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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

11 November 2019

Subject: Management Discussion and Analysis for the period ended 30 September 2019

To: The President

The Stock Exchange of Thailand

Performance Overview

In the third quarter of 2019, Thailand's economy considered growth at decreasing rate affected by the global economics' stagnant growth and the intense of China-USA trade war situation has negatively pressured the export sector, indicated by the 9 months export figure from Thailand has shrink to 2.7%. Further, the private investment has decreased comparing to the same period in 2018. The overall processed agriculture sector has reported lower production activities due to the draught situation this year. In addition, Japan, the Company's major importer global economy, has been affected by the China-USA trade war and the threat from USA to impose the import tariff from automotive and auto parts industries which caused the slowdown for the private investment. However, the consumption in Japan has increased driven by the pressure of the increasing consumption from 8% to 10% in October.

The THB/USD exchange rate still fluctuated with the trend for THB to be further appreciated as foreign fund has flow into Thailand capital market result from the stability of the economic evidently from the significant surplus trade balance comparing to other countries in the region while the intense of trade war between China and USA has prolonged. In the third quarter of 2019, the exchange rate indicated by the Bank of Thailand is 30.71 THB/USD, considered appreciated against USD for 2.78% comparing to 31.59 THB/USD in the previous quarter. Furthermore, comparing to the exchange rate in the third quarter of 2018 which indicated 32.97 THB/USD, Thai Baht has strongly appreciated against USD for 6.85%

The Company has reached THB 314.86 Million of revenue from sale, considered slightly increasing THB 2.25 Million or 0.72% from THB 312.61 Million presented in the previous quarter. The slight increase derived from the modest sales volume increased, despite the appreciation of THB against USD comparing to previous quarter, as the Company has increasing domestic sales which unaffected by the exchange rate. The Net Profit indicated THB 27.45 Million, increasing from THB 8.89 Million presented in the previous quarter. The Net Profit Margin indicated 8.72%, increasing from 2.84% comparing to previous quarter. The increasing net profit comparing to the previous quarter is the result from the recognizing past service costs as extra expenses in the statement of comprehensive income of the previous period as the announcement of The Labor Protection Act (No. 7) B.E. 2562 was announced in the Royal Gazette and effective on 5 May 2019. Also, the increasing net profit has driven by the lower external cold storage charge due to the balancing inventory with the agricultural produces.



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Comparing to the third quarter of 2018, the Sales revenue has declined THB 23.64 Million, while the net profit has decrease 0.24 Million since the appreciation of THB against USD comparing year on year basis. The sales revenue therefore considered decrease 6.98%. On the other hand, the increasing cost for raw material considered yield due to draught situation and other several factors of production such as the increasing wage and benefits for labor, resulting in the decrease of Net Profit considered 0.87%

The Company has no non-recurrent transaction indicated in the financial statements for the third quarter of 2018.

During the period, 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.

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

1. Japan economic possibly slowdown from the household consumption expected to decline after boosted consumption period prior the increasing consumption tax in October. Previous increasing consumption tax in 2014 has caused technical recession for Japan economic due to vanishing demand and consumption from household. However, analyst forecasted the affect will not be severe as in 2014 due to the supporting policy from government which prepared for the increasing of consumption tax in 2019.
2. The volatility of exchange rate, which affected by the intense of trade war situation between USA and China. In case THB has further appreciated against USD, the sales revenue shall be negatively affected. Also, as JPY has also appreciated against USD, the selling price could be perceived as decreasing for importer and could put less pressure on the pricing negotiation with the customers during the next period.
3. The Comprehensive and Progressive Agreement of Trans-Pacific Partnership (CPTPP) which is the continuation of TPP by other potential member countries after USA has withdrawal, leaded by Japan, has enable the opportunity to import sweet corn from New Zealand with zero tariff. Therefore, the competition in this product has increasing. As Thailand has intend to join the CPTPP, the progress from the government will be monitored. Moreover, in September, USA and Japan have reached the trade agreement to reduce or relief import tax for some of agricultural produces from USA including sweet corn. This could bring the intense competition for the sweet corn in Japan.
4. The consequent from the US international trade policy which concern the impose of import tariff for China would create both opportunity and threat to Thailand's frozen vegetables and fruits. The incident would allow frozen vegetables and fruits from Thailand to compete in US market as the price for Chinese import product would be increased. On the other hand, Chinese frozen product vegetables and fruits possibly sold to other market instead to retains its sales volume which would offer at lower price and compete with the current market for products from Thailand.



