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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

11 November 2020

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

To: The President

The Stock Exchange of Thailand

Performance Overview

In the third quarter of 2020, the major country's economy has recovered from its through in the second quarter, but recent lockdown easing measures have been reigned-in due to resurgence in COVID-19, causing recent stalling economic recovery. Business bankruptcy and high unemployment rate could pose downside risks to global economic recovery. Further, the monetary stimulus from governments which support the stability of the recovery has started to expire, some has been renewed at the relatively smaller size. Thai economic also considered stalled recovery, which have bottomed out from the lowest point in second quarter, as the cities lockdown has been relief and the business activities has been resumed. However, the recovery is under the risks of political unrest and the weak in labor market. As for Japan economy, the third quarter indices signal the recovery of business activities after the lifting of cities lockdown policy, but the consumption remained sluggish and hovered below the pre-outbreak level. This may be a result of changes in consumer behavior concerning hygiene. Further, Japan has lost its economic growth driver as the Olympic 2020 has been postpone to 2021.

The exchange rate for THB/USD still widely fluctuate with the trend of THB to be appreciated as USD has been depreciated according to the global economic recovery. FED stances on the easing of QE and the fund transfer to emerging financial market including Thai. The exchange rate for THB/USD according to the reference rate from the Bank of Thailand for the third quarter of 2020 is THB 31.33/USD, comparing to THB 31.94/USD indicated in previous quarter, and THB 30.71/USD in the third quarter of 2019.

Total revenue from sales in the third quarter of 2020 has decreased to THB 254.31 Million, comparing to THB 317.10 Million in the second quarter of 2020, equivalent to the decrease of 19.80% as a result from increasing demand from Japan and USA in the first half of 2020 for safety stock in the period of COVID-19 outbreak, once the cities lockdown has been relief, the supply has already surplus in the market. In addition, the consumption in food service industry has confront sluggish recovery, cause the slow demand for product in this market. The cost of goods sold has decreased since the sales volume has decreased. However, the cost of goods sold per unit has risen due to the inventory sold during this period has been produced during the drought season last year, in which the price of raw material price has increased, despite the decrease of external cold storage charge resulting from the management in balancing the plantation and the production and storage capacity. Theses conclude the gross profit of THB 24.73 Million, decreasing 57.96% comparing to the previous quarter, with the gross profit margin of 9.73%, decreasing from 18.55%. The net loss for the Company has indicated THB 8.97 Million, considering net loss margin of



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3.53%, comparing to net profit of THB 10.11 Million with net profit margin at 3.19% presented in the second quarter of 2020.

Considering the third quarter of 2019, the total revenue has decreased THB 60.55 Million from THB 314.86 Million, equivalent to the decrease of 19.23%. This is due to the decreasing order from Japan and USA after the stock up of inventory in the first half of 2020 amidst the outbreak of COVID-19, while the consumption in food service market has contracted. The Company has gross profit decreasing 29.27 Million from THB 54.00 Million, equivalent to the decreasing of 54.20% from the increasing cost of goods sold per unit as stock sold in the period is produced during the drought season last year which has high raw material cost. Also as THB has depreciated against USD widen the gap for forward contract rate, the Company has indicated loss on exchange rate of THB 6.51 Million, comparing to gain on exchange rate indicated in the third quarter of 2019 of THB 15.91 Million. Hence, the net profit has decreased THB 36.42 Million from THB 27.45 Million, considered decreasing 132.67% and change in the net profit more than 20% comparing to the same quarter last year.

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 fourth 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, this could affect the revenue recognition, while JPY has appreciated against USD which reduce the cost of import for Japanese customers.
3. The fuel price which continuously decreased could affect the decreasing of production cost and transportation cost.
4. The consequent from the US international trade policy after the presidential election in the early November which could pose either positive or negative.



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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)		Value (THB Million)		Increase (decrease)
	3 rd Quarter 2019	2 nd Quarter 2020	3 rd Quarter 2020	% QoQ	% YoY	9M 2019	9M 2020	% YTD
Export Sales Revenue	295.34	303.69	233.24	(23.20)	(20.74)	857.81	816.11	(4.86)
Domestic Sales Revenue	19.52	13.41	21.07	57.15	11.70	42.73	54.41	27.34
Total Sales Revenue	314.86	317.10	254.31	(19.80)	(19.37)	900.54	870.51	(3.33)

In the third quarter of 2020, sales revenue indicated totaling THB 254.31 Million, decreasing THB 62.79 Million from previous quarter, of which export sales is 91.72%, slightly increased from 93.80% in the previous quarter of 2020. In this regard, the proportion of domestic sales proportion is 8.28% of total sales revenue, increased from proportion 6.20% comparing to previous quarter.

Total sales revenue in the third quarter of 2020 considered decreased THB 60.55 Million from THB 314.86 Million, equivalent to decreasing of 19.37% comparing to third quarter of 2019. This due to the decrease export sales volume while increasing order from domestic market, also the depreciation of THB against USD.

