

CHIANGMAI FROZEN FOODS PUBLIC COMPANY LIMITED
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THREE - MONTH PERIOD ENDED 31 MARCH 2018 (UNAUDITED)

1. GENERAL INFORMATION

Chiangmai Frozen Foods Public Company Limited was listed on the Stock Exchange of Thailand in 1993. The company is engaged in business of manufacturing and exporting of frozen vegetable. The address of its registered office are as follows:

Head Office is located at 149/34 floor 3rd - 4th Soi Anglo Plaza, Surawongse road, Surawongse, Bangrak, Bangkok.

Branch Office 1 is located at 92 Moo.3, Chiangmai - Phrao road, Tumbol Nongjom, Amphur Sansai, Chiangmai.

Branch Office 2 is located at 299 Moo.14, Chiangmai - Phrao road, Tumbol Maefak mai, Amphur Sansai, Chiangmai.

2. BASIS FOR INTERIM FINANCIAL STATEMENTS PREPARATION

The interim financial statements are prepared on a condensed basis in accordance with Thai Accounting Standard (TAS) No. 34 (revised 2017) Interim Financial Reporting; guidelines promulgated by the Federation of Accounting Professions (“FAP”); and applicable rules and regulations of the Thai Securities and Exchange Commission.

The interim financial statements are prepared to provide an update on the financial statements for the year ended 31 December 2017. They do not include all of the financial information required for full annual financial statements but focus on new activities, events and circumstances to avoid repetition of information previously reported. Accordingly, these interim financial statements should be read in conjunction with the financial statements of the Company for the year ended 31 December 2017.

The preparation of interim financial statements in conformity with TFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

3. NEW FINANCIAL REPORTING STANDARDS

3.1 Financial reporting standards that became effective in the current year

During the period, the Company has adopted the revised financial reporting standards and interpretations (revised 2017) which are effective for fiscal years beginning on or after 1 January 2018. These financial reporting standards were aimed at alignment with the corresponding International Financial Reporting Standards with most of the changes and clarifications directed towards disclosures in the notes to financial statements. The adoption of these financial reporting standards does not have any significant impact on the Company and its subsidiaries’ financial statements.

3.2 Financial reporting standard that will become effective in the future

During the period, the Federation of Accounting Professions issued the financial reporting standard TFRS 15 Revenue from Contracts with Customers, which is effective for fiscal years beginning on or after 1 January 2019. Key principles of this standard are summarized below.

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TFRS 15 Revenue from Contracts with Customers

TFRS 15 supersedes TAS 11 Construction Contracts and TAS 18 Revenue, together with related Interpretations. Entities are to apply this standard to all contracts with customers unless those contracts fall within the scope of other standards. The standard establishes a five - step model to account for revenue arising from contracts with customers, with revenue being recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model.

At present, the management of the Company is evaluating the impact of this standard to the financial statements in the year when it is adopted

4. ACCOUNTING POLICIES

The interim financial statements are prepared using the same accounting policies and methods of computation as were used for the financial statements for the year ended 31 December 2017.

5. TRANSACTIONS WITH RELATED COMPANIES

5.1 Relationships and pricing policies

The relationship and pricing policies among the Company and related companies are as follows:

	<u>Relationship</u>
<u>Related companies :</u>	
C.T. Prosper Group Co., Ltd.	Common Shareholders and directors
Saithong Citrus Orchard Co., Ltd.	Common Shareholders and directors
	<u>Pricing policy</u>
Service income	Compared to market price
Rental income	At contract price which had been agreed upon

5.2 Revenue and expenses among the Company and related companies

Revenue and expenses among the Company and related companies for the three - month period ended 31 March 2018 and 2017 are as follows:

	<u>In Baht</u>	
	<u>2018</u>	<u>2017</u>
Other income		
Related companies	361,619	22,500
Directors and management's benefits		
Short - term employee benefits	7,813,816	7,959,663
Post - employment benefits	216,685	202,531
Total	<u>8,030,501</u>	<u>8,162,194</u>

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6. SHORT - TERM INVESTMENTS

	In Baht	
	31 March 2018	31 December 2017
Fixed deposits	250,000,000	250,000,000
Trading investment - Fund	120,359,655	180,199,999
Total	<u>370,359,655</u>	<u>430,199,999</u>

The movement in short - term investments for the three - month period ended 31 March 2018 can be analysed as follow:

	In Baht
Opening balance	180,199,999
Additions	50,000,000
Disposal	(110,000,000)
Gain on sales of investment	90,613
Gain on change in fair value	69,043
Ending balance	<u>120,359,655</u>

7. TRADE AND OTHER RECEIVABLES

	In Baht	
	31 March 2018	31 December 2017
Trade receivable	93,294,080	73,587,010
Value added tax receivable	4,423,456	3,834,041
Interest receivable	634,795	918,356
Advance payment	1,647,628	1,019,732
Other receivables	922,548	1,213,025
Total	<u>100,922,507</u>	<u>80,572,164</u>

The aging of outstanding balance as at 31 March 2018 and 31 December 2017 are as follows:

	In Baht	
	31 March 2018	31 December 2017
Trade receivable		
Within credit terms	89,438,254	59,619,904
Overdue		
Less than 3 months	<u>3,855,826</u>	<u>13,967,106</u>
Total Trade receivable	<u>93,294,080</u>	<u>73,587,010</u>

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8. ACCOUNTS RECEIVABLE - PLANTERS

	In Baht	
	31 March 2018	31 December 2017
Accounts receivable - planters	22,026,986	44,341,686
<u>Less Allowance for doubtful accounts</u>	<u>(657,551)</u>	<u>(657,551)</u>
Net	<u>21,369,435</u>	<u>43,684,135</u>

9. INVENTORIES

	In Baht					
	Cost		Allowance for diminution of inventories		Inventories - net	
	31 March 2018	31 December 2017	31 March 2018	31 December 2017	31 March 2018	31 December 2017
Finished goods and semi - finished products	502,185,675	398,518,008	(7,709,117)	(6,856,341)	494,476,558	391,661,667
Raw material and Supplies	26,418,300	23,022,892	(219,781)	(302,511)	26,198,519	22,720,381
Seeds, insecticide, Fertilizer	40,163,811	19,182,911	(10,380)	(10,380)	40,153,431	19,172,531
Total	<u>568,767,786</u>	<u>440,723,811</u>	<u>(7,939,278)</u>	<u>(7,169,232)</u>	<u>560,828,508</u>	<u>433,554,579</u>

During the period, the company reversal reduced cost of inventories Baht 0.8 million to reflect the net realizable value. This was included in cost of sales.

10. INVESTMENT IN RELATED COMPANY

As at 31 March 2018

	Nature of Business	Paid - up Capital	Holdings	At Cost
		(In Baht)	(%)	(In Baht)
Sino - Thai Freeze & Dry Co., Ltd.	Manufacturing and distributing of frozen product and freeze dried product	250,000,000	15	<u>37,500,000</u>

According to the Board of Director 3/2017, on 12 May 2017, the Company invested in the ordinary shares of Sino - Thai Freeze Dry Co., Ltd., (“STFD”) in 15 percentage of total registration ordinary shares.

11. INVESTMENT PROPERTY

Investment properties of the Company as at 31 March 2018 and 31 December 2017 amounted to Baht 22.1 million represent the book value of the Company’s plot of land which held for nonspecific purpose.

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12. PROPERTY, PLANT AND EQUIPMENT

	<u>In Baht</u>
For the three - month period ended 31 March 2018	
Book value, beginning of period	352,721,715
Acquisition of assets	14,873,396
Disposals and amortization	(9)
Depreciation	<u>(10,536,152)</u>
Book value, end of period	<u><u>357,058,950</u></u>

13. LEASE DEPOSIT

On 25 March 2016, The Company has signed the pre - deposit lease agreement with the lessor. The pre lease deposit agreement for the land of 47.73 Acres has the total lease value through the lease period of U.S. Dollars 1.43 million (equivalent to Baht 50.57 million at exchange rate from Bank of Thailand as of 25 March 2016 stated 35.32 Baht/USD). The lease period is 50 years and the 2 extension offering right considered 10 years for each extension. The Company shall arrange the deposit for 50% of total lease value, considering U.S. Dollars 0.71 million (equivalent to Baht 25.3 million) immediately after signing the pre lease deposit agreement on 25 March 2016. The remaining lease value shall be paid upon the lease agreement date. The lessor is obliged to fill the land appropriate for the plant construction, and coordinate with the authorities to arrange the usage of land allowed the construction of plant prior to the entering of lease agreement with the Company's subsidiary currently determining for the incorporation in Myanmar, within 9 months started from 1 April 2016.

However, due to the difficulties in coordination with the Myanmar authorities, the Board of Director's Meeting No. 5/2017 and No. 6/2017 have considered with the legal advisor and conclude that since the company still maintain their intention to invest in the project, the timeframe to complete the precedent conditions prior the engaging in lease agreement between the Lessor and the subsidiary shall be extended to be within 2018. In this regards, the intention shall be advised to Lessor to further acknowledge and proceed.

14. INTANGIBLE ASSETS - SOFTWARE

	<u>In Baht</u>
For the three - month period ended 31 March 2018	
Book value, beginning of period	9,525,604
Acquisition of assets	3,700
Amortization	<u>(216,547)</u>
Book value, end of period	<u><u>9,312,757</u></u>

15. BANK OVERDRAFTS AND SHORT - TERM LOANS

As at 31 March 2018, The Company has the overdrafts and short - term loans lines amounted to Baht 406 million (31 December 2017: Baht 406 million). The facilities charge an interest at the rate of MOR per annum.