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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 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 2018	2 nd Quarter 2019	3 rd Quarter 2019	% QoQ	% YoY	9M 2018	9M 2019	% YTD
Export Sales Revenue	334.02	299.37	295.34	(1.35)	(11.58)	926.95	857.81	(7.46)
Domestic Sales Revenue	4.48	13.24	19.52	47.43	335.86	16.09	42.73	165.49
Total Sales Revenue	338.50	312.61	314.86	0.72	(6.98)	943.05	900.54	(4.51)

In the third quarter of 2019, sales revenue indicated totaling THB 314.86 Million, of which export sales is 93.80% of total sales revenue, decreased from proportion 98.68% comparing to the previous quarter. On the other hand, the proportion of domestic sales for the third quarter of 2019 is to 6.20%, increased from 1.32% in the same quarter of 2018 which result from the expansion of sales to domestic.

Total sales revenue in the third quarter of 2019 has decreased THB 23.64 Million comparing to the third quarter of 2018 which presented THB 338.50 Million, equivalent to the decrease of 6.98%. This due to the strongly appreciation of THB against USD and the decrease of sales volume from the oversee sluggish private consumption.

2. Other Revenue

In the third quarter of 2019, the company has indicated other revenue of THB 1.94 Million which decreased from THB 2.24 Million in the second quarter of 2019, equivalent to the decrease of 13.39%, majorly cause by the revenue from the other asset disposal activities. Also, the Company has revenue from investment THB 1.06 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 2019 presented THB 260.86 Million, equivalent to the slight increase of 0.40%, comparing to THB 259.81 Million in the third quarter of 2018. The major reasons for the decrease are as follows,

- Cost for raw material considering plantation yield has increase due to the draught situation this year, also other production cost has increasing such as wages and employee benefits.



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- The overhead production cost per unit has increased as the increasing depreciation from the investment in new machines and the maintenance of old storage building and its system. However, the external cold storage charge has declining due to the balancing inventory with the agricultural produces.

Selling and Administration Expenses

In the third quarter of 2019, the Company has reported the selling and administration expenses of THB 39.20 Million which decreased from THB 40.72 Million as reported in the third quarter of 2018, equivalent to the decrease of 3.71% 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.

Gross Profit Margin and EBIT Margin

The Gross Profit Margin for the third quarter of 2019 has increased to 17.15% comparing to 11.48% indicated in the previous quarter, result from the increasing domestic sales in which unaffected from the appreciation of THB against USD. Further, the increasing EBIT margin to 10.70% comparing to 2.38% in the previous quarter is the result from the recognizing past service costs as extra expenses in the statement of comprehensive income of the previous period as the announcement of The Labor Protection Act (No. 7) B.E. 2562 was announced in the Royal Gazette and effective on 5 May 2019. In addition, the Company has higher gain on Exchange rate comparing to previous quarter due to the continuous appreciation of THB against USD.

Comparing to the third quarter of 2018, the Gross Profit Margin has declined due to the increasing raw material considering plantation yield has increase due to the draught situation this year, also other production cost has increasing such as wages and employee benefits and the increasing depreciation from the investment in new machines and the maintenance of old storage building and its system. However, the EBIT Margin has slightly increased though THB has appreciated against USD in the period and the movement is volatile, the Company has indicated gain on exchange rate in this period comparing to loss on exchange rate in the same quarter last year.

