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บริษัท เชียงใหม่ฟรอสเซินฟู้ดส์ 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

24 February 2021

Subject: Management Discussion and Analysis for the year 2020

To: The President

The Stock Exchange of Thailand

Performance Overview

The overall of Thailand's economy in the year 2020 considered severe shrunk which affected the entire global industry includes tourism, service, industrial, trading, agriculture, and financial market. Government policy in attempt to control the spread of COVID-19, the social adaptation has caused the big change in global activities. All of these has put the great challenge on the practice for business as never seen before. Despite the new wave of spread in Q4/2020, the measure to control has improve and expected less impact to the economic. The advance on vaccine development should ease and recover the overall global economic in 2021.

For Thailand's economy, GDP expected to severely shrink by -6.1%, consider the worst situation since economic crisis in 1997 as tourism industry has majorly suffer, while export sector has slump as the global economic. However, the gradual recovery is expected by the third quarter of 2021 as tourism industry should recovered in according to the progress on vaccine applied.

Japan, as the main market for the Company, has affected and suffer from the postpone of Olympic 2020. Government has request businesses "Work from home" basis, temporary closing the school, request restaurant and shops to close early or even temporary closed down, in attempted to minimize the activities and contain the COVID-19 spread. These caused the economic slowdown as well as household consumption.

In 2020, Since the spread of COVID-19, THB has depreciated comparing to USD and reverse the trend by the second half of the year once the panic has been dissolved. The average exchange rate for the year 2020 revealed in the Bank of Thailand indicated 31.29 THB/USD, comparing to 31.05 THB/USD in 2019, considered the slight depreciation of 0.77%. However, as the US presidential election result by the year end, THB has gradually appreciated and tend to continuously appreciate as investors gain more confidence on the recovery of global economy.

The impact of COVID-19 and the global economic has directly weakening revenue of the Company, in which products majorly export, considered approximately more than 90% of the total revenue. Therefore, the sales revenue reveals in the financial statement for the year 2020 of THB 1,096.53 Million, decreasing of 5.74% comparing to THB 1,163.26 Million indicated in 2019. Also, total sales volume of 2020 presented 19,298 Tons, which decreased 5.76% comparing to 20,458 Tons in previous year. The company's financial statement has indicated the net profit THB 1.15 Million in the year 2020, equivalent to the



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decrease of 96.70% considering previous year performance of THB 34.76 Million, while the gross profit margin and net profit margin in 2020 displayed 13.45% and 0.10% respectively which decrease from 12.16% and 2.99% previously shown in 2019.

The financial performance has significantly change more than 20%, whereby the Net Profit has decreased 96.70% comparing to the previous year. The major contribution for such change is the decrease of sales volume which caused by the COVID-19. Though the Gross Profit Margin has been enhanced as THB has slightly depreciated against USD, and the cost of goods sold per unit has decreased due to the labor management to increase production efficiency, the bunker price has reduced, and the agriculture yield has improved. Also, the selling and administration expenses has decreased as the sea freight charge and export expenses has decreased, but the loss on exchange THB 25.23 Million comparing to gain on exchange of THB 39.21 Million in previous year, the net profit margin, therefore, significantly reduced. The Company has not indicated any non-recurrent transaction in the financial statements for the year 2020.

During the year, 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.

For the year 2021, global economic is expected to recover with the support factor of the advance progress on vaccination applied, multiple economic stimulus from governments, and the scarring effect that is lower than expected. For Japan, the export sector should recover and boost up the overall economic. Government stimulus should support the increasing household consumption as well as the Olympic 2021 which expected to be held. However, there are risk of the new wave of spread which could negatively affected the recovery of Japan. Other than above mentioned, On the other hand, the domestic factor for Thailand to be carefully monitor are the high possibility of drought which could cause the raw materials from agricultural sector to be increased, also the appreciation of THB against USD due to the increased confidence of investor toward global economic recovery after US Presidential election and the advance progress of COVID-19 vaccine. However, the management has aware of 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 for alternatives energy, 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.



