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บริษัท เชียงใหม่ฟรอสเซนฟู้ดส์ 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

23 February 2018

Subject: Management Discussion and Analysis for the year 2017

To: The President

The Stock Exchange of Thailand

Performance Overview

The overall of Thailand's economy in the year 2017 considered remain in the recovery stage according to the global economic recovery including USA and other main countries in Asia, which supported the growth of export from Thailand. However, the global economic still recover under the pressure and risks concerning the tax reformation policy in USA, the political stability in major countries in Euro Zone such as Germany, Italy, and Spain. Further, the uncertainty of global economic would also affected by national debt level as well as debt level from private sector which increasing last year. Apart from the global economic, Japan economic, which is our vital trading partner, has been expected the slight increase in GDP from the economic stimulus which continuously implemented. The direction has been signaled from the increase of household consumption level through the attempts of entrepreneurs holding the price level to attract buyers. However, the volatile of exchange rate during 2017 especially the continuously appreciation of Thai Baht (THB) against U.S. Dollar (USD) as the result from the economic policy of USA which lead USD strongly depreciated against major currencies. The average exchange rate for the year 2017 revealed in the Bank of Thailand indicated 33.93 THB/USD, comparing to 35.29 THB/USD in 2016. In general, the appreciation of THB should strengthen the competitiveness of Thai exporter, at the same time the situation has directly weakening revenue of the Company, in which products majorly sold in USD, considered approximately 98% of the total revenue. Therefore, the sales revenue reveals in the financial statement for the year 2017 of THB 1,357.89 Million, decreasing of 7.34% comparing to THB 1,465.50 Million indicated in 2016. Also, total sales volume of 2017 presented 21,875 Tons, which decreased 2.82% comparing to 22,509 Tons in previous year. Moreover, the increasing cost for several factors of production such as mandatory increase of minimum wages and the increasing of fuel cost from the recovery of global economic has raised the production cost. The company's financial statement has indicate the net profit THB 160.41 Million in the year 2017, equivalent to the decrease of 18.32% considering previous year performance of THB 196.38 Million, while the gross profit margin and net profit margin in 2017 displayed 23.81% and 11.81% respectively which decrease from 27.52% and 13.40% previously shown in 2016

The resolution of the Board of Director's Meeting No. 3/2017 which held on 12 May 2017 which resolved to invest in Sino-Thai Company Limited ("STFD") for the proportion of



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15% of registered capital (Registered capital of STFD is THB 100,000,000) by purchasing the ordinary shares from current shareholders, which is not related person to the Company, for 1,500,000 shares at THB 10 per share (at Par) totaling THB 15,000,000. After the transaction, STFD has increased the registered capital for THB 150,000,000 through the issuing new ordinary shares of 15,000,000 shares and offer through right offering at offering price at par THB 10 per share. The Company further invested to maintain the holding proportion through the purchase of shares worth THB 22,500,000, the total investment therefore equivalent to THB 37,500,000. The Company has obtained total 3,750,000 shares, equivalent to 15% holding proportion of registered capital of THB 250,000,000. The Company also granted the right to appoint at least 1 director according to the holding proportion. In this regard, the Board of Directors has appointed Mr. Prayoon Pholpipattanaphong to be the director in STFD. The Company has already paid up for full amount and obtain the shares on 14 June 2017. The investment in STFD who operated as manufacturer, distributor, and exporter of fresh fruits, frozen fruits, freeze dry fruits and foods, herbs and spices expected to benefit the Company by creating opportunity to increase revenue from the food and agricultural industry which the Company has strong expertise and considered core business of the Company. This investment also expected to increase value to the Company and expand the business boundary into potentially growth business and create the return value to shareholders.

The Company has non-recurrent transaction indicated in the financial statements for the year 2016 and 2017 as follows

2016

- The company has engaged in pre-deposit agreement to lease the land in Myanmar as the part of investment project to construct the factory for frozen products. The lease value for 50 years considered USD 1.43 Million. The Company has made deposit of 50% of lease value equivalent to USD 0.71 Million, consider THB 25.36 Million.