2. Other Revenue

In the third quarter of 2020, the company has indicated other revenue of THB 2.79 Million which decreased from THB 3.04 Million in the second quarter of 2020, equivalent to the decrease of 8.47%, majorly cause by the revenue from the other assets disposal activities. Also, the Company has revenue from investment THB 0.35 Million as the return from the investment in fixed income term fund and money market.

Cost of Goods Sold

Cost of goods sold in the third quarter of 2020 presented THB 229.58 Million, equivalent to the decrease of 11.11%, comparing to THB 258.26 Million in the second quarter of 2020. This is due to the decreasing order from Japan and USA after the stock up of inventory in the first half of 2020 amidst the outbreak of COVID-19, while the consumption in food service market has contracted. The major reason for the increase of cost of goods sold per unit is as follows,

- 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.



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- 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.

Selling and Administration Expenses

In the third quarter of 2020, the Company has reported the selling and administration expenses of THB 33.47 Million which reduced from THB 35.36 Million as reported in the second quarter of 2020, equivalent to the decrease of 5.34% 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 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 30 September 2020 is 9.73% decrease from 18.55% indicated in the previous quarter, while the EBIT Margin reveal -4.62% decreased from 3.89% comparing to the previous quarter of 2020. This is due to the decreasing order from Japan and USA after the stock up of inventory in the first half of 2020 amidst the outbreak of COVID-19, while the consumption in food service market has contracted, while there are increasing cost of goods sold per unit from raw material cost from the agricultural product during drought season and the increasing depreciation expenses from the investment in new machines, despite the cost for external cold storage charge has continuously decreased since the attempts to manage the balance of agricultural produces and sales volume.

Net Profit

The Company has indicated net loss in the financial statements for the third quarter of 2020 of THB 8.97 Million, decrease from net profit of THB 10.11 Million presented in the second quarter of 2020, equivalent to the decrease of 188.71%. The Net Loss Margin has stated 3.53% comparing to Net Profit Margin of 3.19% in the second quarter of 2020. The major contribution to the significant decrease of net profit derive from the decreasing sales revenue from decreasing sales volume from Japan and USA after the stock up of inventory in the first half of 2020 amidst the outbreak of COVID-19, while the consumption in food service market has contracted, while the cost of goods sold per unit has increased from price of some agricultural products that has increased during the production in the severe drought season last year, 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 6.51 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, also the transportation expenses concerning sales activities has decreased.



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Summary Table for the Financial Performance

	Value (THB Million)			Increase (decrease)		Value (THB Million)		Increase (decrease)
	3 rd Quarter 2019	2 nd Quarter 2020	3 rd Quarter 2020	% QoQ	% YoY	9M 2019	9M 2020	% YTD
Sales Revenue	314.86	317.10	254.31	(19.80)	(19.23)	900.54	870.51	(3.33)
Cost of Goods Sold	260.86	258.26	229.58	(11.11)	(11.99)	(788.12)	(750.57)	(4.77)
Gross Profit	54.00	58.84	24.73	(57.96)	(54.20)	112.41	119.95	6.70
Gain (Loss) from Exchange Rate	15.91	(15.31)	(6.51)	57.47	(140.39)	27.08	(21.18)	(178.23)
Interest Revenue	0.00	0.88	0.38	(57.34)	-	0.63	1.80	185.38
Revenue from investment	1.06	0.23	0.35	51.69	(66.94)	2.35	0.88	(62.58)
Other Revenue	1.94	3.04	2.79	(8.47)	43.81	6.48	7.87	21.52
Selling and Administration Expenses	39.20	35.36	33.47	(5.34)	(14.63)	117.02	105.96	(9.45)
Earnings Before Interest and Tax	33.70	12.32	(11.74)	(195.27)	(134.83)	31.94	3.36	(89.49)
Financial Cost	0.06	0.04	0.03	(14.04)	(38.56)	0.17	0.12	(28.93)
Tax	(6.19)	(2.17)	2.80	(229.15)	(145.27)	(4.77)	0.46	109.67
Net Profit (Loss)	27.45	10.11	(8.97)	(188.71)	(132.67)	27.00	3.70	(86.31)
Earnings Before Interest, Tax, Depreciation and Amortization	43.32	24.34	4.06	(83.33)	(90.64)	67.69	48.01	(29.08)
Cash Flow from Operation	57.92	92.51	(18.92)	(120.45)	(132.67)	137.11	60.31	(56.02)
Earnings per share (Baht)	0.07	0.03	(0.02)					
Book Value per share (Baht)	3.69	3.67	3.63					

