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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

11 August 2020

Subject: Management Discussion and Analysis for the period ended 30 June 2020

To: The President

The Stock Exchange of Thailand

Performance Overview

In the second quarter of 2020, the major country's economy has contracted than expected and started to recess, result from the strictly cities lockdown policy as an attempt to contain the spread of COVID-19 and the impact to the economy is severe. Thailand's economy in first quarter of 2020 considered shrunk as several economic sector has been temporary halt due to the cities lockdown. Tourism and export industry have been significantly affected and consequently weaken the domestic consumption through the decline of income and less employment. Both domestic and overseas demand could negatively impact to private investment. The Bank of Thailand has forecast Thailand's economic growth in 2020 to be shrunk at 8.1% as COVID-19 outbreak is yet contained which force many countries to pursue the cities lockdown policy. However, as such policies provide positive result by lessen the newly infected, especially in Thailand, the lockdown policies have been eased off since May and the positive sign of economic growth is revealed. Japan economic also recess as stagnant demand from China which also caused the disrupt in supply chain and affected the production and export sector to slowdown. Moreover, Japan has rapidly increasing number of infected cases which drove the government to declare state of emergency in April, later than other countries, then the economic activities has been halted in the first half of second quarter. Further, Japan has lost its economic growth driver as the Olympic 2020 has been postpone to 2021.

The exchange rate for THB/USD has widely fluctuate with the trend of THB to be depreciated due to outbreak of COVID-19 that caused the global economic slowdown. The confidence for the investor has shifted to high liquidity such as cash, USD also considered safe assets. The exchange rate for THB/USD according to the reference rate from the Bank of Thailand for the second quarter of 2020 is THB 31.94/USD, comparing to THB 31.30/USD indicated in previous quarter, and THB 31.59/USD in the second quarter of 2019.

Total revenue from sales in the second quarter of 2020 has increased to THB 317.10 Million, comparing to THB 299.10 Million in the first quarter of 2019, equivalent to the increase of 6.02% as a result from increasing demand from Japan and USA for safety stock in the period of COVID-19 outbreak, supported by the depreciation of THB against USD. The cost of goods sold has decreased since the external cold storage charge has continuously decreased result from the management in balancing the plantation and the production and storage capacity, though price for agricultural produces has increased during severe drought season. Theses conclude the gross profit of THB 58.84 Million, increasing 61.74% comparing to the previous quarter, with the gross profit margin of



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18.55% increasing from 12.16%. The net profit for the Company has indicated THB 10.11 Million, considering net profit margin of 3.19%, comparing to net profit of THB 2.56 Million with net profit margin at 0.85% presented in the first quarter of 2020.

Considering the second quarter of 2019, the total revenue has increased THB 4.49 Million from THB 312.61 Million, equivalent to the increase of 1.44%. This is due to the increasing order from Japan and USA, while THB has depreciated against USD. The Company has gross profit increasing 22.94 Million from THB 35.89 Million, equivalent to the increasing of 63.92% from the decreasing cost of external cold storage charge and the declining fuel cost. Hence, the net profit has increased THB 1.22 Million from THB 8.89 Million, considered increasing 13.71%.

During the period, the company has not changed the accounting policy, but only adopted the application of accounting standard and reporting standard concerned with the accounting and report on financial instruments (TAS 32 and TFRS 9) which are effective for fiscal periods beginning on or after 1 January 2020. The adoption of these financial reporting standards does not have any significant impact on the Company's financial statement.

The factors that would affect the business operation for the third quarter of 2020 are as follows

1. The COVID-19 outbreak which the possibility of 2nd wave outbreak would causes further global economic slowdown, concerning Japan and USA. Also, the social distancing measures to prevent the outbreak has limited the activities for people such as dining out and socializing could lessen the demand from food service sector but, in the other hand, increase the demand for ready to eat product to be consume at home. This could mean both positive and negative affected to future sales volume.
2. The volatility of exchange rate, as THB has depreciated against USD since the global economic slowdown, the investor has lost their confidence and tend to safe assets which is USD. This could affect the revenue recognition, while JPY has appreciated against USD which reduce the cost of import for Japanese customers.
3. Severe drought which prolong from the early of 2020 could cause the rising for agricultural produces price, affected the increasing cost of production.
4. The fuel price which continuously decreased could affect the decreasing of production cost and transportation cost.
5. 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



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sales volume which would offer at lower price and compete with the current market for products from Thailand.

