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บริษัท เชียงใหม่ฟรอสต์ฟู้ด 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 2016

Subject: Management Discussion and Analysis for the period ended 31 March 2016

To: The President

The Stock Exchange of Thailand

Performance Overview

The overall of Thailand's economy in first quarter of 2016 considered sluggish recovery as the result of multiples economic stimulus from government and the expansion of tourism industry. However, export industry still face the uncertainty of economic condition from other countries. On the other hand, Japan, the major exporting market of the company, currently confront the difficulties in business recovery, despite the implementation of negative interest rate policy as the economic stimulus. In addition, during the period, Thai Baht has slightly appreciate but considered higher than THB/USD exchange rate comparing to the exchange rate in first quarter of 2015. According to the financial statements of the company, sales revenue has slightly increased from THB 298.13 Million which presented in the first quarter of 2015 to THB 308.13 Million, equivalent to the increase of 3.36%. Nonetheless, due to the effective management for costing especially in the improving the harvesting activities and the globally oversupply of fossil fuel which continuously drive the current oil price lower comparing to the first quarter of 2015, the company's financial statement has indicate the net profit THB 32.94 Million in the first quarter of 2016, equivalent to the significant increase of 1,477.57% considering the same quarter last year of THB 2.09 Million, while the gross profit margin and net profit margin in the first quarter of 2016 displayed 25.84% and 10.69% respectively which increase from 12.63% and 0.70% previously shown in the first quarter of 2015.

The financial performance has significantly change more than 20%, whereby the net profit has increased 1,477.57% comparing to the same quarter of previous year. The major contribution for such change is the continuous depreciation of THB against USD during the first quarter of 2016 comparing to 2015 which the average exchange rate for THB/USD is 35.66 and 32.64 respectively. Therefore, the sales revenue has increase despite the quantity sold has been slightly decreased. In addition, the effective production cost management and the slump of global oil price, greatly contribute to reduce cost of goods sold and selling and administration expenses. Finally, the net profit has greatly increased.

The Company has non-recurrent transaction indicated in the financial statements for the first quarter of 2016 as follows

- The company engage into pre-deposit land lease agreement with the local company in Myanmar for the intention to lease the land area of 47.73 Acre. The total lease value is USD 1,431,900 (Equivalent to THB 50,574,708, considering exchange rate from the Bank of Thailand as of 25 March 2016



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at 35.32 THB/USD) for the period of 50 years, extension of contract is allowed for 2 times, 10 years each. The Company agreed to arrange a deposit 50% of total lease value, equivalent to USD 715,950 (considered Baht 25,287,354)

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 year 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 severe drought in Thailand 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 JPY has continuously appreciate against USD. This situation is positive to the competitive advantage of the Company considering the pricing.
4. The fuel price which continuously dropped and started to stable could affect the better cost management.
5. Trans Pacific Partnership (TPP) which agreed by countries including USA and Japan could benefit US exporter for the trade privilege and tax benefit for the frozen agricultural products to Japan, which in turn cause the intense competition in the market.

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,



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Sales Revenue	Value (THB Million)		Increase (decrease)	
	1 st Quarter 2015	1 st Quarter 2016	THB Million	%
Export Sales Revenue	294.04	303.83	9.78	3.33
Domestic Sales Revenue	4.08	4.31	0.22	5.45
Total Sales Revenue	298.13	308.13	10.01	3.36

In the first quarter of 2016, sales revenue indicated totaling THB 308.13 Million, of which domestic sales proportion is 1.40% of total sales revenue, increasing from proportion 1.37% comparing to same quarter of 2015. In this regards, the proportion of export sales for the first quarter of 2016 is to 98.60%, slightly decreased from 98.63% in the same quarter of 2015.

Total sales revenue in the first quarter of 2016 totaling THB 308.13 Million increasing from THB 298.13 Million in the first quarter of 2015, equivalent to the slightly increase of 3.36%. This due to the continuously depreciation of THB against USD in the first quarter of 2016 which the average exchange rate is 35.66 THB/USD comparing to average exchange rate for the first quarter of 2015 is 32.64 THB/USD, equivalent to the depreciation of 9.25%. However, the sales volume has been slightly decrease comparing to the sales volume in the first quarter of 2015 due to the sluggish recovery in Japan, which is the major trade partner to the company.

