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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

13 November 2017

Subject: Management Discussion and Analysis for the period ended 30 September 2017

To: The President

The Stock Exchange of Thailand

### **Performance Overview**

The overall of Thailand's economy in the third quarter of 2017 considered slightly recovered evidenced from the increase of consumption from private sector especially spending on services and durable goods. In addition, export industry has continuously expanded from the increasing demand of global market includes Asia, Europe and USA. In the case of Japan, the major exporting market of the company, there are positive sign of economic expansion from the serial of government stimulus, also supported by the investment in infrastructure and related business concerned the preparation to be the host for Olympic Games 2020.

During the period, Thai Baht has continuously appreciated against USD while sales volume for the third quarter of 2017 has slightly dropped comparing to the previous quarter as the export volume to Japan has marginally decrease. Per the financial statements of e company, sales revenue has decreased from THB 372.24 Million which presented in the second quarter of 2017 to THB 361.35 Million, equivalent to the decrease of 2.93%. Further, the Company achieve net profit of THB 38.74 Million comparing to THB 56.78 Million presented in the previous quarter, considering the decrease of 14.15%. The Gross Profit Margin has also fall to 23.54% in the third quarter of 2017 comparing to 27.07% recorded in the previous quarter. Consequently, the Company has Net Profit Margin in this quarter presented 13.49%, decreased from 15.25% stated in the second quarter of 2017.

Considering the financial performance for the third quarter of 2017, the sales revenue has slightly decrease 8.71% comparing to the third quarter of 2016 as exchange rate for THB continuously appreciated against USD and the fall of sales volume has pressured the sales revenue. Moreover, as production cost has rose this year especially wages and fuel, the Net Profit Margin has decrease 23.86% comparing to the same quarter of previous year which presented THB 64.02 Million.

The major contribution for the change in the financial performance of the Company is the strong appreciation of THB/USD exchange rate comparing the third quarter of this year and last year. The average exchange rate in the third quarter of 2017 for THB/USD is 33.38 while recorded 34.84 in the same quarter last year. In addition, the global oil price has marginally increase during the period together with the increased of minimum wages since the beginning of 2017. These factors could affect the Company's cost of goods sold and selling and administration expenses and the net profit of the coming fourth quarter.

The Board of Director's Meeting No. 4/2017 which held on 11 August 2017 has resolved to arrange the payment of interim dividend for the first 6 months periods of 2017 (January 1, 2017 to June 30, 2017) to the Company's shareholders totaling 381,145,725 shares at the



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rate of Baht 0.14 per share, amounting to Baht 53,360,401.50 or 51.42% of the net profit for the first 6 months period of 2017. The Interim Dividend payment date has been arranged on 8 September 2017.

The non-recurrent transaction for the company is not presented in the financial statements for the third quarter of 2017. During the period, the company has not change the accounting policy.

The factors that would affect the business operation for the fourth quarter of 2017 are as follows

1. The global economic condition especially Japan as an important business partner. In October 2017, Japan has arranged snap election which LDP Party, the former government, has won the vote and re-elected as government. The analysts opined that the result of this snap election could be positive to the country as the current political policy has been prolonged as well as the monetary policy which would stabilized the confidence of investors and the country's money market.
2. The increasing price for agricultural products as the severe drought in Thailand in the previous season has been relief. 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 JPY started to depreciate against USD. This situation is negative to the competitive advantage of the Company considering the increasing the import cost. Further, the appreciation of THB against USD has subsequently reduced the revenue converting to THB.
4. The fuel price started to increase could affect the increase of cost of goods sold and transportation expenses.
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 in some products.
6. The effective of the Royal Decree on Managing the Work of Aliens B.E. 2560 (2017) could cause the scarcity for the labor and eventually drive the labor cost to increase, especially in the agricultural industry and its related industry as these industries considered labor-intensive.



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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)		Value (THB Million)		Increase (decrease)
	Q3 2016	Q2 2017	Q3 2017	% QoQ	% YoY	9 months 2016	9 months 2017	% YTD
Export Sales Revenue	386.18	366.34	350.69	(4.27)	(9.19)	1,125.53	1,044.84	(7.17)
Domestic Sales Revenue	9.67	5.90	10.66	80.68	10.24	22.00	21.82	(0.83)
Total Sales Revenue	395.84	372.24	361.35	(2.93)	(8.71)	1,147.53	1,066.66	(7.05)

In the third quarter of 2017, sales revenue reached totaling THB 361.35 Million, decreasing THB 10.89 Million from previous quarter, of which the export sales revenue has decreased 4.27% due to the end of high-order season. However, domestic sales revenue has increase 80.68% from previous quarter since domestic market anticipate the increasing price of agricultural produces. Considering the same quarter previous year, the Company has sales revenue decrease of THB 34.50 Million, equivalent to the decrease of 8.71% due to the appreciation of THB against USD.

