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บริษัท เชียงใหม่ฟรอสเซนฟู๊ดส์ 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

11 November 2016

Subject: Management Discussion and Analysis for the period ended 30 September 2016

To: The President

The Stock Exchange of Thailand

Performance Overview

The overall of Thailand's economy in the third quarter of 2016 considered slightly recovered evidenced from the increase of consumption from private sector which resulting from government's economic stimulus. Nevertheless, these stimulus shall be continuously expired during the second half of 2016. In the other hand, export industry still confronted the difficulties from the possibilities of growth deviation below prior forecasted in the trade partner's countries. In the case of Japan, the major exporting market of the company, the country currently facing the difficulties in business recovery. In addition, during the period, Thai Baht has gradually appreciated against USD. Also, sales volume for the third quarter of 2016 has slightly dropped comparing to the previous quarter as the export volume to Japan has marginally decrease. Per the financial statements of the company, sales revenue has decreased from THB 443.55 Million which presented in the second quarter of 2016 to THB 395.84 Million, equivalent to the decrease of 10.76%. Further, the Company achieve net profit of THB 64.02 Million comparing to THB 69.72 Million presented in the previous quarter, considering the slightly decrease of 8.17%. The Gross Profit Margin has also decreased to 28.65% in the third quarter of 2016 comparing to 29.27% recorded in the previous quarter. However, the Company has hedged against exchange rate risk using forward contract and recorded gain on exchange rate for THB 6.87 Million, comparing to THB 1.03 Million presented in previous quarter. Therefore, the Net Profit Margin in this quarter presented 16.17%, increased from 15.72% stated in the second quarter of 2016.

Considering the financial performance for the third quarter of 2016, the sales revenue has slightly decrease 1.17% comparing to the third quarter of 2015. However, as the Company has present gain on exchange rate in the third quarter this year comparing to the loss on exchange rate in the same quarter last year, the Net Profit Margin has increase 7.35% comparing to the same quarter of previous year which presented THB 59.64 Million.

The major contribution for the change in the financial performance of the Company is the volatility of THB/USD exchange rate comparing the third quarter of this year and year. The average exchange rate in the third quarter of 2016 for THB/USD is 34.84 while recorded 35.25 in the same quarter last year. In addition, the global oil price has marginally increase during the period. These factors shall affect cost of goods sold and selling and administration expenses and the net profit of the coming fourth quarter.

The non-recurrent transaction for the company is not presented in the financial statements for the third quarter of 2016. During the period, the company has not change the accounting policy.



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The factors that would affect the business operation for the fourth quarter of 2016 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, also the recent announcement from the Japanese government on cutting estimate economic growth figure.
2. The severe drought in Thailand in the previous season directly cause the negative effect to quantity and quality of agricultural produces, which possibly result in the increase of cost of goods sold and inventory cost per unit. 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 appreciated against USD. This situation is positive to the competitive advantage of the Company considering the pricing. However, the appreciation of THB against USD started during this quarter would possibly reduce 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. 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. However, after the election for president in USA, the TPP policy might have changed. The Company aware of the possibility of changes and shall closely monitored the situation purposely to adapt the management policy.

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)		Value (THB Million)		Increase (decrease)
	Q3 2015	Q2 2016	Q3 2016	% QoQ	% YoY	9 months 2015	9 months 2016	% YTD
Export Sales Revenue	395.29	435.53	386.18	-11.33	-2.31	1,099.93	1,125.53	2.33
Domestic Sales Revenue	5.24	8.03	9.67	20.41	85.18	14.69	22.00	49.80
Total Sales Revenue	400.53	443.55	395.84	-10.76	-1.17	1,114.61	1,147.53	2.95

In the third quarter of 2016, sales revenue reached totaling THB 395.84 Million, decreasing THB 47.71 Million from previous quarter, of which the export sales revenue has decreased 11.33% due to the end of high-order season. However, domestic sales revenue has increase 20.41% from previous quarter since the quality of produce during drought season is more suitable to the domestic market. Considering the same quarter previous year, the Company has sales revenue decrease of THB 4.69 Million, equivalent to the decrease of 1.17% due to the depreciation of THB against USD.