Net Profit

In the third quarter of 2019, the Company has indicated Net Profit of THB 27.45 Million, considered increasing 208.75% comparing to the previous quarter which presented THB 8.89 Million, whereas the Net Profit Margin has increased to 8.72% comparing to 2.84%. This is due to the increasing domestic sales which unaffected by the appreciation of THB against USD. Further in the second quarter of 2019, the cost of goods sold per unit is soaring due to the recognizing past service costs as extra expenses in the statement of comprehensive income of the previous period as the announcement of The Labor Protection Act (No. 7) B.E. 2562 was announced in the Royal Gazette and effective on 5 May 2019. In addition, the Company has indicated higher gain on exchange rate and lower



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selling and administration expenses from the management control on the expenses, result in the increasing net profit in this quarter.

Comparing to the third quarter of 2018, the Net Profit has slightly dropped 0.87% since the strong appreciation of THB against USD and the decreased of sales volume, while the cost of production has substantially increased such raw material cost considered plantation yield in drought situation, the increasing wages and employee benefits, the increasing depreciation from the investment in new machines and the repair and maintenance of cold storage building and systems. However, the Company has increasing gain on exchange rate comparing to loss on exchange rate in the third quarter of 2018. Consequently, the Net Profit Margin has increased to 8.72%, comparing to 8.18%.

Summary Table for the Financial Performance

	Value (THB Million)			Increase (decrease)		Value (THB Million)		Increase (decrease)
	3 rd Quarter 2018	2 nd Quarter 2019	3 rd Quarter 2019	% QoQ	% YoY	9M 2018	9M 2019	% YTD
Sales Revenue	338.50	312.61	314.86	0.72	(6.98)	943.05	900.54	(4.51)
Cost of Goods Sold	259.81	276.72	260.86	(5.73)	0.40	757.12	788.12	4.10
Gross Profit	78.69	35.89	54.00	50.44	(31.38)	185.93	112.41	(39.54)
Gain (Loss) from Exchange Rate	(6.45)	8.67	15.91	83.44	346.53	26.22	27.08	3.30
Revenue from Investment	2.36	3.40	2.99	(12.06)	26.69	14.20	9.46	(33.31)
Other Revenue	40.72	40.54	39.20	(3.30)	(3.71)	119.30	117.02	(1.91)
Selling and Administration Expenses	33.88	7.43	33.70	353.70	(0.54)	107.04	31.94	(70.17)
Earnings Before Interest and Tax	27.69	8.89	27.45	208.75	(0.87)	87.16	27.00	(69.02)
Net Profit (Loss)	46.04	19.77	43.32	119.09	(5.90)	143.44	67.69	(52.81)
Earnings Before Interest, Tax, Depreciation and Amortization	(76.00)	69.74	57.92	(16.94)	(176.21)	(137.54)	137.11	199.69
Cash Flow from Operation	0.07	0.02	0.07					
Earnings per share (Baht)	3.82	3.62	3.69					

Key Financial Ratios

Key Financial Ratios	3 rd Quarter 2018	2 nd Quarter 2019	3 rd Quarter 2019
Current Ratio (Times)	11.02	13.32	15.77
Quick Ratio (Times)	4.28	5.88	7.31
Gross Profit Margin (%)	23.25	11.48	17.15
EBIT Margin (%)	10.01	2.38	10.70
Net Profit Margin (%)	8.18	2.84	8.72
Return on Equity (%)	6.58	2.71	2.64
Return on Assets (%)	5.99	2.86	2.82
Debt To Equity Ratio (Times)	0.10	0.10	0.09



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Company's Financial Position

Assets

The Company has total assets according to the financial statements as of 30 September 2019 of THB 1,539.04 Million comparing to THB 1,522.20 Million in the previous quarter, equivalent to the slightly increase of 1.11%. The major increase is from the increase of cash and cash equivalent from higher sales revenue of THB 43.34 Million or the increasing of 15.11% while the inventory has decreased THB 14.69 Million or 2.68%.