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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 soy beans, frozen green beans, frozen sweet corns and frozen mixed vegetables. The details of sales revenue, according to the financial statement categorized by the geographic is as follows,

| Sales Revenue | Value (THB Million) | | | Increase (decrease) % | | |
|------------------------|---------------------|----------|----------|-----------------------|---------|--------|
| | 2018 | 2019 | 2020 | 2018 | 2019 | 2020 |
| Export Sales Revenue | 1,238.32 | 1,092.29 | 1,022.83 | (6.38) | (11.79) | (6.36) |
| Domestic Sales Revenue | 27.19 | 70.97 | 73.69 | (22.71) | 161.01 | 3.83 |
| Total Sales Revenue | 1,265.51 | 1,163.26 | 1,096.53 | (6.80) | (8.08) | (5.74) |

In 2020, sales revenue indicated totaling THB 1,096.53 Million, of which domestic sales proportion is 6.72% of total sales revenue, increase from proportion 6.10% comparing to 2019, and the proportion of export sales for the year 2020 is 93.28%, slightly decreased from 93.90% in 2019.

Total sales revenue in 2020 totaling THB 1,096.53 Million decreasing from THB 1,163.26 Million in 2019, equivalent to the decrease of 5.74%. This due to the reduce of selling price for some products due to higher competition and the sluggish demand from overseas.

2. Other Revenue

In 2020, the company has indicated other revenue which mainly derived from the selling of by-product of THB 8.59 Million which increased from THB 7.84 Million in 2019, equivalent to the increase of 9.49%. Also, the Company has revenue from investment THB 3.38 Million as the return from the investment in fixed income term fund and money market.

Cost of Goods Sold

Cost of goods sold in 2020 presented THB 949.01 Million, equivalent to the decrease of 7.12%, comparing to THB 1,021.76 Million in 2019. The major reasons for the decrease is as follows,

- The sales volume has decreased comparing to the previous year, due to COVID-19 has caused household consumption in Japan to drop.
- The raw material cost has decreased concern the increased cultivation yield comparing to drought during the previous period. Also, the other overhead production cost per unit has decreased as the decreasing cost for the production factors such as the increasing efficiency for labor. Also, the cost for bunker has reduced and the external cold storage charge has declining due to the balancing inventory with the agricultural produces.



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Selling and Administration Expenses

In 2020, the Company has reported the selling and administration expenses of THB 133.36 Million which decreased from THB 150.91 Million as reported in 2019, equivalent to the decrease of 11.63% which derive from the transportation and 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. Also, the appreciation of Thai Baht against USD caused the decline in sea freight expenses. Further, the external cold storage charge has decreased from the attempt to manage the inventory and the cultivation.

Gross Profit Margin and EBIT Margin

The Company has Gross Profit Margin in 2020 of 13.45% increased from 12.16% stated in previous year, which result from the cost of goods sold per unit has decreased concerned the higher efficiency for labor and the price for bunker has decreased. Despite the decreased in selling and administration expense of THB 17.55 Million, the loss on exchange rate THB 25.23 Million comparing to gain on exchange rate THB 39.21 Million due to the volatility of exchange rate in 2020, has caused loss on EBIT Margin of 0.23% comparing to EBIT Margin of 3.24% in 2019.

Net Profit

The Company has indicated net profit in the financial statements in 2020 of THB 1.15 Million, decreased from THB 34.76 Million presented in 2019, equivalent to the decrease of 96.70%. The major contribution for such change is the decrease of sales volume which caused by the COVID-19. Though the Gross Profit Margin has been enhanced as THB has slightly depreciated against USD, and the cost of goods sold per unit has decreased due to the agriculture yird for raw material has lessen effect from draught comparing to previous year, the labor management to increase production efficiency, the bunker price has reduced, Also, the selling and administration expenses has decreased as the sea freight charge and export expenses has decreased, but the loss on exchange THB 25.23 Million comparing to gain on exchange of THB 39.21 Million in previous year, the net profit margin, therefore, significantly reduced. The Company has determined to focus on production cost management including the attempt to improve the quality of seeds and level up its selection standard, increase the production efficiency, improve the cold storage area purposely to improve capacity management and reduce external cold storage charge.