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16. TRADE AND OTHER PAYABLES

	In Baht	
	31 March 2018	31 December 2017
Trade payables	28,952,412	26,512,889
Accrued expenses	30,369,948	38,177,087
Others	1,067,086	1,965,784
Total	<u>60,389,446</u>	<u>66,655,760</u>

17. LIABILITIES UNDER FINANCE LEASE AGREEMENTS

	In Baht	
	31 March 2018	31 December 2017
Liabilities under finance lease agreements	3,776,886	4,055,718
<u>Less</u> Deferred interest and Input vat	(451,336)	(510,870)
Current portion of liabilities under finance lease agreements	<u>(911,504)</u>	<u>(835,723)</u>
Net	<u>2,414,046</u>	<u>2,709,125</u>

18. EMPLOYEE BENEFIT OBLIGATIONS

The Company operate post - employment benefit and pension based on the requirement of Thai Labor Protection Act B.E. 2541 (1998) to provide retirement benefits and other long term benefit to employees based on pensionable remuneration and length of service.

Movement in the present value of the defined benefit obligations:

	In Baht
For the three - month period ended 31 March 2018	
Defined benefit obligations at 1 January 2018	46,228,984
Current service costs and interest	1,079,967
Employee benefit paid	<u>(473,100)</u>
Defined benefit obligations at 31 March 2018	<u>46,835,851</u>

19. SEGMENT INFORMATION

Operating segment information is reported in a manner consistent with the internal reports that are regularly reviewed by the chief operating decision maker in order to make decisions about the allocation of resources to the segment and assess its performance.

The Company has engaged in the business of manufacturing and distribution of frozen vegetables and operated in one geographical area in Thailand. Therefore, these financial statements do not present the geographical segment.

For the three - month period ended 31 March 2018, export sales of the Company was 98% of total sales (2017 : 99% of total sales)

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20. INCOME TAX

Income tax for the three - month period ended 31 March 2018 and 2017 are made up as follows:

	In Baht	
	2018	2017
Current income tax		
Interim corporate income tax charge	5,003,460	11,773,571
Deferred tax:		
Relating to origination and reversal of temporary differences	(243,451)	(23,986)
Income tax expense reported in the statements of comprehensive income	<u>4,760,009</u>	<u>11,749,585</u>

Deferred tax assets is presented in the statement of financial positions as follows:

	In Baht	
	31 March 2018	31 December 2017
Statements of financial position		
Increase in deferred tax assets		
Allowance for doubtful accounts	131,510	131,510
Allowance for diminution of inventories	1,587,856	1,433,846
Provisions for employee benefit obligations	9,367,170	9,245,798
Increase in deferred tax liabilities		
Premium on revaluation of trading investments	(71,931)	(40,000)
	<u>11,014,605</u>	<u>10,771,154</u>

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company use the market approach to measure their assets and liabilities that are required to be measured at fair value by relevant financial reporting standards, except that the cost approach or income approach is used when there is no active market or when a quoted market price is not available.

Fair value hierarchy

In applying the above-mentioned valuation techniques, the Company endeavor to use relevant observable inputs as much as possible. TFRS 13 Fair Value Measurement establishes a fair value hierarchy categorising such inputs into three levels as follows:

Level 1 - Use of quoted market prices in an observable active market for such assets or liabilities

Level 2 - Use of other observable inputs for such assets or liabilities, whether directly or indirectly

Level 3 - Use of unobservable inputs such as estimates of future cash flows

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As at 31 March 2018, the Company had the assets and liabilities that were measured at fair value using different levels of inputs as follows:

	Level 1	Level 2	Level 3	(Unit : Baht)
				Total
Assets measured at fair value				
Held for trade investments				
Unit Trust	-	120,359,655	-	120,359,655
Assets for which fair value are disclosed				
Investment property	-	-	76,258,000	76,258,000

22. FOREIGN CURRENCY RISK AND RISK MANAGEMENT

The Company exposure to foreign currency risk relates primarily to their business transactions which are denominated in foreign currencies. The Company has policies to hedge such risks by using derivative financial instruments. As at 31 March 2018, the Company have outstanding forward foreign exchange selling contracts total of U.S. Dollars 29.77 million in exchange of Baht 961.75 million with 4 commercial banks. The contract will be due in December 2018. Per comparative between fair value and contract value, the gain amounting Baht 39.70 million is incurred.

23. COMMITMENT AND CONTINGENT LIABILITIES

As at 31 March 2018

- 23.1 The Company has commitments for software license and system consulting agreement amounting of Baht 0.5 million.
- 23.2 The Company has commitment to pay the financial advisory about investment in Myanmar amounting to approximately Baht 0.3 million.
- 23.3 The Company has contingently liability for bank guarantees issued in favor of government agency amounting to approximately Baht 11.0 million.

24. EVENTS AFTER THE REPORTING PERIOD

On 27 April 2018, the Ordinary General Meeting of Shareholders for the year 2018 passed a resolution to approve a dividend payment at Baht 0.34 per share from the 2017 operating results. In this regard, the Company already paid an interim dividend at Baht 0.14 per share, totaling Baht 53.36 million, during the year 2017 to the shareholders, therefore the remaining dividend payable will be Baht 0.20 per share, or totaling Baht 76.23 million.

25. APPROVAL OF INTERIM FINANCIAL STATEMENTS

These interim financial statements have been approved by the Company's Board of Directors on 11 May 2018.