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)		Value (THB Million)		Increase (decrease)
	2 nd Quarter 2019	1 st Quarter 2020	2 nd Quarter 2020	% QoQ	% YoY	6M 2019	6M 2020	% YTD
Export Sales Revenue	299.37	279.17	303.69	8.79	1.44	562.47	582.86	3.63
Domestic Sales Revenue	13.24	19.93	13.41	(32.74)	1.29	23.21	33.34	43.66
Total Sales Revenue	312.61	299.10	317.10	6.02	1.44	585.68	616.20	5.21

In the second quarter of 2020, sales revenue indicated totaling THB 317.10 Million, increasing THB 18.00 Million from previous quarter, of which export sales is 95.77%, slightly increased from 93.34% in the previous quarter of 2020. In this regard, the proportion of domestic sales proportion is 4.23% of total sales revenue, slightly decreased from proportion 6.66% comparing to previous quarter.

Total sales revenue in the second quarter of 2020 considered increased THB 4.49 Million from THB 312.61 Million, equivalent to increasing of 1.44% comparing to second quarter of 2019. This due to the increase sales volume from increasing order from domestic and overseas market, also the depreciation of THB against USD.

2. Other Revenue

In the second quarter of 2020, the company has indicated other revenue of THB 3.04 Million which increased from THB 2.05 Million in the first quarter of 2020, equivalent to the increase of 48.77%, majorly cause by the revenue from the other assets disposal activities. Also, the Company has revenue from investment THB 0.23 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 second quarter of 2020 presented THB 258.26 Million, equivalent to the decrease of 6.67%, comparing to THB 276.72 Million in the second quarter of 2019. The major reason for the increase is as follows,

- The decreasing external cold storage charge as the management to balancing the plantation, production, and cold storage capacity. Also, the fuel cost has decreased due to the global economic slowdown.
- Raw material cost has increased due to the increasing price for agriculture product during drought season. Also, the depreciation cost is increased due to the investment in machines during the period.
- Employee benefits has decreased, as the second quarter of 2019, the Company has recognizing past service costs as expenses in the statement of comprehensive income of the period, due to the new Labor Protection Act

Selling and Administration Expenses

In the second quarter of 2020, the Company has reported the selling and administration expenses of THB 35.36 Million which reduced from THB 40.54 Million as reported in the second quarter of 2019, equivalent to the decrease of 12.79% which derive from decrease of travelling expenses during COVID-19 outbreak. However, 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 seaport and the custom fee, is increase due to the increasing volume export.

Gross Profit Margin and EBIT Margin

The Gross Profit Margin for the Company presented in financial statement for the period ended 30 June 2020 is 18.55% increase from 11.48% indicated in the same quarter of previous year, while the EBIT Margin reveal 3.89% increased from 2.38% comparing to the same quarter of 2019. This is due to the increasing sales revenue from increasing sales volume from overseas market and the depreciation of THB against USD, despite the increase of raw material cost from the agricultural product during drought season and the increasing depreciation expenses from the investment in new machines, the cost for external cold storage charge has continuously decreased since the attempts to manage the balance of agricultural produces and sales volume, while the employee benefits has decreased, as the second quarter of 2019, the Company has recognizing past service costs as expenses in the statement of comprehensive income of the period, due to the new Labor Protection Act.

