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บริษัท เชียงใหม่ฟรอสเซนฟู๊ดส์ 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

29 February 2016

Subject: Management Discussion and Analysis for the year ended 31 December 2015

To: The President

The Stock Exchange of Thailand

Performance Overview

The overall of Thailand's economy in 2015 considered sluggish recovery according to the slowdown of global economy. Though there are increasing forecasted GDP in Japan, the key business trading partner to the company, but the overall Japan's economy also considered fragile and sensitive, supported by the shrinkage of the domestic consumption from retail in Japan and the consecutively negative inflation. However, the volatile of exchange rate during 2015 especially the continuously depreciation of Thai Baht (THB) against U.S. Dollar (USD) have positively affected to all the exporter, include the company. According to the financial statements of the company, sales revenue has slightly increased from THB 1,413.56 Million which presented in 2014 to THB 1,419.89 Million, equivalent to the increase of 0.45% On the other hand, the depreciation of THB against USD might also deteriorate the competitiveness of the company as the import price perceived as increasing. The evidence of such cause has affected the sales volume which decrease from 22,778.44 Ton presented in 2014 to 21,873.14 Ton in 2015, equivalent to the decrease sales volume of 3.97%. Nonetheless, due to the effective management for costing to reflect the realistic production activities and the globally oversupply of fossil fuel which continuously drive the oil price down during the year, the company's consolidated financial statement has indicate the net profit THB 119.56 Million in the year 2015, equivalent to the significant increase of 97.86% considering previous year performance of THB 60.43 Million, while the gross profit margin and net profit margin in 2015 displayed 24.24% and 8.42% respectively which increase from 19.29% and 4.27% previously shown in 2014.

The financial performance has significantly change more than 20%, whereby the net profit has increased 97.86% comparing to the previous year. The major contribution for such change is the continuous depreciation of THB against USD during 2015 comparing to 2014 which the average exchange rate for THB/USD is 34.46 and 32.48 respectively. Therefore, the sales revenue has increase despite the quantity sold has been decreased. In addition, the quantity of product produced has been decreased, the effective production cost management, and the slump of global oil price in the year 2015, and these factors greatly contribute to reduce cost of goods sold and selling and administration expenses for 5.71% and 7.43% respectively. Finally, the net profit has greatly increased.



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The company has restructure its business structure and subsidiary for the purpose of reducing cost and increase the effectiveness in management. The resolution of the Board of Director's meeting No. 6/2015 held on 13 November 2015 has resolve to terminate the subsidiary which is Agrifood Processing Company Limited ("AFP") which the company held 100% shares, the registered capital of THB 120 Million and the paid up capital of THB 30 Million. In this regards, AFP has stop its business operation since 1 January 2015 due to the company has stop trading activities with AFP. Currently AFP is under the process of liquidation with the Department of Business Development, the Ministry of Commerce.

The Company has non-recurrent transaction indicated in the financial statements for the year 2014 and 2015 as follows

2014

- The company has selling and administration expenses of THB 9.4 Million Baht recorded in the consolidated financial statement and separate financial statement which are the payment for input tax that unable to claim, penalty fee, and interest.

2015

- The company has dividend from the subsidiary of THB 16.80 Million indicated in the separate financial statement which derive from the AFP which currently on the liquidation process.
- The company has profit from the liquidation of subsidiary which is AFP of THB 7.83 Million indicated in the separate financial statement.

During the year, the company has not change 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 2016, the persisting slowdown of global economy and the sluggish recovery of Japan, as an important trading partner, might still remain effect which would cause the stagnant investment, slowdown of trading, and the decrease of commodity pricing. Moreover, the serious draught would negatively affected to agricultural sector in terms of shortage of produces and the inferior quality of 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, 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 consolidated financial statement categorized by the geographic is as follows,

Sales Revenue	Value (THB Million)			Increase (decrease) %		
	2013	2014	2015	2013	2014	2015
Export Sales Revenue	1,401.61	1,401.70	1,401.40	(0.04)	0.09	(0.02)
Domestic Sales Revenue	15.89	11.86	18.49	(28.84)	(25.36)	55.90
Total Sales Revenue	1,426.50	1,413.56	1,419.89	(4.36)	(0.91)	0.45

In 2015, sales revenue indicated totaling THB 1,419.89 Million, of which domestic sales proportion is 1.32% of total sales revenue, increasing from proportion 0.85% comparing to 2014. During this year, the company has cease the operation of subsidiary, AFP, and directly sell its products to subsidiary customers which mostly located oversea instead. In this regards, the proportion of export sales for the year 2015 is to 98.69%, slightly decreased from 99.16% in 2014.