2017

- The company has invested in STFD who operated as manufacturer, distributor, and exporter of fresh fruits, frozen fruits, freeze dry fruits and foods, herbs and spices through the acquisition of ordinary shares for the proportion of 15% of total registered capital of THB 250 Million, considered total investment of THB 37.5 Million.

During the year, 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.

For the year 2018, the global economic expected to gradually recover amidst the uncertainty of economic and financial system driven by the direction and policy of USA



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after the president election, the Brexit which considered negative effect to the recovery of EU, and the fear of possible financial crisis in China. However, Japan is expected to grow from the government's stimulus expected to be effective to the economic system. The agricultural sector of Thailand considered slowly recover but the price should maintain at low level due to the oversupply problem. Further, the new mandatory minimum wage increased which subjected to apply in April, together with the shortage of labor as the result of the announcement on the new Thai Royal Ordinance on foreign migrant workers has put high pressure on the increasing of labor cost. Another negative threat on the production cost is the oil price which tended to increase due to the global economic recovery. However, the management has aware of these 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, and the closely monitor for the exchange rate to determine the appropriate use of financial instrument and increase the effectiveness of the hedge against the risk of exchange rate fluctuation.

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 financial statement categorized by the geographic is as follows,

Sales Revenue	Value (THB Million)			Increase (decrease) %		
	2015	2016	2017	2015	2016	2017
Export Sales Revenue	1,401.40	1,434.39	1,322.71	(0.02)	2.35	(7.79)
Domestic Sales Revenue	18.49	31.11	35.18	55.90	68.25	13.08
Total Sales Revenue	1,419.89	1,465.50	1,357.89	0.45	3.21	(7.34)

In 2017, sales revenue indicated totaling THB 1,357.89 Million, of which domestic sales proportion is 2.59% of total sales revenue, increasing from proportion 2.12% comparing to 2016, and the proportion of export sales for the year 2017 is to 97.41%, slightly decreased from 97.88% in 2016.

Total sales revenue in 2017 totaling THB 1,357.89 Million increasing from THB 1,465.50 Million in 2016, equivalent to the decrease of 7.34%. This due to the continuously appreciation of THB against USD which the average exchange rate in 2017 is 33.93 THB/USD comparing to average exchange rate of 35.29 THB/USD, equivalent to the appreciation of 3.85%. In addition, the sales volume has been decrease comparing to the previous year.



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2. Other Revenue

In 2017, the company has indicated other revenue which mainly derived from the selling of by-product of THB 8.57 Million which increased from THB 8.25 Million in 2016, equivalent to the increase of 3.87%.

Cost of Goods Sold

Cost of goods sold in 2017 presented THB 1,034.56 Million, equivalent to the decrease of 2.60%, comparing to THB 1,062.17 Million in 2016. The major reasons for the decrease is as follows,

- The reduction raw material cost due to the effective management for the quality controlling in the raw material purchased activities, which enhancing of production yield, and the adjusting effect of production cost to be more realistically reflect the production activities. However, the cost of goods sold possibly increased this year as the price of agricultural product is increasing.
- 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 of overhead production cost as the global oil price is increase. Besides, the company has increased production activities purposely to increase finish goods inventory to compensate the shortage of raw material due to sever drought in the previous year. This increasing production activities would also concern with the increase labor cost and electricity cost.

