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บริษัท เชียงใหม่ฟรozenฟู๊ดส์ 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 2021

Subject: Management Discussion and Analysis for the period ended 30 June 2021

To: The President

The Stock Exchange of Thailand

### **Performance Overview**

In the second quarter of 2021, global economic has maintain strong signal of recovery but at the different paces among countries, leading by the developed countries with the coverage and enough COVID-19 vaccines provided to residents, which allow the relief of city lockdown. Another is subject to the sizes of economic stimulus from governments in which developed countries has advantage over emerging countries. Also, the recovery is different in industrial sector as manufacturing sector is considered recover at better pace than tourism sector which still restricted the movement of travelers.

Thailand economic has also recovered but at decreased growth due to the impact of the new wave of COVID-19 outbreak started by the end of second quarter, which result in the domestic consumption has decreased drastically. However, as the global economic has recovered, especially in developed countries, export sector has benefit from the expansion of transactions, but the container shortage situation could hold up the recovery as well as the increase of fuel price that will drive the transportation cost for businesses.

Consider the second quarter of 2021 in Japan, the important trade partner, expected slight economic growth as the export sector has growth according to the global economic. However, the new wave of COVID-19 outbreak has pressured the household consumption from the restriction of activities. The vaccination rate for Japan considers relatively low comparing to developed countries despite the sufficient supply of vaccines. This is due to shortage of medical personal and the cautious of government to verify the effect of vaccines, result in the continuous wave of outbreak. The government has decided to convene Tokyo Olympic in July amidst the protest of Japanese resident who concern about safety measure to prevent the outbreak which could hampered the recovery of Japan economic.

The exchange rate for THB/USD has continuously depreciate, consider 4% since the beginning of 2021 and at the highest depreciate currency in regions. This is due to the outbreak of COVID-19 which hindered foreign investor's confidence, also the budget deficit. The exchange rate in the second quarter of 2021 for THB/USD according to the reference rate from the Bank of Thailand is THB 31.36/USD, comparing to THB 30.26/USD indicated in previous quarter.



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Total revenue from sales in the second quarter of 2021 has increased to THB 299.53 Million, comparing to THB 243.04 Million in the first quarter of 2021, equivalent to the increase of 23.24% as there was increasing demand from Japan and the depreciation of THB against USD. However, the cost of goods sold per unit has increased since the price for agricultural produces has increased result from drought season this year. Further, the electricity expenses have decreased since the solar roof has completed the installation. Theses conclude the gross profit of THB 36.93 Million, increasing 37.86% comparing to the previous quarter, with the gross profit margin of 12.33% increasing from 11.02%. However, the Company has loss on exchange of THB 1.87 Million comparing to gain on exchange of THB 12.28 Million, while the transportation cost has drove up due to increasing fuel price and the shortage of container result in the increasing freight charges, also the recognition of Administration expense in subsidiary, the net loss for the Company has indicated THB 10.54 Million, considering net loss margin of 3.52%, comparing to net profit of THB 2.67 Million with net profit margin at 1.10% presented in the first quarter of 2021,

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

1. The new wave of COVID-19 outbreak which affected several countries globally would causes global economic slowdown, concerning Japan. 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. However, the demand expected to recover soonest depends on the coverage of COVID-19 vaccines applied to resident.
2. The volatility of exchange rate, as THB has depreciated against USD since the global economic slowdown has affected the revenue recognition, while JPY has appreciated against USD which reduce the cost of import for Japanese customers.
3. Severe drought which prolongs from the early of 2021 could cause the rising for agricultural produces price, affected the increasing cost of production.
4. The transportation cost has increase due to the fuel oil price and the shortage of containers caused the freight charge to sharply rise since the end of third quarter last year which expected the situation to solve in the fourth quarter of 2021

## **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



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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 <sup>nd</sup> Quarter 2020	1 <sup>st</sup> Quarter 2021	2 <sup>nd</sup> Quarter 2021	% QoQ	% YoY	6M 2020	6M 2021	% YTD
Export Sales Revenue	303.69	222.98	286.11	28.31	(5.78)	582.86	509.09	(12.66)
Domestic Sales Revenue	13.41	20.06	13.42	(33.10)	0.07	33.34	33.48	0.41
Total Sales Revenue	317.10	243.04	299.53	23.24	(5.54)	616.20	542.57	(11.94)

In the second quarter of 2021, sales revenue indicated totaling THB 299.53 Million, of which export sales is to 95.52%, increased from 91.75% in the previous quarter of 2021. In this regard, the proportion of domestic sales proportion is 4.48% of total sales revenue, decreased from proportion 8.25% comparing to the previous quarter.

Total sales revenue in the second quarter of 2021 decreasing from THB 317.10 Million in the second quarter of 2020, equivalent to the decrease of 5.54%. This due to the decrease sales volume from export as the consumption still not recovered in Japan due to the new wave of outbreak.