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Summary Table for the Financial Performance

| Financial Highlight | Value (THB Million) | | | Increase (decrease) % | | |
|--|---------------------|----------|----------|-----------------------|---------|----------|
| | 2018 | 20179 | 2020 | 2018 | 2019 | 2020 |
| Sales Revenue | 1,265.51 | 1,163.26 | 1,096.53 | (6.80) | (8.08) | (5.74) |
| Cost of Goods Sold | 1,018.94 | 1,021.76 | 949.01 | (1.51) | 0.28 | (7.12) |
| Gross Profit | 246.57 | 141.50 | 147.52 | (23.74) | (42.61) | 4.26 |
| Gain on Exchange Rate | 19.17 | 39.21 | (25.23) | (44.64) | 104.50 | (164.35) |
| Other Revenue | 12.03 | 7.84 | 8.59 | 40.50 | (34.84) | 9.49 |
| Operating Profit | 277.78 | 188.55 | 130.87 | (24.44) | (31.58) | (30.59) |
| Selling and administration Expenses | 162.55 | 150.91 | 133.36 | (7.16) | (7.16) | (11.63) |
| Earnings Before Interest and Tax | 115.23 | 37.64 | (2.49) | (39.72) | (64.83) | (106.62) |
| Net Profit | 105.82 | 34.76 | 1.15 | (39.23) | (64.34) | (96.70) |
| Earnings Before Interest, Tax, Depreciation and Amortization | 163.11 | 87.52 | 52.98 | (32.57) | (43.67) | (39.47) |
| Cash Flow From Operation | (66.08) | 206.66 | 127.19 | (181.82) | 412.75 | (38.45) |
| Earnings per share (Baht) | 0.28 | 0.09 | 0.003 | | | |
| Book Value per share (Baht) | 3.74 | 3.70 | 3.60 | | | |

Key Financial Ratios

| Key Financial Ratios | 2018 | 2019 | 2020 |
|------------------------------|-------|-------|-------|
| Current Ratio (Times) | 12.94 | 14.85 | 12.42 |
| Quick Ratio (Times) | 5.45 | 7.32 | 3.13 |
| Gross Profit Margin (%) | 19.48 | 12.16 | 13.45 |
| Operating Profit Margin (%) | 9.44 | 3.61 | -0.23 |
| Net Profit Margin (%) | 7.70 | 2.99 | 0.10 |
| Return on Equity (%) | 6.80 | 2.45 | 0.08 |
| Return on Assets (%) | 6.22 | 2.42 | -0.16 |
| Debt To Equity Ratio (Times) | 0.09 | 0.10 | 0.11 |



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Company's Financial Position

Assets

The Company has total assets according to the financial statements as of 31 December 2020 of THB 1,517.64 Million comparing to THB 1,549.27 Million in the previous year, equivalent to the slightly decrease of 2.04%. The major decrease is from the decrease of cash and cash equivalent due to the investment in Solar Roof Project in attempt to achieved energy cost saving. Also inventory has dropped from THB 499.86 Million to THB 461.12 Million, equivalent to the decreased of 7.75%

Trade Receivables in 2020 indicated THB 78.29 Million, decrease from THB 109.32 Million presented in 2019, of which THB 49.24 Million is receivable that not yet due for payment, equivalent to 67.49% of total receivables in 2020 which indicated THB 72.96 Million. 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 2020, most of the clients able to settle the payment within due.

Liabilities

The Company has total liabilities according to the financial statements as of 31 December 2020 of THB 146.61 Million which slightly increase THB 7.21 Million, equivalent to the increase of 5.17%, comparing to the previous year. This is due to the increase of trade payables which increased from THB 54.73 Million in 2019 to THB 74.32 Million, equivalent to 35.79% increased.