Total sales revenue in the 9 months period of 2017 totaling THB 1,066.66 Million decreasing from THB 1,147.53 Million in the 9 months period of 2016, equivalent to the decrease of 7.05%. This due to the appreciation of THB against USD comparing 2016-2017 and the sales volume has been slightly decreased.

#### 2. Other Revenue

In the third quarter of 2017, the company has indicated other revenue of THB 4.17 Million which slightly decreased from THB 4.61 Million in the second quarter of 2017, equivalent to the decrease of THB 0.43 Million, majorly cause by the revenue from the other assets disposal activities.

### Cost of Goods Sold

Cost of goods sold in the third quarter of 2017 presented THB 276.29 Million, equivalent to the increase of 1.77%, comparing to THB 271.49 Million in the second quarter of 2017, due to the increase of production cost including minimum wages and fuel price since the beginning of 2017 despite the sales volume which decreased. Considered the 9 months period of 2017, the cost of goods sold has been decrease THB 41.77 Million comparing to cost of goods sold presented in the first 9 months period of 2016. The major reasons for the decrease is as follows,



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- The reduction of unit cost due to the effective management for the quality controlling in the raw material purchased activities which derive from the change of cultivation process resulted in the enhancing of production yield. However, the cost of goods sold possibly increased in the following quarter due to the increasing price trend for agriculture produces after drought season has been relief.
- The effective management on cold storage together with the completion of cold storage maintenance project this year allow the company to save external cold storage cost.
- The increase overhead production cost as the global oil price is increase. Besides, the overtime labor cost and electricity cost also induced due to the increase of production activities to compensate the finished goods inventory which decreased since drought season last year.

### **Selling and Administration Expenses**

In the third quarter of 2017, the Company has reported the selling and administration expenses of THB 43.53 Million which slightly increase from THB 43.16 Million as reported in the second quarter of 2017 due to the decrease of sales activities. For the 9 months period of 2017, the selling and administration expenses is slightly decrease comparing to the figures presented in the 9 months period of 2016 due to the decrease of sales activities.

### **Gross Profit Margin and Net Profit Margin**

The Gross Profit Margin for the Company presented in financial statement for the third quarter of 2017 is 23.54%, decreased from 27.07% indicated in the previous quarter, while the Net Profit Margin reveal 16.87% marginally decrease from 19.05%. This is majorly contributed to the appreciation of exchange rate. In addition, as THB continuously appreciate against USD in the third quarter of 2017, the Company has gain from exchange rate THB 15.24 Million comparing to the gain from exchange rate of THB 8.73 Million presented in the financial statements for the second quarter of 2016. This is due to the forward contract rate the Company has engage is higher than the exchange rate recorded on the selling date.

### **Net Profit**

The Company has indicated net profit in the financial statements of the third quarter of 2017 of THB 48.74 Million Baht, decrease from THB 56.78 Million presented in the second quarter of 2017, due to exchange rate as THB is appreciated against USD comparing to the previous quarter, also the cost of goods sold per unit has slightly increase resulted from the increase of global oil price and the quality of agriculture product cultivated during drought season affected the production yield. Further, considering the third quarter of 2016, the net profit for the Company has slightly decreased THB 15.28 Million derive from the volatility of exchange rate and the decreased of sales volume, while the production cost has increasing.



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**Summary Table for the Financial Performance**

	THB Million			Increase (Decrease)		THB Million		Increase (Decrease)
	Q3 2016	Q2 2017	Q3 2017	% QoQ	% YoY	9 months 2016	9 months 2017	% YTD
Sales Revenue	395.84	372.24	361.35	(2.93)	(8.71)	1,147.53	1,066.66	(7.05)
Cost of Goods Sold	(282.42)	(271.49)	(276.29)	1.77	(2.17)	(824.64)	(782.87)	(5.07)
Gross Profit	113.43	100.75	85.06	(15.58)	(25.01)	322.89	283.79	(12.11)
Gain (loss) on exchange rate	6.87	8.73	15.24	74.57	121.97	3.12	22.73	629.52
Others Income	3.73	4.61	4.17	(9.36)	11.80	11.02	12.89	16.99
Selling and administration Expenses	(44.14)	(43.16)	(43.53)	0.84	(1.39)	(131.40)	(128.77)	(2.00)
Earnings Before Interest and Tax	79.88	70.92	60.94	(14.07)	(23.71)	205.62	190.64	(7.29)
Net Profit	64.02	56.78	48.74	(14.15)	(23.86)	166.68	152.52	(8.50)
Earnings Before Interest, Tax, Depreciation and Amortization	90.82	82.46	61.07	(25.94)	(32.76)	238.64	212.49	(10.96)
Cash Flow from Operation	59.74	95.71	(29.86)	(131.20)	(93.59)	181.92	(14.06)	(107.73)
Earnings per share (Baht)	0.17	0.15	0.13					
Book Value per share (Baht)	3.78	3.78	3.76					