## 2. Other Revenue

In the second quarter of 2021, the company has indicated other revenue of THB 2.45 Million which increased from THB 1.82 Million in the first quarter of 2021, equivalent to the increase of 34.60%, majorly cause by the revenue from the other assets disposal activities.

## Cost of Goods Sold

Cost of goods sold in the second quarter of 2021 presented THB 262.60 Million, equivalent to the increase of 21.43%, comparing to THB 216.26 Million in the first quarter of 2021. The major reason for the increase is as follows,

- The increasing sales volume from oversea market comparing to previous quarter.
- The increase overhead production cost per unit as the raw material price has increased due to the produces harvested during drought season, also the electricity expenses has decreased from the use of electricity generated from solar roof.

## Selling and Administration Expenses



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In the second quarter of 2021, the Company has reported the selling and administration expenses of THB 47.22 Million which increased from THB 37.68 Million as reported in the first quarter of 2021, equivalent to the increase of 25.34% which derive from the recognition of selling and administration expenses of subsidiaries, the increasing fuel price, and increasing freight transportation expense due to the shortage container situation.

### Gross Profit Margin and EBIT Margin

The Gross Profit Margin for the Company presented in financial statement for the second quarter of 2021 is 12.33% crease from 11.02% indicated in the previous quarter, while the EBIT Margin reveal -3.25% decreased from 1.32% comparing to the previous quarter. This is due to the increasing sales revenue from increasing sales volume from overseas market and the depreciation of THB against USD, while the Company has loss on exchange of THB 1.87 Million comparing to gain on exchange of THB 12.28 Million in previous quarter. increasing gain on exchange of THB 11.63 Million. The overhead production cost per unit has increased as the raw material price has increased subject to the severe drought while the electricity cost has decreased as the use of electricity generated from solar roof. Also, the recognition of selling and administration expenses from subsidiary has increased expenses.

### Net Profit

The Company has indicated net loss in the financial statements or the second quarter of 2021 of THB 7.40 Million, decrease from net profit of THB 2.67 Million presented in the first quarter of 2021, equivalent to the decrease of 376.89%. The Net Loss Margin has stated 2.47% comparing to Net Profit Margin of 1.10% in the first quarter of 2021. The Company has the change of financial operation exceed 20%. The major contribution to the decrease of net profit is despite from the increasing export sales revenue and volume, while the overhead production cost per unit as the raw material price has increased during the severe drought this year, also the electricity expenses has decreased from the consumption of electricity generated by solar roof. The fluctuation of exchange rate has result on loss on exchange comparing to gain on exchange in the previous quarter. However, the selling and administration expense has increased from the recognition of selling and administration expenses of subsidiary, also increasing fuel price and sea freight expense due to the container shortage situation.

### Summary Table for the Financial Performance

	Value (THB Million)			Increase (decrease)		Value (THB Million)		Increase (decrease)
	2 <sup>nd</sup> Quarter 2020	1 <sup>st</sup> Quarter 2021	2 <sup>nd</sup> Quarter 2021	% QoQ	% YoY	6M 2020	6M 2021	% YTD
Sales Revenue	317.10	243.05	299.54	23.24	(5.54)	616.20	542.57	(11.95)
Cost of Goods Sold	258.26	216.26	262.60	21.43	1.68	520.99	478.86	(8.09)
Gross Profit	58.84	26.79	36.93	37.68	(37.24)	95.21	63.71	(33.09)
Gain (Loss) from Exchange Rate	(15.31)	12.28	(1.87)	(115.22)	87.80	(14.67)	10.41	170.93



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Other Revenue	3.04	1.82	2.45	34.60	(19.59)	5.09	4.27	(16.19)
Selling and Administration Expenses	35.36	37.68	47.22	25.34	33.57	72.49	84.90	17.12
Earnings Before Interest and Tax	11.21	3.20	(9.72)	(403.64)	(186.71)	13.14	(6.52)	(149.61)
Financial Cost	0.04	0.02	1.31	(5,377.55)	(3,179.84)	0.08	1.33	1,463.73
Tax	(2.17)	(0.51)	0.38	(175.07)	(117.55)	(2.34)	(0.13)	(94.60)
Net Profit (Loss)	10.11	2.67	(7.40)	(376.89)	(173.17)	12.67	(4.73)	(137.31)
Earnings Before Interest, Tax, Depreciation and Amortization	23.23	21.94	24.84	13.19	6.92	42.00	46.78	11.39
Cash Flow from Operation	92.51	(107.01)	49.74	146.48	(46.23)	79.23	(57.27)	(172.29)
Earnings per share (Baht)	0.03	0.01	(0.03)					
Book Value per share (Baht)	3.67	3.68	3.64					

