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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 May 2019

Subject: Management Discussion and Analysis for the period ended 31 March 2019

To: The President

The Stock Exchange of Thailand

Performance Overview

The overall of Thailand's economy in first quarter of 2019 considered growth at decreasing rate affected by the global economics' stagnant growth which pressured from the uncertainty of the trade war situation between USA and China, also the geopolitical situation in several region including protracted Brexit, and economic downturn in Eurozone and China evidenced from the shrinkage of production and export. On the other hand, Japan, the major exporting market of the company, constantly growth fueled by the government and private investment to support the coming Tokyo Olympic 2020, also expected the acceleration of household spending prior to the increasing of consumption tax in October 2019. Considering the exchange rate, Thai Baht has continuously appreciated against USD since last quarter, in which 31.61 THB/USD in the first quarter of 2019, comparing to 32.81 THB/USD in the fourth quarter of 2018. However, the strong appreciation of THB against USD in January and February started to recover by March, therefore, the average exchange rate for the first quarter of 2019 has reach the exchange rate level of the first quarter of 2018 at 31.54 THB/USD.

Total revenue from sales in the first quarter of 2019 has slightly increased to THB 273.07 Million, comparing to THB 271.07 Million in the first quarter of 2018, equivalent to the increase of 0.74% due to the increasing price for some of our products. However, the increasing cost of production including minimum wage, the increasing bunker price according to the increasing fuel price, and the increasing external cold storage charge due to the increasing quantity of agricultural produces as the farming yield has improved beyond expectation. These led to Net Loss in the first quarter of 2019 for THB 9.34 Million, equivalent to the decrease of 143.29% comparing to the Net Profit in the first quarter of 2018 at THB 21.58 Million. The Gross Profit Margin for the first quarter of 2019 stated 8.25%, considered decreased from 15.65% in the first quarter of 2018. Hence, the company has Net Loss Margin at 3.42%, comparing to Net Profit Margin of 7.96% in the same quarter in 2018.

The financial performance has significantly change more than 20%, whereby the net profit has decreased 143.29% comparing to the same quarter of previous year. The major contribution for such change is majorly from increasing cost of production from increasing minimum wage and fuel price, and the increasing external cold storage charge due to the increasing quantity of agricultural produces as the farming yield has improved beyond expectation. Finally, the net profit has greatly decreased. In this regard, the cost of goods sold per unit specifically derived from external cold storage charge is expected to decline once inventory has been balancing adjusted. However, the management has aware of



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theses factor and best attempt to reduce such negative effects. Also, the management has continuously determine the policies and strategies to cope with the dynamic of situations such as the continuous improvement for the selection of seeds and its standard in order to improve cultivating yield and production yield, the strive to achieve the effective energy saving production line, the study of the demand for the products in other country rather than existing trade partner, 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.

The Company has no non-recurrent transaction indicated in the financial statements for the first quarter of 2019.

During the period, the company has not changed 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. There are signs of economic growth from the increasing government and private investment to support the coming Tokyo Olympic 2020, also expected the acceleration of household spending prior to the increasing of consumption tax in October 2019.
2. The volatility of exchange rate, which affected by the intense of trade war situation between USA and China. In case THB has further appreciated against USD, the sales revenue shall be negatively affected. Also, as JPY has also continuously depreciated against USD since the start of 2019, the selling price could be perceived as increasing for importer and this could put the pressure on the pricing negotiation with the customers during the next period.
3. The fuel price which continuously increased could affect the increasing of production cost.
4. The consequent from the US international trade policy which concern the impose of import tariff for China would create both opportunity and threat to Thailand's frozen vegetables and fruits. The incident would allow frozen vegetables and fruits from Thailand to compete in US market as the price for Chinese import product would be increased. On the other hand, Chinese frozen product vegetables and fruits possibly sold to other market instead to retains its sales volume which would offer at lower price and compete with the current market for products from Thailand.



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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 soybeans, 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 2018	1 st Quarter 2019	THB Million	%
Export Sales Revenue	267.29	263.10	(4.19)	(1.56)
Domestic Sales Revenue	3.78	9.97	6.19	163.76
Total Sales Revenue	271.07	273.07	2.00	0.74

In the first quarter of 2019, sales revenue indicated totaling THB 273.07 Million, of which export sales is to 96.34%, decreased from 98.61% in the same quarter of 2018. In this regard, the proportion of domestic sales proportion is 3.65% of total sales revenue, increased from proportion 1.39% comparing to same quarter of 2018. This is due to the higher domestic sales volume through new customer.