Net Profit

The Company has indicated net profit in the financial statements for the second quarter of 2020 of THB 10.11 Million, increase from net profit of THB 8.89 Million presented in the second quarter of 2019, equivalent to the increase of 13.71%. The Net Profit Margin has stated 3.19% comparing to Net Profit Margin of 2.84% in the second quarter of 2019. The major contribution to the significant increase of net profit derive from the increasing sales



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revenue from increasing sales volume from overseas market and the depreciation of THB against USD, while the overall cost of goods sold has decreased, though price of some agricultural products has increased from the severe drought, also the depreciation cost has increase from the new investment in machines, the cost from the external cold storage charge has decreased since the attempts to manage the balance of agricultural produces and sales volume. Further, the loss from exchange rate has indicated THB 15.31 Million due to exchange rate fluctuation in the year 2020. The Selling and Administration Expenses has decline due to the decrease travelling activities during COVID-19 outbreak but the transportation expenses concerning sales activities has increased.

Summary Table for the Financial Performance

	Value (THB Million)			Increase (decrease)		Value (THB Million)		Increase (decrease)
	2 nd Quarter 2019	1 st Quarter 2020	2 nd Quarter 2020	% QoQ	% YoY	6M 2018	6M 2019	% YTD
Sales Revenue	312.61	299.10	317.10	6.02	1.44	585.68	616.20	5.21
Cost of Goods Sold	276.72	262.72	258.26	(1.70)	(6.67)	(527.26)	(520.99)	(1.19)
Gross Profit	35.89	36.38	58.84	61.74	63.92	58.41	95.21	63.00
Gain (Loss) from Exchange Rate	8.67	0.64	(15.31)	(2,486.38)	(276.56)	11.17	(14.67)	(231.36)
Interest Revenue	0.00	0.54	0.88	62.84	-	0.63	1.42	125.72
Revenue from investment	1.16	0.30	0.23	(23.87)	(80.24)	1.30	0.53	(59.03)
Other Revenue	2.24	2.05	3.04	48.77	36.07	4.54	5.09	12.02
Selling and Administration Expenses	40.54	37.13	35.36	(4.79)	(12.79)	(77.82)	(72.49)	(6.84)
Earnings Before Interest and Tax	7.43	2.77	12.32	344.39	65.78	(1.76)	15.09	956.58
Financial Cost	0.06	0.05	0.04	(11.95)	(35.62)	(0.11)	(0.08)	(24.15)
Tax	1.53	(0.17)	(2.17)	1,167.48	(242.51)	1.42	(2.34)	(264.62)
Net Profit (Loss)	8.89	2.56	10.11	295.58	13.71	(0.45)	12.67	2,901.68
Earnings Before Interest, Tax, Depreciation and Amortization	19.77	19.61	24.34	24.12	23.09	24.37	43.95	80.38
Cash Flow from Operation	0.02	0.01	0.03					
Earnings per share (Baht)	3.74	3.59	3.67					

Key Financial Ratios

Key Financial Ratios	2 nd Quarter 2019	1 st Quarter 2020	2 nd Quarter 2020
Current Ratio (Times)	13.32	7.47	12.27
Quick Ratio (Times)	5.88	2.24	4.38
Gross Profit Margin (%)	11.48	12.16	18.55
EBIT Margin (%)	2.38	0.93	3.89
Net Profit Margin (%)	2.84	0.85	3.19
Return on Equity (%)	2.71	3.35	3.44
Return on Assets (%)	2.86	3.47	3.84
Debt To Equity Ratio (Times)	0.10	0.15	0.10



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Company's Financial Position

Assets

The Company has total assets according to the financial statements as of 30 June 2020 of THB 1,546.38 Million comparing to THB 1,576.37 Million in the previous quarter, equivalent to the decrease of 1.90%. The major decrease is from the decrease of inventory to THB 457.01 Million consider the decrease of THB 75.88 Million or 14.24% from the decreasing produces harvested in this season and the increasing sales volume. Also, Trade receivables indicated THB 110.67 Million, decreasing THB 19.82 Million or 15.19%. from the domestic sales that decreased due to the cities lockdown policy. On the other hands, Cash and cash equivalent has increased THB 58.49 Million to THB 219.38 Million, due to the payment from previous quarter. 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 June 2020 of THB 146.35 Million which decrease THB 62.38 Million, equivalent to the decrease of 29.88%, comparing to the previous quarter. The main reason for the decrease is due to the decreased of derivatives liabilities THB 53.62 Million, equivalent to the decrease of 81.71% which is recognized from fair value of forward contracts at the end of the period

As of 30 June 2020, 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 0.25 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 10.07 Million
- The Company has capital expenditure in respect of the repairing of the plant amounting of THB 9.57 Million

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the second quarter of 2020, the Current Ratio indicated 12.27 times and the Quick Ratio of 4.38 times, while most of the assets are current assets.

