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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

15 August 2016

Subject: Management Discussion and Analysis for the period ended 30 June 2016

To: The President

The Stock Exchange of Thailand

Performance Overview

The overall of Thailand's economy in the second quarter of 2016 considered steadily recovered as the result of economic stimulus from government and the government spending. However, export industry still confronted the uncertainty of economic condition from other countries. On the other hand, Japan, the major exporting market of the company, currently facing the difficulties in business recovery. The Japanese government has recently reduced the expected country's growth for the year 2016 (April 2016 – March 2017) from 1.7% to 0.9% due to the steadily appreciation of Japanese Yen. In addition, during the period, Thai Baht has marginally appreciated but considered higher than THB/USD exchange rate comparing to the exchange rate in the second quarter of 2015. As the second quarter of the fiscal year normally considered high season for the sales order from Japan, according to the financial statements of the company, sales revenue has considerably increased from THB 308.13 Million which presented in the first quarter of 2016 to THB 443.55 Million, equivalent to the increase of 43.95%. Further, the Company achieve net profit of THB 69.72 Million comparing to THB 32.94 Million presented in the previous quarter, considering the increase of 111.63%. The Gross Profit Margin has also increased to 29.27% in the second quarter of 2016 comparing to 25.84% recorded in the previous quarter. Therefore, the Net Profit Margin in this quarter presented 15.72%, increased from 10.69% stated in the first quarter of 2016.

Considering the financial performance for the second quarter of 2016, the sales revenue has increased 6.63% comparing to the second quarter of 2015. In addition, the Net Profit Margin also increase to 40.52% comparing to the same quarter of previous year.

The financial performance has significantly change more than 20%. The major contribution for such change is the continuous depreciation of THB against USD during the second quarter of 2016 comparing to 2015 which the average exchange rate for THB/USD is 35.28 and 33.26 respectively. Therefore, the sales revenue has considerably increased. In addition, the effective production cost management and the slump of global oil price, greatly contribute to reduce cost of goods sold and selling and administration expenses. Finally, the net profit has greatly increased.

On 26 April 2016, the annual meeting of shareholders for the year 2016 has resolved to approve the decrease of registered capital for THB 526 considered 526 shares to be align with the registered and paid-up capital. The company has completed the reduction of the registered of capital on 4 May 2016. Currently, the Company has registered capital and paid up capital equally at THB 381,145,725 which equivalent to 381,145,725 shares, at par value THB 1 per share.



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The non-recurrent transaction for the company is not presented in the financial statements for the second quarter of 2016. During the period, the company has not change the accounting policy.

The factors that would affect the business operation for the second half of 2016 are as follows

1. The global economic condition especially Japan as an important business partner still considered sluggish recovery, evidently from the stagnant investment, slowdown of trading, and the decrease of commodity pricing, despite various economic stimulus implemented such as the negative interest rate policy announced by the Bank of Japan, also the recent announcement from the Japanese government on cutting estimate economic growth figure.
2. The severe drought in Thailand directly cause the negative effect to quantity and quality of agricultural produces. However, the management has aware of theses factor and best attempt to reduce such negative effects. Also, the management has best attempt to determine the policies and strategies to cope with the situations such as the continuous improvement for the production costing by improving cultivating yield and production yield, the study of the demand for the products in other country rather than existing trade partner, the study for the feasibility in the investment in neighborhood country purposely to increase the agriculture area and quantity produces.
3. The volatility of exchange rate, especially JPY has continuously appreciated against USD. This situation is positive to the competitive advantage of the Company considering the pricing. However, the appreciation of THB against USD started during this quarter would possibly reduce the revenue converting to THB.
4. The fuel price which continuously dropped and started to stable could affect the better cost management.
5. Trans Pacific Partnership (TPP) which agreed by countries including USA and Japan could benefit US exporter for the trade privilege and tax benefit for the frozen agricultural products to Japan, which in turn cause the intense competition in the market.