Selling and Administration Expenses

In 2017, the Company has reported the selling and administration expenses of THB 175.07 Million which slightly decrease from THB 181.28 Million as reported in 2016, equivalent to the decrease of 3.42% which derive from the following factors,

- The domestic transportation expenses decrease due to the decreasing sales volume
- 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 decrease due to the decreasing sales volume

Gross Profit Margin and Net Profit Margin

The Gross Profit Margin for the Company presented in the financial statement for the year ended 31 December 2017 is 23.81% decrease from 27.52% indicated in previous year, while the Net Profit Margin reveal 14.59% decrease from 16.64% comparing to 2016. This is majorly contributed to the appreciation of exchange rate which unfavorable to the sales



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revenue of the company, while the sales volume is decreased. At the same time, cost of goods has been increase due to the increase minimum labor wage, and the continuously increasing fuel oil price due to global economic recovery. On the other side, the cold storage maintenance project allow increasing storage capacity, hence the external cold storage charge has been decrease. However, the selling and administration expenses has decreased due to the decrease sales volume and activities for the year.

Net Profit

The Company has indicated net profit in the financial statements in 2017 of THB 160.41 Million, decrease from THB 196.38 Million presented in 2016, equivalent to the decrease of 18.32%. This lead to the decrease of Net Profit Margin from 13.40% to 11.81%. The major contribution to the decrease of net profit derive from the unfavorable exchange rate as THB is continuously appreciated against USD, with the average quarterly exchange rate range fluctuated between 32.95-35.12 THB/USD. Also, the decrease of sales volume is considered affected the Net Profit. Moreover, the production cost has been increased due to the new mandatory minimum labor wage and the increase of fuel oil price. effective management of production costing and inventory costing. The Company has determined to focus on production cost management including the attempt to increase the production efficiency, the improvement of cold storage area purposely to improve capacity management and reduce external cold storage charge.

Summary Table for the Financial Performance

Financial Highlight	Value (THB Million)			Increase (decrease) %		
	2015	2016	2017	2015	2016	2017
Sales Revenue	1,419.89	1,465.50	1,357.89	0.45	3.21	(7.34)
Cost of Goods Sold	1,075.74	1,062.17	1,034.56	(5.71)	(1.26)	(2.60)
Gross Profit	344.15	403.33	323.33	26.21	17.20	(19.84)
Gain on Exchange Rate	(26.78)	8.32	34.63	9.63	131.06	316.38
Revenue from short term investment	5.43	5.23	6.62	(50.24)	(3.66)	26.56
Other Revenue	6.46	8.25	8.57	(24.59)	27.63	3.87
Operating Profit	329.68	425.13	373.15	25.44	28.95	(12.23)
Selling and administration Expenses	178.05	181.28	175.07	(7.43)	1.81	(3.42)
Earnings Before Interest and Tax	151.63	243.85	198.08	115.10	60.82	(18.77)
Net Profit	119.56	196.38	160.41	97.86	64.25	(18.32)
Earnings Before Interest, Tax, Depreciation and Amortization	202.47	283.10	241.90	54.83	39.82	(14.55)
Cash Flow From Operation	186.20	324.74	80.76	521.63	79.77	(75.87)
Earnings per share (Baht)	0.31	0.52	0.42			
Book Value per share (Baht)	3.54	3.85	3.79			



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Key Financial Ratios

Key Financial Ratios	2015	2016	2017
Current Ratio (Times)	11.61	11.78	13.44
Quick Ratio (Times)	6.47	7.98	7.68
Gross Profit Margin (%)	24.24	27.52	23.81
Operating Profit Margin (%)	10.65	16.64	14.59
Net Profit Margin (%)	8.39	13.40	11.81
Return on Equity (%)	9.11	13.94	11.01
Return on Assets (%)	8.29	12.64	10.05
Debt To Equity Ratio (Times)	0.10	0.10	0.09

Company's Financial Position

Assets

The Company has total assets according to the financial statements as of 31 December 2017 of THB 1,575.69 Million comparing to THB 1,617.52 Million in the previous year, equivalent to the decrease of 2.59%. The major decrease is from the decrease of cash and cash equivalent and short term investment in the forms of cash in fix saving account altogether presented THB 556.94 Million in 2017 comparing to THB 755.81 Million in 2016, equivalent to the decrease of 26.31%. The decrease net cash flow from operation derive from decrease sales revenue has contributed to such decrease of cash, at the same time, the Company has increase production activities in 2017 to compensate the inventory level shortage due to severe drought last year. Therefore, the Company has reported inventory of THB 433.55 Million in 2017, comparing to THB 345.07 Million in 2016.