Trade Receivables in the third quarter of the year 2019 indicated THB 129.89 Million, decrease from THB 135.17 Million presented in the previous quarter, equivalent to the decrease of 3.90% as the increased sales and the declined of inventory. 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 2019 of THB 131.70 Million which decrease THB 10.62 Million, equivalent to the decrease of 7.46%, comparing to the previous quarter. The major reason for the decreased is the trade payable and other payable, which decreased to THB 53.14 Million, comparing to THB 69.18 Million in the previous quarter.

As of 30 September 2019, 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 1.0 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 10.1 Million
- The Company has capital expenditure in respect of the repairing of the plant amounting of THB 25.8 Million

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the third quarter of 2019, the Current Ratio indicated 15.77 times and the Quick Ratio of 7.31 times, while most of the assets are in the form of 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 2019 of THB 1,407.34 Million, increase from THB 1,379.88 Million comparing to the previous quarter, equivalent to the increase of 1.99%. The major contribution to the increase is the inappropriate retained earnings which indicated THB 920.08 Million in the third quarter of 2019, comparing to THB 892.62 Million in previous quarter, equivalent to the increase of 3.08%.

Cash flow and Capital Structure

The Company has net cash received in operating activities as of 30 September 2019 of THB 137.11 Million, increased from net cash paid in operating activities THB 137.54 Million stated in same period last year. Despite the net profit that declined, the company has balancing the plantation crop this year and excess inventory from the unexpected high plantation yield in the previous period, therefore less cash has been used in plantation. Further, the Company has net cash used investing activities of THB 96.81 Million. In this regard, the Company has spent its short-term investment and the acquisition of building and equipment THB 63.85 Million. The Company has net cash used in financing activities of THB 43.03 Million, majorly to paid dividend to shareholders.

In the third quarter of the year 2019, the Company has sufficient liquidity which evidence from the current ratio of 15.77 times, increase from 13.32 times in previous quarter. The major assets are current assets equivalent to 66.20% of total assets. On the other hand, the Company has only 4.20% of current liabilities which mostly consists of trade payable. There is no outstanding borrowing from the financial institution.

The Company has not engage in any long term borrowing during the third quarter of 2019, whereas the debt to equity ratio slightly decrease to 0.09 times comparing to 0.10 times indicated in the previous quarter.



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	Value (THB Million)			Increase (decrease)		Increase (decrease)	
	3 rd Quarter 2018	2 nd Quarter 2019	3 rd Quarter 2019	THB Million QoQ	% QoQ	THB Million YoY	% YoY
Current Assets							
Cash and short term investment	298.42	286.83	330.17	43.34	15.11	31.75	10.64
Trade Receivables	182.81	156.77	142.24	(14.54)	(9.27)	(40.57)	(22.19)
Short-Term Loan	0.00	13.60	13.60	0.00	0.00	13.60	-
Inventory	653.60	547.55	532.85	(14.69)	(2.68)	(120.75)	(18.47)
Total Current Assets	1,134.83	1,004.75	1,018.86	14.11	1.40	(115.97)	(10.22)
Non-Current Assets							
Property Land and Equipment	365.06	407.05	410.28	3.23	0.79	45.22	12.39
Other Non-Current Assets	106.53	110.40	109.89	(0.50)	(0.46)	3.36	3.16
Total Non-Current Assets	471.60	517.45	520.18	2.73	0.53	48.58	10.30
Total Assets	1,606.42	1,522.20	1,539.04	16.84	1.11	(67.39)	(4.19)
Current Liabilities	102.99	75.45	64.63	(10.82)	(14.34)	(38.36)	(37.25)
Non-Current Liabilities	48.71	66.87	67.07	0.20	0.30	18.36	37.69
Total Liabilities	151.70	142.32	131.70	(10.62)	(7.46)	(20.01)	(13.19)
Shareholder's Equity	1,454.72	1,379.88	1,407.34	27.46	1.99	(47.38)	(3.26)

Please be informed accordingly

Faithfully yours,

- Signature -

Ankoon Pholpipattanaphong

Managing Director