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 consolidated financial statement categorized by the geographic is as follows,



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| Sales Revenue | Value (THB Million) | | | Increase (decrease) | | Value (THB Million) | | Increase (decrease) |
|------------------------|---------------------|---------|---------|---------------------|-------|---------------------|---------------|---------------------|
| | Q2 2015 | Q1 2016 | Q2 2016 | % QoQ | % YoY | 6 months 2015 | 6 months 2016 | % YTD |
| Export Sales Revenue | 410.59 | 303.83 | 435.53 | 43.35 | 6.07 | 704.64 | 739.35 | 4.93 |
| Domestic Sales Revenue | 5.36 | 4.31 | 8.03 | 86.31 | 49.81 | 9.45 | 12.33 | 30.48 |
| Total Sales Revenue | 415.96 | 308.13 | 443.55 | 43.95 | 6.63 | 714.08 | 751.69 | 5.27 |

In the second quarter of 2016, sales revenue reached totaling THB 443.55 Million, increasing THB 135.42 Million from previous quarter, of which the export sales revenue and domestic sales revenue has increase 43.35% and 86.31% respectively. The rise in sales revenue derived by the incremental sales order from Japanese customer entering into high seasons. Considering the same quarter previous year, the Company has sales revenue increase of THB 27.59 Million, equivalent to the increase of 6.63% due to the depreciation of THB against USD.

Total sales revenue in the first 6 months of 2016 totaling THB 751.69 Million increasing from THB 714.08 Million in the first 6 months of 2015, equivalent to the slightly increase of 5.27%. This due to the continuously depreciation of THB against USD in the first 6 months of 2016. However, the sales volume has been slightly decrease comparing to the sales volume in the first 6 months of 2015 due to the sluggish recovery in Japan, which is the major trade partner to the company.

2. Other Revenue

In the second quarter of 2016, the company has indicated other revenue of THB 4.24 Million which increased from THB 3.05 Million in the first quarter of 2016, equivalent to the increase of THB 1.19 Million, majorly cause by the revenue from the other assets disposal activities.

Cost of Goods Sold

Cost of goods sold in the second quarter of 2016 presented THB 313.71 Million, equivalent to the decrease of 37.29%, comparing to THB 228.51 Million in the first quarter of 2016, due to the increase of sales. Considered the first 6 months of 2016, the cost of goods sold has been decrease THB 22.30 Million comparing to cost of goods sold presented in the first 6 months of 2015. The major reasons for the decrease is as follows,

- The reduction of unit cost due to the effective management for the quality controlling in the raw material purchased activities which derive from the change of cultivation process resulted in the enhancing of production yield.
- The decrease overhead production cost as the oil price is decrease. Besides, the overtime labor cost and electricity cost is also reduced due to the decrease of production activities.



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Selling and Administration Expenses

In the second quarter of 2016, the Company has reported the selling and administration expenses of THB 48.41 Million which increase from THB 47.65 Million as reported in the first quarter of 2016. For the first 6 months of 2016, the selling and administration expenses is slightly decrease comparing to the figures presented in the first 6 months of 2015 due to the decrease of domestic transportation expenses which lowered as the fuel price decreased.

Gross Profit Margin and Net Profit Margin

The Gross Profit Margin for the Company presented in financial statement for the second period of 2016 is 29.27% increase from 25.84% indicated in the previous quarter while the Net Profit Margin reveal 19.55% considerably increase from 12.67%. This is majorly contributed to the depreciation of exchange rate which favor the sales revenue of the company, at the same time cost of goods has been decrease due to the effective management of production and inventory costing, the reduction of selling and administration, and the sharp decrease of oil price which reduce transportation cost. However, as THB started to appreciate against USD in the second quarter of 2016, the Company has gain from exchange rate THB 1.03 Million comparing to the loss from exchange rate of THB 4.78 Million presented in the financial statements for the first quarter of 2016. This is due to the forward contract rate the Company has engage is higher than the exchange rate recorded on the selling date.

Income Tax Expenses

According to the financial statement for the second quarter of 2016, the company has income tax expenses totaling THB 16.98 Million, significantly increase from tax expenses in the first quarter of 2016 which shown THB 6.11 Million. The major reason for this increase is due increase of earnings before interest and tax from THB 86.69 Million presented in the second quarter of the year 2016 to THB 39.05 Million in the first quarter of the year 2016.