Total sales revenue in the 9 months period of 2016 totaling THB 1,147.53 Million increasing from THB 1,114.61 Million in the 9 months period of 2015, equivalent to the slightly increase of 2.95%. This due to the depreciation of THB against USD comparing 2015-2016. However, the sales volume has been slightly increase due to the increase of domestic sales.

2. Other Revenue

In the third quarter of 2016, the company has indicated other revenue of THB 3.73 Million which slightly decreased from THB 4.24 Million in the second quarter of 2016, equivalent to the decrease of THB 0.50 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 2016 presented THB 282.42 Million, equivalent to the decrease of 9.98%, comparing to THB 313.71 Million in the second quarter of 2016, due to the decrease of sales volume. Considered the 9 months period of 2016, the cost of goods sold has been decrease THB 14.08 Million comparing to cost of goods sold presented in the first 9 months period 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. However, the cost of goods sold possibly increased in the following quarter due to the low quality and quantity of agriculture produces cultivated during seriously drought season.
- The decrease overhead production cost as the global oil price is decrease. Besides, the overtime labor cost and electricity cost is also reduced due to the decrease of production activities resulted from the yield of raw materials cultivated in previous season. However, as global oil price started to increase during the quarter, the cost of goods sold might increase in the following quarter.



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Selling and Administration Expenses

In the third quarter of 2016, the Company has reported the selling and administration expenses of THB 44.14 Million which decrease from THB 48.41 Million as reported in the second quarter of 2016. For the 9 months period of 2016, the selling and administration expenses is slightly decrease comparing to the figures presented in the 9 months period of 2015 due to the decrease of domestic transportation expenses which lowered as the fuel price decreased.

Gross Profit Margin and Net Profit Margin

The Gross Profit Margin for the Company presented in financial statement for the third quarter of 2016 is 28.65% slightly decrease from 29.27% indicated in the previous quarter while the Net Profit Margin reveal 20.18% marginally increase from 19.55%. This is majorly contributed to the depreciation of exchange rate. In addition, as THB continuously appreciate against USD in the third quarter of 2016, the Company has gain from exchange rate THB 6.87 Million comparing to the gain from exchange rate of THB 1.03 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 2016 of THB 64.02 Million Baht, slightly decrease from THB 69.72 Million presented in the second quarter of 2016, 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. However, considering the third quarter of 2015, the net profit for the Company has slightly increased THB 4.38 Million derive from the volatility of exchange rate which hedge using forward contract. In the third quarter of 2016, the Company indicated gain on exchange rate of THB 6.87 Million, while recorded loss on exchange rate of THB 13.57 Million in the third quarter of last year.



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Summary Table for the Financial Performance

	THB Million			Increase (Decrease)		THB Million		Increase (Decrease)
	Q3 2015	Q2 2016	Q3 2016	% QoQ	% YoY	9 months 2015	9 months 2016	% YTD
Sales Revenue	400.53	443.55	395.84	(10.76)	(1.17)	1,114.61	1,147.53	2.95
Cost of Goods Sold	274.20	313.71	282.42	(9.98)	3.00	838.72	824.64	(1.68)
Gross Profit	126.33	129.84	113.43	(12.64)	(10.22)	275.89	322.89	17.04
Gain (loss) on exchange rate	(13.57)	1.03	6.87	568.54	150.59	(13.28)	3.12	123.46
Others Income	2.63	4.24	3.73	(11.86)	41.98	9.76	11.02	12.91
Selling and administration Expenses	45.32	48.41	44.14	(8.81)	(2.59)	132.88	131.40	(1.11)
Earnings Before Interest and Tax	70.07	86.69	79.88	(7.85)	14.01	139.49	205.62	47.41
Net Profit	59.64	69.72	64.02	(8.17)	7.35	111.34	166.68	49.71
Earnings Before Interest, Tax, Depreciation and Amortization	83.10	99.46	90.82	(8.69)	9.29	182.84	238.64	30.52
Cash Flow from Operation	32.78	160.10	59.71	(264.98)	82.17	98.61	181.93	84.50
Earnings per share (Baht)	0.16	0.18	0.17					
Book Value per share (Baht)	3.52	3.61	3.78					