**Key Financial Ratios**

Key Financial Ratios	Q3 2016	Q2 2017	Q3 2017
Current Ratio (Times)	14.63	9.85	13.46
Quick Ratio (Times)	9.13	5.85	7.26
Gross Profit Margin (%)	28.65	27.07	23.54
Operating Profit Margin (%)	20.18	19.05	16.87
Net Profit Margin (%)	16.17	15.25	13.49
Return on Equity (%)	12.58	14.03	12.68
Return on Assets (%)	14.45	12.62	11.64
Debt To Equity Ratio (Times)	0.09	0.11	0.09

**Company's Financial Position****Assets**

The Company has total assets according to the financial statements as of 30 September 2017 of THB 1,566.94 Million comparing to THB 1,604.36 Million in the previous quarter, equivalent to the decrease of 2.33%. The decrease majorly derived from the decrease of Cash and cash equivalent 16.16% paid as interim dividend to the shareholders. Also, cash has been spent to purchase raw materials to compensate the shortage of inventory due to the draught last year which result in the increase of inventory THB 57.64 Million.



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Trade Receivables in the third quarter of the year 2017 indicated THB 155.08 Million, decrease from THB 155.48 Million presented in the previous quarter, from the payment from customer as previous mentioned. 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 make payment within due.

### **Liabilities**

The Company has total liabilities according to the financial statements as of 30 September 2017 of THB 132.09 Million which decrease THB 32.81 Million, equivalent to the decrease of 19.90%, comparing to the previous quarter. The decrease is due to the payment for the suppliers regarding to the activities of production and selling in the previous quarter and the payment for the tax expenses.

As of 30 September 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 Million

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the third quarter of 2017, the Current Ratio indicated 13.46 times and the Quick Ratio of 7.26 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 30 September 2017 of THB 1,434.85 Million, decrease from THB 1,439.46 Million comparing to the previous quarter, equivalent to the slight decrease of 0.32% since the company has paid the interim dividend on 8 September 2017. The inappropriate retained earnings indicated THB 947.59 Million in the third quarter of 2017, comparing to THB 952.20 Million in previous quarter, equivalent to the slight decrease of 0.48%.



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## Cash flow and Capital Structure

The Company has net cash flow using in operation THB 14.06 Million, decreasing THB 195.98 Million, comparing to the same period of 2016 due to the decreasing revenue from sales and the appreciation of THB against USD. Further, the Company has increased its production to compensate the inventory shortage caused by draught last year. In addition, the company spent totaling THB 116.92 Million on the investing activities majorly on the repair and maintenance of building and machine for THB 52 Million. Furthermore, the company has indicated cash outflow of THB 37.50 Million as investment in Sino Thai Freeze and Dry Co., Ltd.

In the third quarter of the year 2017, the Company has sufficient liquidity which evidence from the current ratio of 13.46 times, increase from 9.85 times in the second quarter of 2016. The major assets are current assets equivalent to 70.66% of total assets. On the other hand, the Company has only 5.25% of current liabilities which mostly consists of trade payable. There is no outstanding borrowing from the financial institution.

The Company has not engaged in any long term borrowing during the third quarter of 2017, whereas the debt to equity ratio is slightly decrease to 0.09 comparing to the previous quarter.



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**Summary Table for Company's Financial Position**

	Value (THB Million)			Increase (Decrease)		Increase (Decrease)	
	Q3 2016	Q2 2017	Q3 2017	THB Million QoQ	% QoQ	THB Million YoY	% YoY
Current Assets							
Cash and short term investment	590.42	556.94	466.93	(90.01)	(16.16)	(123.49)	(20.92)
Trade Receivables	176.75	155.48	155.08	(0.41)	(0.26)	(21.68)	(12.26)
Inventory	412.25	427.61	485.25	57.64	13.48	73.00	17.71
Total Current Assets	1,179.43	1,140.03	1,107.26	(32.77)	(2.87)	(72.17)	(6.12)
Non-Current Assets							
Property Land and Equipment	339.89	357.69	352.66	(5.03)	(1.41)	12.77	3.76
Other Non-Current Assets	44.45	106.64	107.02	0.38	0.35	62.57	140.75
Total Non-Current Assets	384.34	464.33	459.68	(4.65)	(1.00)	75.33	19.60
Total Assets	1,563.77	1,604.36	1,566.94	(37.42)	(2.33)	3.17	0.20
Current Liabilities	80.62	115.75	82.24	(33.51)	(28.95)	1.62	2.01
Non-Current Liabilities	43.76	49.15	49.85	0.70	1.42	6.09	13.91
Total Liabilities	124.38	164.90	132.09	(32.81)	(19.90)	7.71	6.20
Shareholder's Equity	1,439.39	1,439.46	1,434.85	(4.61)	(0.32)	(4.54)	(0.32)

Please be informed accordingly

Faithfully yours,

Signature

Ankoon Pholpipattanaphong

Managing Director