Net Profit

The Company has indicated net profit in the financial statements or the second quarter of 2016 of THB 69.72 Million Baht, significantly increase from THB 32.94 Million presented in the first quarter of 2015, equivalent to the increase of 111.63%. The Net Profit Margin has increased from 10.69% to 15.72% from previous quarter. In addition, the Net profit has increased marginally THB 20.10 Million comparing to the second quarter of 2015. The major contribution to the significant increase of net profit derive from the favorable exchange rate as THB is continuously depreciated against USD. Meanwhile, the cost of goods and selling and administration expenses is reduced from the effective management of production costing and inventory costing, and the drop of price for fuel due to oversupply globally.



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Summary Table for the Financial Performance

| | THB Million | | | Increase (Decrease) | | THB Million | | Increase (Decrease) |
|-----------------------------------------------------------------|-------------|------------|------------|------------------------|----------|------------------|------------------|------------------------|
| | Q2 2015 | Q1 2016 | Q2 2016 | % QoQ | % YoY | 6 months 2015 | 6 months 2016 | % YTD |
| Sales Revenue | 415.96 | 308.13 | 443.55 | 43.95 | 6.63 | 714.08 | 751.69 | 5.27 |
| Cost of Goods Sold | (304.05) | (228.51) | (313.71) | 37.29 | 3.18 | (564.53) | (542.23) | (3.95) |
| Gross Profit | 111.90 | 79.62 | 129.84 | 63.07 | 16.03 | 149.56 | 209.46 | 40.06 |
| Gain (loss) on exchange rate | (2.25) | (4.78) | 1.03 | 121.49 | 145.66 | 0.29 | (3.75) | (1,381.59) |
| Others Income | 4.34 | 3.05 | 4.24 | 38.99 | (2.50) | 7.13 | 7.28 | 2.18 |
| Selling and administration Expenses | (47.65) | (38.84) | (48.41) | 24.63 | 1.60 | (87.56) | (87.25) | (0.35) |
| Earnings Before Interest and Tax | 66.35 | 39.05 | 86.69 | 122.01 | 30.65 | 69.42 | 125.74 | 81.13 |
| Net Profit | 49.61 | 32.94 | 69.72 | 111.63 | 40.52 | 51.70 | 102.66 | 98.56 |
| Earnings Before Interest, Tax, Depreciation and Amortization | 84.22 | 48.35 | 99.46 | 105.70 | 18.10 | 99.74 | 147.82 | 48.20 |
| Cash Flow from Operation | 111.96 | (37.88) | 160.10 | 522.61 | 43.00 | 65.83 | 122.21 | 85.64 |
| Earnings per share (Baht) | 0.13 | 0.09 | 0.18 | | | | | |
| Book Value per share (Baht) | 3.36 | 3.63 | 3.61 | | | | | |

Key Financial Ratios

| Key Financial Ratios | Q2 2015 | Q1 2015 | Q2 2016 |
|------------------------------|------------|------------|------------|
| Current Ratio (Times) | 9.97 | 12.35 | 10.66 |
| Quick Ratio (Times) | 5.67 | 6.24 | 6.38 |
| Gross Profit Margin (%) | 26.90 | 25.84 | 29.27 |
| Operating Profit Margin (%) | 15.95 | 12.67 | 19.55 |
| Net Profit Margin (%) | 11.93 | 10.69 | 15.72 |
| Return on Equity (%) | 5.37 | 11.35 | 12.84 |
| Return on Assets (%) | 6.14 | 12.97 | 14.07 |
| Debt To Equity Ratio (Times) | 0.12 | 0.10 | 0.11 |

Company's Financial Position

Assets

The Company has total assets according to the financial statements as of 30 June 2016 of THB 1,525.57 Million comparing to THB 1,516.00 Million in the previous quarter, equivalent to the slightly increase of 0.63%. The major increase derived from the increase of trade receivables aligned with the increasing sales order. In addition, the cultivation has been delayed due to drought resulting in the increasing of cash and cash equivalent of 14.37% from the previous quarter as well as the decrease of inventory THB 123.19 Million to THB 404.00 Million, equivalent to the decrease of 23.37%.

Trade Receivables in the second quarter of the year 2016 indicated THB 140.15 Million, increase from THB 98.73 Million presented in the previous quarter, equivalent to the increase of 41.94%. The Company has policy to reserve for allowance for bad debt for the



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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 made payment within due.