Currently, there is no file or active case of lawsuit against the Company.



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Shareholder's Equity

Shareholder's equity for the company presented in the financial statement for the period ended 30 June 2020 of THB 1,400.02 Million, increase from THB 1,367.64 Million comparing to the previous quarter, equivalent to the increase of 2.37%. The inappropriate retained earnings which indicated THB 915.16 Million in the second quarter of 2020, comparing to THB 927.91 Million in previous quarter, equivalent to the decrease of 1.37%. Also, the other components of shareholder's equity which is the recognized of the change in fair value of derivatives for hedging cash flow at the value THB -2.39 Million according to the newly adopted accounting standard and reporting standard.

Cash flow and Capital Structure

In the first half of 2020, the Company has net cash flow from operation THB 79.23 Million, comparing to the net cash flow from operation THB 79.23 Million in the first half of 2019 considered not change. Besides, the company paid THB 17.81 Million for the procurement of building and equipment, and THB 22.89 Million as dividend payment.

In the second quarter of the year 2020, the Company has sufficient liquidity which evidence from the current ratio of 12.27 times, increase from 7.47 times in the previous quarter. This is due to the decrease of current liabilities especially derivatives liabilities which recognized by the newly adopted accounting and reporting standard. However, the major assets are current assets equivalent to 65.92% of total assets. On the other hand, the Company has only 5.37% 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 second quarter of 2020, whereas the debt to equity ratio decrease to 0.10 times, comparing to 0.15 times as indicated in the previous quarter.



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Summary Table for Company's Financial Position

	Value (THB Million)			Increase (decrease)		Increase (decrease)	
	2 nd Quarter 2019	1 st Quarter 2020	2 nd Quarter 2020	THB Million QoQ	% QoQ	THB Million YoY	% YoY
Current Assets							
Cash and Cash Equivalent	96.44	160.89	219.38	58.49	36.36	122.94	127.49
Other Current Financial Assets	190.39	191.52	191.38	(0.14)	(0.07)	0.99	0.52
Trade and other receivables – include planters	156.77	135.19	130.84	(4.35)	(3.21)	(25.93)	(16.54)
Short-term loan	13.60	13.60	13.60	0.00	0.00	0.00	0.00
Inventory	547.55	532.89	457.01	(75.88)	(14.24)	(90.53)	(16.53)
Derivatives Assets	0.00	0.04	7.18	7.13	16,534.46	7.18	-
Total Current Assets	1,004.75	1,034.12	191.38	(14.74)	(1.43)	14.64	1.46
Non-Current Assets							
Property Land and Equipment	407.05	416.76	415.98	(0.78)	(0.19)	8.93	2.19
Other Non-Current Assets	110.40	125.49	111.01	(14.48)	(11.54)	0.61	0.55
Total Non-Current Assets	517.45	542.25	526.99	(15.26)	(2.81)	9.54	1.84
Total Assets	1,522.20	1,576.37	1,546.38	(30.00)	(1.90)	24.18	1.59
Current Liabilities	75.45	138.37	83.11	(55.26)	(39.94)	7.66	10.15
Non-Current Liabilities	66.87	70.37	63.25	(7.12)	(10.12)	(3.62)	(5.42)
Total Liabilities	142.32	208.73	146.35	(62.38)	(29.88)	4.04	2.84
Shareholder's Equity	1,379.88	1,367.64	1,400.02	32.38	2.37	20.14	1.46

Please be informed accordingly

Faithfully yours,

Ankoon Pholpipattanaphong

Managing Director