2. Other Revenue

In the first quarter of 2016, the company has indicated other revenue of THB 3.05 Million which increased from THB 2.78 Million in the first quarter of 2015, equivalent to the increase of 9.48%, majorly cause by the revenue from the other assets disposal activities.

Cost of Goods Sold

Cost of goods sold in the first quarter of 2016 presented THB 228.51 Million, equivalent to the decrease of 12.27%, comparing to THB 260.48 Million in the first quarter of 2015. The major reasons for the decrease is as follows,

- 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.
- The decrease overhead production cost as the oil price is decrease comparing to the first quarter of the year 2015. The average fuel oil price in the first quarter 2015 is THB 21.19 per litre while reveal THB 16.59 per litre in the first quarter of 2016. Besides, the overtime labor cost and electricity cost is also reduce due to the decrease of production activities.



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149/34 ซอยแองโกตลาดท่าฉนวนสุรวงศ์ แขวงสุริยวงค์ เขตบางรัก กรุงเทพฯ 10500

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Selling and Administration Expenses

In the first quarter of 2016, the Company has reported the selling and administration expenses of THB 38.84 Million which reduce from THB 39.91 Million as reported in the first quarter of 2015, equivalent to the decrease of 2.68% which derive from the following factors,

- The domestic transportation expenses is reduce due to the drop 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 reduce due to less volume export.

Gross Profit Margin and Net Profit Margin

The Gross Profit Margin for the Company presented in financial statement for the period ended 31 March 2016 is 25.84% increase from 12.63% indicated in the same quarter of previous year, while the Net Profit Margin reveal 10.69% significantly increase from 0.70% comparing to the same quarter of 2015. This is majorly contribute to the depreciation of exchange rate which favor the sales revenue of the company, at the same time cost of goods has been decrease due to the effective management of production and inventory costing, the reduction of selling and administration, and the sharp decrease of oil price which reduce transportation cost. However, the fluctuation of the exchange rate also post the effect to the company where there is loss from exchange rate THB 4.78 Million comparing to the gain from exchange rate of THB 2.54 Million presented in the financial statements for the first quarter of 2015.

Income Tax Expenses

According to the financial statement for period ended 31 March 2016, the company has income tax expenses totaling THB 6.11 Million, significantly increase from tax expenses in the first quarter of 2015 which shown THB 0.98 Million. The major reason for this increase is due increase of earnings before interest and tax from THB 3.07 Million presented in the first quarter of the year 2015 to THB 39.05 Million in the first quarter of the year 2016.

Net Profit

The Company has indicated net profit in the financial statements or the first quarter of 2016 of THB 32.94 Million Baht, significantly increase from THB 2.09 Million presented in the first quarter of 2015, equivalent to the increase of 1,477.57%. The major contribution to the significant increase of net profit derive from the favorable exchange rate as THB is continuously depreciated against USD. Meanwhile, the cost of goods and selling and administration expenses is reduce from less quantity produce and sold, the effective management of production costing and inventory costing, and the drop of price for fuel due to oversupply globally.



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Summary Table for the Financial Performance

	1 st Quarter (THB Million)		Increase (Decrease)	
	2015	2016	THB Million	%
Sales Revenue	298.13	308.13	10.01	3.36
Cost of Goods Sold	260.48	228.51	(31.97)	(12.27)
Gross Profit	37.65	79.62	41.97	111.48
Selling and administration Expenses	2.54	(4.78)	(7.32)	(287.98)
Earnings Before Interest and Tax	2.78	3.05	0.26	9.48
Net Profit	39.91	38.84	(1.07)	(2.68)
Earnings Before Interest, Tax, Depreciation and Amortization	3.07	39.05	35.98	1,173.70
Cash Flow From Operation	2.09	32.94	30.85	1,477.57
Earnings per share (Baht)	15.52	48.35	32.83	211.57
Book Value per share (Baht)	(46.13)	(37.88)	8.25	17.89
Sales Revenue	0.01	0.09		
Cost of Goods Sold	3.33	3.63		

