and the increasing price for fuel due.

Summary Table for the Financial Performance

	1 st Quarter (THB Million)		Increase (Decrease)	
	2016	2017	THB Million	%
Sales Revenue	308.13	333.08	24.94	8.09
Cost of Goods Sold	228.51	235.09	6.58	2.88
Gross Profit	79.62	97.99	18.36	23.06
Gain (Loss) from Exchange Rate	(4.78)	(1.25)	(3.53)	(73.85)
Other Revenue	3.05	4.11	1.06	34.75
Selling and Administration Expenses	38.84	42.07	3.23	8.31
Earnings Before Interest and Tax	39.05	58.78	19.73	50.52
Net Profit (Loss)	32.94	46.99	14.05	42.65
Earnings Before Interest, Tax, Depreciation and Amortization	48.35	68.95	20.60	42.60
Cash Flow from Operation	(37.88)	(79.91)	42.03	110.94
Earnings per share (Baht)	0.09	0.12		
Book Value per share (Baht)	3.63	3.98		

Key Financial Ratios

Key Financial Ratios	1 st Quarter 2016	Year 2016	1 st Quarter 2017
Current Ratio (Times)	12.35	11.78	11.12
Quick Ratio (Times)	6.24	7.98	6.83
Gross Profit Margin (%)	25.84	27.52	29.42
EBIT Margin (%)	12.67	16.64	17.65
Net Profit Margin (%)	10.69	13.40	14.11
Return on Equity (%)	11.35	13.94	14.52
Return on Assets (%)	12.97	12.64	13.18
Debt To Equity Ratio (Times)	0.10	0.10	0.11

Company's Financial Position

Assets

The Company has total assets according to the financial statements as of 31 March 2017 of THB 1,678.28 Million comparing to THB 1,676.28 Million in the previous quarter, equivalent to the increase of 3.63%. The major increase is from the increase of inventory from the last quarter of 2016 to the first quarter of the year 2017 as THB 345.07 Million to THB 477.14 Million, equivalent to the increase of 38.27% according to increase of production activities to compensated the depleted of inventory due to the drought in previous year. Also, the cash and cash equivalent has decrease THB 107.04 Million, equivalent to the decrease of 14.16%, as the increasing raw material purchased in the quarter



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Trade Receivables in the first quarter of the year 2017 indicated THB 114.94 Million, increase from THB 69.96 Million presented in the previous quarter, equivalent to the increase of 64.29% as the sales volume has increased. The Company has policy to reserve for allowance for bad debt for the whole amount on any doubtful receivable, considering financial position of client and their historical payment. In the previous year, most of the client able to made payment within due.

Liabilities

The Company has total liabilities according to the financial statements as of 31 March 2017 of THB 160.20 Million which increase THB 11.77 Million, equivalent to the increase of 7.93%, comparing to the previous quarter, as the Company has increase deferred tax liabilities derive from improving financial performance.

As of 31 March 2017, the Company has liabilities obligation other than employee benefit which are

- Licensing agreement and consulting agreement for the usage of computer program and system for the amount of THB 0.5 Million
- Consulting agreement for financial advisor regarding the investment in Myanmar. The obligation amount according to the contract is THB 0.3 Million
- The Company might expose to the occurrence of obligation from the issuance of guarantee letter from bank against the government authorities for the amount of THB 11.0 Million

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the first quarter of 2017, the Current Ratio indicated 11.22 times and the Quick Ratio of 6.83 times, while most of the current assets are in the form of cash and cash equivalent.

Currently, there is no file or active case of lawsuit against the Company.

Shareholder's Equity

Shareholder's equity for the company presented in the financial statement for the period ended 31 March 2017 of THB 1,516.08 Million, increase from THB 1,469.09 Million comparing to the previous quarter, equivalent to the increase of 3.20%. The major contribution to the increase is the inappropriate retained earnings from better financial performance which indicated THB 1,028.82 Million in the first quarter of 2017, comparing to THB 981.83 Million in previous quarter, equivalent to the increase of 4.79%.

Cash flow and Capital Structure

The Company has increased net cash flow used in operation THB 42.03 Million, comparing to the first quarter of 2016 due to the increasing purchased of raw material as the increase production activities to compensate the depleted inventory due to drought in



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the previous year. In addition, the company paid 28.13 Million for the procurement of building and equipment. Furthermore, the company has indicated cash outflow of THB 199.30 Million as the short-term investment.

In the first quarter of the year 2017, the Company has sufficient liquidity which evidence from the current ratio of 11.12 times, though slightly decrease from 11.78 times in 2016. The major assets is current assets equivalent to 74.87% of total assets. On the other hand, the Company has only 6.67% of current liabilities which mostly consists of trade payable. There is no outstanding borrowing from the financial institution.

The Company has not engage in any long term borrowing during the first quarter of 2017, whereas the debt to equity ratio is slightly increase to 0.11 times comparing to at 0.10 times indicated in the previous quarter.

Summary Table for Company's Financial Position

	Value (THB Million)			QoQ Increase (Decrease)	YoY Increase (Decrease)
	1 st Quarter 2016	4 th Quarter 2016	1 st Quarter 2017	%	%
Current Assets					
Cash and short term investment	477.31	755.81	648.77	(14.16)	35.92
Inventory	136.63	118.24	129.15	9.23	(5.48)
Other current assets	527.19	345.07	477.14	38.27	(9.49)
Total Current Assets	1,141.14	1,219.12	1,255.06	2.95	9.98
Non-Current Assets					
Property Land and Equipment	332.48	330.29	352.84	6.83	6.13
Other Non-Current Assets	42.39	68.10	68.38	0.41	61.32
Total Non-Current Assets	374.86	398.39	421.22	5.73	12.37
Total Assets	1,516.00	1,617.52	1,676.28	3.63	10.57
Current Liabilities	92.37	103.52	111.85	8.05	21.09
Non-Current Liabilities	41.74	44.91	48.34	7.65	15.80
Total Liabilities	134.12	148.43	160.20	7.93	19.44
Shareholder's Equity	1,381.88	1,469.09	1,516.08	3.20	9.71

Please be informed accordingly

Faithfully yours,

Signature

Ankoon Pholpipattanaphong

Managing Director