## Key Financial Ratios

Key Financial Ratios	2 <sup>nd</sup> Quarter 2020	1 <sup>st</sup> Quarter 2021	2 <sup>nd</sup> Quarter 2021
Current Ratio (Times)	12.27	5.39	8.05
Quick Ratio (Times)	4.38	1.87	3.23
Gross Profit Margin (%)	18.55	11.02	12.33
EBIT Margin (%)	3.89	1.32	(3.25)
Net Profit Margin (%)	3.19	1.10	(3.52)
Return on Equity (%)	3.44	0.09	(1.39)
Return on Assets (%)	3.84	0.07	(1.18)
Debt To Equity Ratio (Times)	0.10	0.29	0.27

## Company's Financial Position

## Assets

The Company has total assets according to the financial statements as of 30 June 2021 of THB 1,751.28 Million comparing to THB 1,794.80 Million in the previous quarter, equivalent to the decrease of 2.43%. The major decrease is from the decrease of inventory which decreased THB 71.15 Million from the increasing sales in this quarter which accordance with the increasing of account receivables indicated THB 131.73 Million, increasing of THB 11.11 Million, consider 9.21% 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.



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## Liabilities

The Company has total liabilities according to the financial statements as of 30 June 2021 of THB 364.04 Million which decrease THB 29.55 Million, equivalent to the decrease of 7.51%, comparing to the previous quarter. The main reason derived from repayment of trade payables and liabilities of STFD as a subsidiary.

As of 30 June 2021, 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 11.62 Million
- The Company has capital expenditure in respect of the installation of electricity generator by Solar Roof system and the installation of equipment amounting of THB 7.98 Million

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the second quarter of 2021, the Current Ratio indicated 8.05 times and the Quick Ratio of 3.23 times, while most of the assets are current assets.

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 June 2021 of THB 1,386.85 Million, decrease from THB 1,401.22 Million comparing to the previous quarter, equivalent to the decrease of 1.03%. However, the unappropriated retained earning has decrease from THB 868.27 Million to THB 860.87 Million, considered 0.85% decreased comparing to previous quarter. 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 -7.93 Million according to the newly adopted accounting standard and reporting standard.

## Cash flow and Capital Structure



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In the second quarter of 2021, the Company has net cash flow used in operation THB 57.27 Million, comparing to the net cash flow used in operation THB 79.23 Million in the second quarter of 2020 due to the increasing purchase of the raw material. Also, the repayment of trade payable of subsidiary. Besides, the company paid THB 44.79 Million for the procurement of machines and equipment.

In the second quarter of the year 2021, the Company has sufficient liquidity which evidence from the current ratio of 8.05 times, increase from 5.39 times in the previous quarter. This is due to the decrease of current liabilities from the repayment of trade payables as they're liabilities from STFD consolidated to the Company. However, the major assets are current assets equivalent to 50.84% of total assets. On the other hand, the Company has only 6.31% 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 first quarter of 2020, subsidiary but the long-term borrowing stated is the liability of STFD, whereas the debt to equity ratio decrease to 0.27 times, comparing to 0.29 times as indicated in the same quarter of previous year.

### Summary Table for Company's Financial Position

	Value (THB Million)			Increase (decrease)		Increase (decrease)	
	2 <sup>nd</sup> Quarter 2020	1 <sup>st</sup> Quarter 2021	2 <sup>nd</sup> Quarter 2021	THB Million QoQ	% QoQ	THB Million YoY	% YoY
Current Assets							
Cash and Cash Equivalent	219.38	197.77	207.01	9.25	4.68	(12.36)	(5.64)
Other Current Financial Assets	191.38	41.58	41.61	0.03	0.07	(149.77)	(78.26)
Trade and other receivables - include planters	130.84	125.10	149.90	24.8	19.82	19.06	14.57
Short-term loan	13.60	0	0	0	-	(13.6)	(100.00)
Inventory	457.01	560.23	489.08	(71.15)	(12.70)	32.06	7.02
Derivatives Assets	7.18	2.22	0.01	(2.21)	(99.46)	(7.16)	(99.83)
Other Current Assets	0	2.56	2.53	(0.03)	(1.06)	2.53	-
Total Current Assets	1,019.39	929.45	890.14	(39.31)	(4.23)	(129.25)	(12.68)
Non-Current Assets							
Property Land and Equipment	415.98	763.03	756.64	(6.39)	(0.84)	340.66	81.89
Other Non-Current Assets	111.00	102.32	104.50	2.18	2.13	(6.5)	(5.86)



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Total Non-Current Assets	526.99	865.35	861.14	(4.21)	(0.49)	334.15	63.41
Total Assets	1,546.38	1,794.80	1,751.28	(43.53)	(2.43)	204.9	13.25
Current Liabilities	83.11	172.53	110.55	(61.99)	(35.93)	27.44	33.01
Non-Current Liabilities	63.25	221.05	253.49	32.44	14.67	190.25	300.81
Total Liabilities	146.35	393.59	364.04	(29.55)	(7.51)	217.68	148.74
Shareholder's Equity	1,400.02	1,401.22	1,386.85	(14.37)	(1.03)	(13.18)	(0.94)

Please be informed accordingly

Faithfully yours,

Ankoon Pholpipattanaphong

Managing Director