Key Financial Ratios

Key Financial Ratios	Q3 2015	Q2 2016	Q3 2016
Current Ratio (Times)	16.59	10.66	14.63
Quick Ratio (Times)	9.59	6.38	8.74
Gross Profit Margin (%)	31.54	29.27	28.65
Operating Profit Margin (%)	17.49	19.55	20.18
Net Profit Margin (%)	14.89	15.72	16.17
Return on Equity (%)	7.82	12.84	12.58
Return on Assets (%)	9.03	14.07	14.45
Debt To Equity Ratio (Times)	0.08	0.11	0.09

Company's Financial Position

Assets

The Company has total assets according to the financial statements as of 30 September 2016 of THB 1,563.77 Million comparing to THB 1,525.57 Million in the previous quarter, equivalent to the increase of 2.50%. The increase derived from the increase of Cash and cash equivalent from the reduce of trade receivables as customers who order during the high season have made payment. In addition, the cultivation has been delayed due to drought resulting in the increasing of cash and cash equivalent of 8.16% from the previous quarter. Also the inventory has increased THB 8.25 Million.



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Trade Receivables in the third quarter of the year 2016 indicated THB 114.31 Million, decrease from THB 140.15 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 made payment within due.

Liabilities

The Company has total liabilities according to the financial statements as of 30 September 2016 of THB 124.38 Million which decrease THB 25.82 Million, equivalent to the decrease of 17.19%, comparing to the previous quarter. The decrease is due to the payment for the suppliers regarding to the increasing activities of production and selling and the payment for the tax expenses.

As of 30 September 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 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 hire the contractor for the repair and maintenance of building and freezing machine for the amount of THB 19.30 Million

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the third quarter of 2016, the Current Ratio indicated 14.63 times and the Quick Ratio of 8.74 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 2016 of THB 1,439.39 Million, increase from THB 1,375.37 Million comparing to the previous quarter, equivalent to the increase of 4.65%. The major contribution to the decrease is the inappropriate retained earnings from better financial performance which indicated THB 952.13 Million in the third quarter of 2016, comparing to THB 888.11 Million in previous quarter, equivalent to the increase of 7.21%.



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Cash flow and Capital Structure

The Company has increased net cash flow from operation THB 181.93 Million, increasing THB 83.32 Million, comparing to the same period of 2015 due to the increasing revenue from sales and the depreciation of THB against USD. In addition, the company spent totaling THB 74.90 Million on the investing activities majorly on the repair and maintenance of building and machine for THB 49.50 Million. Furthermore, the company has indicated cash outflow of THB 25.36 Million as the deposit for land lease agreement in Myanmar.

In the third quarter of the year 2016, the Company has sufficient liquidity which evidence from the current ratio of 14.63 times, increase from 10.66 times in the second quarter of 2016. The major assets is current assets equivalent to 75.42% of total assets. On the other hand, the Company has only 5.16% 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 2016, whereas the debt to equity ratio is slightly change 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 2015	Q2 2016	Q3 2016	THB Million QoQ	% QoQ	THB Million YoY	% YoY
Current Assets							
Cash and short term investment	511.73	545.88	590.42	44.54	8.16	78.70	15.38
Trade Receivables	153.80	196.77	176.75	(20.02)	(10.17)	22.95	14.92
Inventory	446.57	404.00	412.25	8.25	2.04	(34.32)	(7.68)
Other current assets	0	0	0	-	-	-	-
Total Current Assets	1,112.10	1,146.65	1,179.43	32.78	2.86	67.33	6.05
Non-Current Assets							
Property Land and Equipment	321.57	335.49	339.89	4.40	1.31	18.32	5.70
Other Non-Current Assets	15.89	43.43	44.45	1.02	2.36	28.56	179.75
Total Non-Current Assets	337.46	378.92	384.34	5.42	1.43	46.89	13.89
Total Assets	1,449.55	1,525.57	1,563.77	38.20	2.50	114.21	7.88
Current Liabilities	67.05	107.58	80.62	(26.97)	(25.07)	13.56	20.23
Non-Current Liabilities	41.78	42.61	43.76	1.15	2.69	1.98	4.73
Total Liabilities	108.84	150.20	124.38	(25.82)	(17.19)	15.54	14.28
Shareholder's Equity	1,340.72	1,375.37	1,439.39	64.02	4.65	98.67	7.36

Please be informed accordingly

Faithfully yours,



Ankoon Pholpipattanaphong

Managing Director