Key Financial Ratios

Key Financial Ratios	3 rd Quarter 2019	2 nd Quarter 2020	3 rd Quarter 2020
Current Ratio (Times)	17.79	12.27	12.17
Quick Ratio (Times)	7.31	4.38	2.86
Gross Profit Margin (%)	17.15	18.55	9.73
EBIT Margin (%)	10.70	3.89	(4.62)
Net Profit Margin (%)	8.72	3.19	(3.53)
Return on Equity (%)	2.64	3.44	0.82
Return on Assets (%)	2.55	3.84	0.87
Debt To Equity Ratio (Times)	0.09	0.10	0.10



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Company's Financial Position

Assets

The Company has total assets according to the financial statements as of 30 September 2020 of THB 1,528.38 Million comparing to THB 1,546.38 Million in the previous quarter, equivalent to the decrease of 1.16%. The major decrease is from the decrease of cash and cash equivalent of THB 98.58 Million from the decrease of sales revenue during the period, aligned with the increase of inventory THB 46.33 Million to THB 503.35 Million, considered increased 10.14%. Also, Trade receivables indicated THB 91.31 Million, decreasing THB 19.37 Million or 17.50%. 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 September 2020 of THB 144.43 Million which decrease THB 1.92 Million, equivalent to the decrease of 1.31%, comparing to the previous quarter. The main reason for the decrease is due to the decreased of Trade Payables THB 4.97 Million from decreasing sales activities, equivalent to the decrease of 7.82%, while Derivative Liabilities has increased THB 5.78 Million , considered increased 48.16% which is recognized from fair value of forward contracts at the end of the period

As of 30 September 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 solar rooftop on-grid system and the installment of machine amounting of Baht 50.64 Million.

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the third quarter of 2020, the Current Ratio indicated 12.17 times and the Quick Ratio of 2.86 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 September 2020 of THB 1,383.95 Million, decrease from THB 1,400.02 Million comparing to the previous quarter, equivalent to the decrease of 1.15%. The inappropriate retained earnings which indicated THB 906.19 Million in the third quarter of 2020, comparing to THB 915.16 Million in previous quarter, equivalent to the decrease of 0.98%. 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 -9.50 Million according to the newly adopted accounting standard and reporting standard.

Cash flow and Capital Structure

In the 9 Months of 2020, the Company has net cash flow from operation THB 60.31 Million, comparing to the net cash flow from operation THB 137.11 Million in the 9 Months of 2019 considered decreased of 56.01%, this is due to the decrease of revenue from export sales, while inventory has increased and the Trade Receivables has decreased. Besides, the company paid THB 47.52 Million for the procurement of building and equipment, and THB 22.89 Million as dividend payment.

In the third quarter of the year 2020, the Company has sufficient liquidity which evidence from the current ratio of 12.17 times, slightly decrease from 12.27 times in the previous quarter. This is due to the decrease of cash and cash equivalent from the decrease of export sales revenue. However, the major assets are current assets equivalent to 63.95% of total assets. On the other hand, the Company has only 5.26% 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 2020, whereas the debt to equity ratio has not change at 0.10 times, comparing to the previous quarter.



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	Value (THB Million)			Increase (decrease)		Increase (decrease)	
	3 rd Quarter 2019	2 nd Quarter 2020	3 rd Quarter 2020	THB Million QoQ	% QoQ	THB Million YoY	% YoY
Current Assets							
Cash and Cash Equivalent	119.62	219.38	120.80	(98.58)	(44.94)	1.18	0.08
Other Current Financial Assets	210.55	191.38	241.73	50.35	26.31	31.18	2.03
Trade and other receivables – include planters	142.24	130.84	102.18	(28.66)	(21.90)	(40.06)	(2.60)
Short-term loan	13.60	13.60	6.93	(6.67)	(49.04)	(6.67)	(0.43)
Inventory	532.85	457.01	503.35	46.33	10.14	(29.51)	(1.92)
Derivatives Assets	0.00	7.18	2.46	(4.71)	(65.68)	2.46	0.16
Total Current Assets	1,018.86	1,019.39	977.45	(41.94)	(4.11)	(41.41)	(2.69)
Non-Current Assets							
Property Land and Equipment	410.28	415.98	429.67	13.69	3.29	19.39	1.26
Other Non-Current Assets	109.89	111.01	121.26	10.25	9.23	11.36	0.74
Total Non-Current Assets	520.18	526.99	550.93	23.94	4.54	30.75	2.00
Total Assets	1,539.04	1,546.38	1,528.38	(18.00)	(1.16)	(10.66)	(0.69)
Current Liabilities	64.63	83.11	80.33	(2.78)	(3.35)	15.70	1.02
Non-Current Liabilities	67.07	63.25	64.10	0.86	1.36	(2.97)	(0.19)
Total Liabilities	131.70	146.35	144.43	(1.92)	(1.31)	12.73	0.83
Shareholder's Equity	1,407.34	1,400.02	1,383.95	(16.07)	(1.15)	(23.39)	(1.52)

Please be informed accordingly

Faithfully yours,

Ankoon Pholpipattanaphong

Managing Director