As of 31 December 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 THB 30.27 Million

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the year 2020, the Current Ratio indicated 12.42 times and the Quick Ratio of 3.13 times, while most of the current assets are in the form of inventory, including cash and cash equivalent.

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 31 December 2020 of THB 1,371.04 Million, decrease from THB 1,409.87 Million comparing to the previous year, equivalent to the decrease of 2.75%. The major contribution to the decrease is the inappropriate retained earnings from financial performance which indicated THB 901.60 Million in 2020, comparing to THB 922.61 Million in 2019, equivalent to the decrease of 2.28%.

Cash flow and Capital Structure

In the year 2020, the Company has net cash flow received from operation THB 127.19 Million, comparing to the cash flow received from operation THB 206.66 Million indicated in 2019, majorly caused by decreasing revenue from sales volume. In addition, the Company has been reported THB 135.31 Million on the investing activities majorly on acquiring new machine and the repair and maintenance of building and machine, and THB 24.61 Million as the dividend payment in the year 2020.

In 2020, the Company has sufficient liquidity which evidence from the current ratio of 12.42 times, slightly decrease from 14.85 times in 2019. The major assets are current assets equivalent to 64.71% of total assets. On the other hand, the Company has only 5.21% 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 year 2020, whereas the debt to equity ratio is slightly increase to 0.11, comparing to 0.10 debt to equity ratio indicated previous year.



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Summary Table for Company's Financial Position

| | Value (Million Baht) | | | Increase (decrease) % | | Common Size | | |
|--------------------------------|----------------------|----------|----------|-----------------------|---------|-------------|--------|--------|
| | 2018 | 2019 | 2020 | 2019 | 2020 | 2018 | 2019 | 2020 |
| Current Assets | | | | | | | | |
| Cash and short term investment | 122.35 | 180.33 | 147.61 | 47.39 | (18.14) | 7.85 | 11.64 | 9.73 |
| Trade Receivables | 147.54 | 126.99 | 100.21 | (13.39) | (21.09) | 9.46 | 8.20 | 6.60 |
| Short-Term Loan | 0.00 | 13.60 | 6.93 | - | (49.04) | 0.00 | 0.88 | 0.46 |
| Inventory | 613.17 | 499.86 | 461.11 | (18.48) | (7.75) | 39.33 | 32.26 | 30.38 |
| Derivative Assests | 0.00 | 0.00 | 24.68 | - | - | 0.00 | 0.00 | 1.63 |
| Other Current Assets | 190.11 | 191.21 | 241.51 | 0.58 | 26.31 | 12.19 | 12.34 | 15.91 |
| Total Current Assets | 1,073.17 | 1,011.99 | 982.06 | (5.70) | (2.96) | 68.84 | 65.32 | 64.71 |
| Non-Current Assets | | | | | | | | |
| Property Land and Equipment | 379.02 | 425.48 | 455.56 | 12.26 | 7.07 | 24.31 | 27.46 | 30.02 |
| Other Non-Current Assets | 106.81 | 111.80 | 80.02 | 4.67 | (28.42) | 6.85 | 7.22 | 5.27 |
| Total Non-Current Assets | 485.83 | 537.28 | 535.59 | 10.59 | (0.32) | 31.16 | 34.68 | 35.29 |
| Total Assets | 1,559.00 | 1,549.27 | 1,517.64 | (0.62) | (2.04) | 100.00 | 100.00 | 100.00 |
| Current Liabilities | 82.96 | 68.14 | 79.10 | (17.86) | 16.08 | 5.32 | 4.40 | 5.21 |
| Non-Current Liabilities | 51.33 | 71.26 | 67.50 | 38.82 | (5.26) | 3.29 | 4.60 | 4.45 |
| Total Liabilities | 134.29 | 139.40 | 146.61 | 3.81 | 5.17 | 8.61 | 9.00 | 9.66 |
| Shareholder's Equity | 1,424.71 | 1,409.87 | 1,371.04 | (1.04) | (2.75) | 91.39 | 91.00 | 90.34 |

Please be informed accordingly

Faithfully yours,

Ankoon Pholpipattanaphong

Managing Director