Total sales revenue in the first quarter of 2019 totaling THB 273.07 Million slightly increasing from THB 271.07 Million in the first quarter of 2018, equivalent to the increase of 0.74%. This due to the slightly decrease sales volume while the price of some products has been increased comparing to the same quarter last year.

2. Other Revenue

In the first quarter of 2019, the company has indicated other revenue of THB 2.31 Million which decreased from THB 6.56 Million in the first quarter of 2018, equivalent to the decrease of 64.83%, majorly cause by the revenue from the other assets disposal activities. Also, the Company has revenue from investment THB 0.76 Million as the return from the investment in fixed income term fund and money market.



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Cost of Goods Sold

Cost of goods sold in the first quarter of 2019 presented THB 250.55 Million, equivalent to the increase of 9.57%, comparing to THB 228.65 Million in the first quarter of 2018. The major reason for the increase is as follows,

- The increase overhead production cost per unit as the increase cost for the production factors such as minimum wage which started April 2018, the increase of bunker oil price which result from the increasing global fuel price, the increasing depreciation of new machine and equipment invested purposely to increase efficiency and the repair and maintenance cost for cold storage, and the increasing external cold storage charge due to the increasing quantity of agricultural produces as the farming yield has improved beyond expectation.

Selling and Administration Expenses

In the first quarter of 2019, the Company has reported the selling and administration expenses of THB 37.28 Million which slightly reduced from THB 37.97 Million as reported in the first quarter of 2018, equivalent to the decrease of 1.84% which derive from the freight transportation expense, the transportation expense, and 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 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 2019 is 8.25% decrease from 15.65% indicated in the same quarter of previous year, while the EBIT Margin reveal -3.37% decreased from 9.74% comparing to the same quarter of 2018. This is due to the increasing of overhead production cost for the production includes increasing minimum wage, increasing bunker price, increasing depreciation cost from the newly invest machine and equipment purposely to increase the efficiency, also the increasing external cold storage charge due to the increasing quantity of agricultural produces as the farming yield has improved beyond expectation.

Net Profit

The Company has indicated net loss in the financial statements or the first quarter of 2019 of THB 9.34 Million, decrease from net profit of THB 21.58 Million presented in the first quarter of 2018, equivalent to the decrease of 143.29%. The Net Loss Margin has stated 3.42% comparing to Net Profit Margin of 7.69% in the first quarter of 2018. The major contribution to the significant decrease of net profit derive from the decrease export sales, while the cost of goods per unit has increased due to increasing minimum wage, increase fuel price according to the global market, and the increasing depreciation cost for new machine and increasing external cold storage charge. Besides, the gain from exchange rate has decreased comparing to the same quarter in previous year due to exchange rate fluctuation in the year 2018, despite the Selling and Administration Expenses has decline due to the decrease selling activities.



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Summary Table for the Financial Performance

	1 st Quarter (THB Million)		Increase (Decrease)	
	2018	2019	THB Million	%
Sales Revenue	271.07	273.07	2.00	0.74
Cost of Goods Sold	228.65	250.55	21.89	9.57
Gross Profit	42.42	22.52	(19.89)	(46.90)
Gain (Loss) from Exchange Rate	14.11	2.50	(11.62)	(82.31)
Revenue from Investment	1.29	0.76	(0.53)	(40.76)
Other Revenue	6.56	2.31	(4.25)	(64.83)
Selling and Administration Expenses	37.97	37.28	(0.70)	(1.84)
Earnings Before Interest and Tax	26.40	(9.19)	(35.59)	(134.81)
Net Profit (Loss)	21.58	(9.34)	(30.93)	(143.29)
Earnings Before Interest, Tax, Depreciation and Amortization	37.15	4.59	(32.56)	(87.64)
Cash Flow from Operation	(93.91)	9.46	103.37	110.07
Earnings per share (Baht)	0.06	(0.02)		
Book Value per share (Baht)	3.84	3.71		