Trade Receivables in 2017 indicated THB 80.57 Million, increase from THB 69.96 Million presented in 2016, of which THB 59.62 Million is receivable that not yet due for payment, equivalent to 81.01% of total receivables in 2017 indicated THB 73.59 Million. 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 2017, most of the client able to made payment within due.

Liabilities

The Company has total liabilities according to the financial statements as of 31 December 2017 of THB 131.91 Million which decrease from THB 148.43 Million, equivalent to the decrease of 11.13%, comparing to the previous year. This is due to the decrease of defer tax liabilities which decrease from THB 25.45 Million in 2016, to THB 11.85 Million in 2017 as the Company has decreasing sales revenue and Earnings before interest and tax.

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



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- 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 year 2017, the Current Ratio indicated 13.44 times and the Quick Ratio of 7.68 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 December 2017 of THB 1,443.79 Million, decrease from THB 1,469.09 Million comparing to the previous year, equivalent to the decrease of 1.72%. The major contribution to the decrease is the inappropriate retained earnings from financial performance which indicated THB 956.53 Million in 2017, comparing to THB 981.83 Million in 2016, equivalent to the decrease of 2.58%.

Cash flow and Capital Structure

The Company has decreased net cash flow from operation THB 80.76 Million, comparing to THB 334.74 Million indicated in 2016 due to the decreasing revenue from sales and the appreciation of THB against USD, while the sales volume has decrease. In addition, the company spent totaling THB 37.50 Million to invest in STFD. In addition the Company has been reported THB 60.98 Million on the investing activities majorly on the repair and maintenance of building and machine, THB 1.39 Million on the purchase of computer software, and THB 186.42 Million as the dividend payment in the year 2017.

In the 2017, the Company has sufficient liquidity which evidence from the current ratio of 13.44 times, increase from 11.78 times in 2016. The major assets are current assets equivalent to 70.75% of total assets. On the other hand, the Company has only 5.27% 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 year 2017, whereas the debt to equity ratio is 0.09, slightly decrease from 0.10 comparing to previous year.



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Summary Table for Company's Financial Position

	Value (THB Million)			Increase (Decrease) %			% of Total Assets		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Current Assets									
Cash and short term investment	559.79	755.81	556.94	19.39	35.02	(26.31)	37.60	46.73	35.35
Inventory	134.35	118.24	124.26	15.41	(11.99)	5.09	9.02	7.31	7.89
Other current assets	451.87	345.07	433.55	3.48	(23.64)	25.64	30.36	21.33	27.52
Total Current Assets	1,146.01	1,219.12	1,114.75	12.14	6.38	(8.56)	76.98	75.37	70.75
Non-Current Assets									
Property Land and Equipment	305.90	330.29	352.72	(11.90)	7.97	6.79	20.55	20.42	22.39
Other Non-Current Assets	36.72	68.10	108.22	105.85	85.48	58.91	2.47	4.21	6.87
Total Non-Current Assets	342.62	398.39	460.94	(6.15)	16.28	15.70	23.02	24.63	29.25
Total Assets	1,488.62	1,617.52	1,575.69	7.32	8.66	(2.59)	100.00	100.00	100.00
Current Liabilities	98.74	103.52	82.97	24.63	4.83	(19.85)	6.63	6.40	5.27
Non-Current Liabilities	40.93	44.91	48.94	1.57	9.71	8.97	2.75	2.78	3.11
Total Liabilities	139.68	148.43	131.91	16.85	6.26	(11.13)	9.38	9.18	8.37
Shareholder's Equity	1,348.94	1,469.09	1,443.79	6.43	8.91	(1.72)	90.62	90.82	91.63

Please be informed accordingly

Faithfully yours,

Signature

Ankoon Pholpipattanaphong

Managing Director