Key Financial Ratios

Key Financial Ratios	1 st Quarter 2015	Year 2015	1 st Quarter 2016
Current Ratio (Times)	15.02	11.61	12.35
Quick Ratio (Times)	7.49	6.47	6.24
Gross Profit Margin (%)	12.63	24.24	25.84
Operating Profit Margin (%)	1.03	10.68	12.67
Net Profit Margin (%)	0.70	8.42	10.69
Return on Equity (%)	3.77	9.14	11.35
Return on Assets (%)	2.86	8.32	9.19
Debt To Equity Ratio (Times)	0.09	0.10	0.10

Company's Financial Position

Assets

The Company has total assets according to the financial statements as of 31 March 2016 of THB 1,516.00 Million comparing to THB 1,488.62 Million in the previous quarter, equivalent to the slightly increase of 1.84%. The major increase are from the increase of inventory from the last quarter of 2015 to the first quarter of the year 2016 as THB 451.87 Million to THB 527.19 Million, equivalent to the increase of 16.67% according to the harvesting and production season. On the other hand, cash and short term investment

Trade Receivables in the first quarter of the year 2016 indicated THB 98.73 Million, increase from THB 78.78 Million presented in the previous quarter, equivalent to the increase of 25.33%. The Company has policy to reserve for allowance for bad debt for the



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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 2016 of THB 134.12 Million which decrease THB 5.56 Million, equivalent to the decrease of 3.98%, comparing to the previous quarter. The decrease is due to the repayment to the trade creditors. Also, the Company has increasing deferred tax of THB 7.92 Million due to the increasing of taxable earnings.

As of 31 March 2016, 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 1.2 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 hire the contractor for the repair and maintenance of building and freezing machine for the amount of THB 31.02 Million

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the first quarter of 2016, the Current Ratio indicated 12.35 times and the Quick Ratio of 6.24 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 2016 of THB 1,381.88 Million, increase from THB 1,348.94 Million comparing to the previous quarter, equivalent to the increase of 2.44%. The major contribution to the increase is the inappropriate retained earnings from better financial performance which indicated THB 894.62 Million in the first quarter of 2016, comparing to THB 861.68 Million in previous quarter, equivalent to the increase of 3.82%.

Cash flow and Capital Structure



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The Company has increased net cash flow from operation THB 8.25 Million, comparing to the first quarter of 2015 due to the increasing revenue. In addition, the company received 0.32 Million from the selling of equipment and spent totaling THB 19.29 Million on the repair and maintenance of building and machine, also THB 0.26 Million spending on the computer program. Furthermore, the company has indicated cash outflow of THB 25.36 Million as the deposit for land lease agreement in Myanmar.

In the first quarter of the year 2016, the Company has sufficient liquidity which evidence from the current ratio of 12.35 times, though slightly decrease from 11.61 times in 2015. The major assets is current assets equivalent to 75.27% of total assets. On the other hand, the Company has only 6.09% 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 2016, whereas the debt to equity ratio is remained at 0.10 comparing to the previous quarter.

Summary Table for Company's Financial Position

	Value (THB Million)			QoQ Increase (Decrease)	YoY Increase (Decrease)
	1 st Quarter 2015	4 th Quarter 2015	1 st Quarter 2016	%	%
Current Assets					
Cash and short term investment	417.88	559.79	477.31	(14.73)	14.22
Inventory	98.77	134.35	136.63	1.70	38.33
Other current assets	504.22	451.87	527.19	16.67	4.56
Total Current Assets	1,020.86	1,146.01	1,141.14	(0.42)	11.78
Non-Current Assets					
Property Land and Equipment	340.01	328.03	332.48	1.36	(2.22)
Other Non-Current Assets	16.81	14.59	42.39	190.60	152.19
Total Non-Current Assets	356.82	342.62	374.86	9.41	5.06
Total Assets	1,377.69	1,488.62	1,516.00	1.84	10.04
Current Liabilities	67.98	98.74	92.37	(6.45)	35.89
Non-Current Liabilities	40.13	40.93	41.74	1.98	4.03
Total Liabilities	108.10	139.68	134.12	(3.98)	24.07
Shareholder's Equity	1,269.59	1,348.94	1,381.88	2.44	8.85

Please be informed accordingly

Faithfully yours

Ankoon Pholpipattanaphong

Managing Director