Key Financial Ratios

Key Financial Ratios	1 st Quarter 2018	Year 2018	1 st Quarter 2019
Current Ratio (Times)	13.79	12.94	15.59
Quick Ratio (Times)	6.70	5.45	6.19
Gross Profit Margin (%)	15.65	19.48	8.25
EBIT Margin (%)	9.74	9.44	(3.37)
Net Profit Margin (%)	7.96	7.70	(3.42)
Return on Equity (%)	9.06	6.80	4.65
Return on Assets (%)	8.25	6.22	5.35
Debt To Equity Ratio (Times)	0.09	0.09	0.08

Company's Financial Position**Assets**

The Company has total assets according to the financial statements as of 31 March 2019 of THB 1,535.12 Million comparing to THB 1,559.00 Million in the previous quarter, equivalent to the decrease of 1.53%. The major decrease is from the decrease of cash and cash equivalent THB 27.08 Million, considering the decrease of 8.67%, which derive from the investment in machine and equipment purposely to increase production efficiency, the repair and maintenance of cold storage, and the net loss in this quarter.

Trade Receivables in the first quarter of the year 2019 indicated THB 118.17 Million, decrease from THB 139.48 Million presented in the previous quarter, equivalent to the decrease of 15.28%. 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



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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 31 March 2019 of THB 119.75 Million which decrease THB 14.54 Million, equivalent to the decrease of 10.83%, comparing to the previous quarter.

As of 31 March 2019, 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 1.0 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 10.1 Million
- The Company has capital expenditure in respect of the repairing of the plant amounting of THB 13.58 Million

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the first quarter of 2019, the Current Ratio indicated 15.59 times and the Quick Ratio of 6.19 times, while most of the assets are current assets.

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 2019 of THB 1,415.37 Million, decrease from THB 1,424.71 Million comparing to the previous quarter, equivalent to the decrease of 0.66%. The major contribution to the decrease is the inappropriate retained earnings which indicated THB 928.11 Million in the first quarter of 2019, comparing to THB 937.45 Million in previous quarter, equivalent to the decrease of 1% as the Company has net loss in the first quarter of 2019.

Cash flow and Capital Structure

The Company has increased net cash flow from operation THB 103.37 Million, comparing to the first quarter of 2017 due to the postponing of the raw material purchased as the inventory is enough for the order from customer. Besides, the company paid 23.71 Million for the procurement of building and equipment and provide financial loan to other company for THB 13.60 Million.



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In the first quarter of the year 2019, the Company has sufficient liquidity which evidence from the current ratio of 15.59 times, slightly increase from 12.94 times in previous quarter. The major assets are current assets equivalent to 67.52% of total assets. On the other hand, the Company has only 4.33% 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 first quarter of 2019, whereas the debt to equity ratio reduce to 0.08 times, comparing to 0.09 times as indicated in the previous quarter.

Summary Table for Company's Financial Position

	Value (THB Million)			Increase (decrease)		Increase (decrease)	
	1 st Quarter 2018	4 th Quarter 2018	1 st Quarter 2019	THB Million QoQ	% QoQ	THB Million YoY	% YoY
Current Assets							
Cash and short term investment	448.53	312.45	285.38	(27.08)	(8.67)	(163.16)	(36.38)
Trade and other receivables	122.29	147.54	126.00	(21.55)	(14.60)	3.70	3.03
Short-term loan	-	-	13.60	13.60	-	13.60	-
Inventory	560.83	613.17	611.53	(1.64)	(0.27)	50.71	9.04
Total Current Assets	1,131.65	1,073.17	1,036.51	(36.66)	(3.42)	(95.15)	(8.41)
Non-Current Assets							
Property Land and Equipment	357.06	379.02	391.80	12.78	3.37	34.74	9.73
Other Non-Current Assets	107.96	106.81	106.81	0.00	0.00	(1.14)	(1.06)
Total Non-Current Assets	465.02	485.83	498.61	12.78	2.63	33.59	7.22
Total Assets	1,596.67	1,559.00	1,535.12	(23.88)	(1.53)	(61.55)	(3.86)
Current Liabilities	82.05	82.96	66.50	(16.46)	(19.84)	(15.55)	(18.96)
Non-Current Liabilities	49.25	51.33	53.25	1.92	3.75	4.00	8.13
Total Liabilities	131.30	134.29	119.75	(14.54)	(10.83)	(11.55)	(8.80)
Shareholder's Equity	1,465.37	1,424.71	1,415.37	(9.34)	(0.66)	(50.00)	(3.41)

Please be informed accordingly

Faithfully yours,

Signed

Ankoon Pholpipattanaphong

Managing Director