Liabilities

The Company has total liabilities according to the financial statements as of 30 June 2016 of THB 150.20 Million which increase THB 16.08 Million, equivalent to the increase of 11.99%, comparing to the previous quarter. The increase is due to the payment for the suppliers regarding to the increasing activities of production and selling. Also, the Company has increasing deferred tax of THB 4.41 Million due to the increasing of taxable earnings.

As of 30 June 2016, 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 0.5 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 Million
- The Company has hire the contractor for the repair and maintenance of building and freezing machine for the amount of THB 21.10 Million

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the second quarter of 2016, the Current Ratio indicated 10.66 times and the Quick Ratio of 6.38 times, while most of the current assets are in the form of cash and cash equivalent.

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 2016 of THB 1,375.37 Million, decrease from THB 1,381.88 Million comparing to the previous quarter, equivalent to the decrease of 0.47%. The major contribution to the decrease is the inappropriate retained earnings from better financial performance which indicated THB 888.11 Million in the second quarter of 2016, comparing to THB 894.62 Million in previous quarter, equivalent to the decrease of 0.73%.

Cash flow and Capital Structure

The Company has increased net cash flow from operation THB 122.21 Million, increasing THB 56.39 Million, comparing to the second quarter of 2015 due to the increasing revenue



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from sales and the depreciation of THB against USD. In addition, the company spent totaling THB 60.00 Million on the investing activities majorly on the repair and maintenance of building and machine for THB 29.49. Furthermore, the company has indicated cash outflow of THB 25.36 Million as the deposit for land lease agreement in Myanmar.

In the second quarter of the year 2016, the Company has sufficient liquidity which evidence from the current ratio of 10.66 times, though slightly decrease from 12.35 times in the first quarter of 2016. The major assets is current assets equivalent to 75.16% of total assets. On the other hand, the Company has only 7.05% 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 2016, whereas the debt to equity ratio is slightly change to 0.11 comparing to the previous quarter.

Summary Table for Company's Financial Position

| | Value (THB Million) | | | Increase (Decrease) | | Increase (Decrease) | |
|--------------------------------|---------------------|----------|----------|---------------------|---------|---------------------|--------|
| | Q2 2015 | Q1 2016 | Q2 2016 | THB Million QoQ | % QoQ | THB Million YoY | % YoY |
| Current Assets | | | | | | | |
| Cash and short term investment | 487.70 | 477.31 | 545.88 | 68.57 | 14.37 | 58.18 | 11.93 |
| Trade Receivables | 158.40 | 136.63 | 196.77 | 60.13 | 44.01 | 38.37 | 24.23 |
| Inventory | 442.55 | 527.19 | 404.00 | (123.19) | (23.37) | (38.55) | (8.71) |
| Other current assets | 0.00 | 0.00 | 0.00 | 0.00 | - | 0.00 | - |
| Total Current Assets | 1,088.65 | 1,141.14 | 1,146.65 | 5.51 | 0.48 | 58.00 | 5.33 |
| Non-Current Assets | | | | | | | |
| Property Land and Equipment | 326.08 | 332.48 | 335.49 | 3.02 | 0.91 | 9.41 | 2.89 |
| Other Non-Current Assets | 16.59 | 42.39 | 43.43 | 1.04 | 2.45 | 26.84 | 161.84 |
| Total Non-Current Assets | 342.67 | 374.86 | 378.92 | 4.06 | 1.08 | 36.25 | 10.58 |
| Total Assets | 1,431.32 | 1,516.00 | 1,525.57 | 9.57 | 0.63 | 94.25 | 6.58 |
| Current Liabilities | 109.23 | 92.37 | 107.58 | 15.21 | 16.47 | (1.65) | (1.51) |
| Non-Current Liabilities | 41.00 | 41.74 | 42.61 | 0.87 | 2.08 | 1.61 | 3.93 |
| Total Liabilities | 150.23 | 134.12 | 150.20 | 16.08 | 11.99 | (0.04) | (0.02) |
| Shareholder's Equity | 1,281.08 | 1,381.88 | 1,375.37 | (6.51) | (0.47) | 94.29 | 7.36 |

Please be informed accordingly

Faithfully yours,

Signature

Ankoon Pholpipattanaphong

Managing Director