Total sales revenue in 2015 totaling THB 1,419.89 Million increasing from THB 1,413.56 Million in 2014, equivalent to the slightly increase of 0.45%. This due to the continuously depreciation of THB against USD which the average exchange rate in 2015 is 34.26 THB/USD comparing to average exchange rate of 32.48 THB/USD, equivalent to the depreciation of 1.78%. However, the sales volume has been decrease due to the shrinkage of demand from retails and the sluggish recovery in Japan, which is the major trade partner to the company.

2. Other Revenue

In 2015, the company and subsidiary has indicated other revenue of THB 12.30 Million which decreased from THB 19.79 Million in 2014, equivalent to the decrease of 37.81%, majorly from the decrease of revenue from interest as the interest rate for saving is decrease.

Cost of Goods Sold

Cost of goods sold in 2015 presented THB 1,075.89 Million, equivalent to the decrease of 5.71%, comparing to THB 1,140 Million in 2014. The major reasons for the decrease is as follows,

- The decrease of cost of raw material in 2015 comparing to 2014 due to the decrease of sales volume and the effective management for the quality controlling for the raw material purchased which derive from the change of cultivation process which



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generally increase the production yield. Also, the adjusting for the costing policy to better reflect the production and inventory costing.

- The decrease overhead production cost as the oil price is sharply decrease throughout 2015 according to the global oversupply situation. The average fuel oil price in 2014 is THB 27.61 per litre while reveal THB 20.91 per litre in 2015. Besides, the overtime labor cost and electricity cost is also reduce due to the decrease of production activities.

Selling and Administration Expenses

In 2015, the Company and subsidiary has reported the selling and administration expenses of THB 177.90 Million which reduce from THB 192.33 Million as reported in 2014, equivalent to the decrease of 7.43% which derive from the following factors,

- The domestic transportation expenses is reduce due to the drop of fuel price and the production activities.
- The export expenses which is the cost for the transportation of finished goods to be delivered at domestic sea port and the custom fee, is reduce due to less volume export.
- The decrease of penalty fee from the claim of input tax which the company is prohibited. The transaction is occurred in 2014 and considered non-recurrent transaction.

Gross Profit Margin and Net Profit Margin

The Gross Profit Margin for the Company and subsidiary presented in the consolidated financial statement for the year ended 31 December 2015 is 24.24% increase from 19.29% indicated in previous year, while the Net Profit Margin reveal 10.68% significantly increase from 4.99% comparing to 2014. This is majorly contribute 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 less production activities, 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, the depreciation of THB against USD also post the effect to the company where there is loss from exchange rate THB 26.78 Million which slightly decrease from 2014 as presented THB 29.63 Million.

Income Tax Expenses

According to the consolidated financial statement for the year 2015, the company and subsidiary has income tax expenses totaling THB 32.07 Million, significantly increase from tax expenses in 2014 which shown THB 10.07 Million. The major reason for this increase is due to the expiration of Investment Promotion from the Board of Investment (BOI) which its tax incentive is the exemption of corporate income tax for eight years from the granted date and 50% reduction of corporate income tax for five years after the first eight year is ended. The tax incentive for the company from the investment promotion has



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ended on 31 December 2014, in which the company is subject to the normal corporate income tax rate of 20%.

Net Profit

The Company and its subsidiary has indicated net profit in the consolidated financial statements in 2015 of THB 119.56 Million Baht, significantly increase from THB 60.43 Million presented in 2014, equivalent to the increase of 97.86%. The major contribution to the significant increase of net profit derive from the favorable exchange rate as THB is continuously depreciated against USD, with the exchange rate range fluctuated between 32.51-36.01 THB/USD. Meanwhile, the cost of goods and selling and administration expenses is reduce from less quantity produce and sold, the effective management of production costing and inventory costing, and the drop of price for fuel due to oversupply globally.

Summary Table for the Financial Performance

Financial Highlight	Value (THB Million)			Increase (decrease) %		
	2013	2014	2013	2014	2013	2014
Sales Revenue	1,426.50	1,413.56	1,419.89	(4.36)	(0.91)	0.45
Cost of Goods Sold	1,112.92	1,140.89	1,075.74	0.19	2.51	(5.71)
Gross Profit	313.58	272.67	344.15	(17.64)	(13.05)	26.16
Selling and administration Expenses	193.70	192.34	178.05	(3.93)	(0.70)	(7.50)
Earnings Before Interest and Tax	156.72	70.49	151.63	(24.81)	(55.02)	115.10
Net Profit	135.82	60.43	119.56	(22.27)	(55.51)	97.86
Earnings Before Interest, Tax, Depreciation and Amortization	216.41	130.77	202.47	(19.90)	(39.75)	54.83
Cash Flow From Operation	180.95	29.95	186.19	(21.73)	(83.45)	521.67
Earnings per share (Baht)	0.36	0.16	0.31			
Book Value per share (Baht)	3.48	3.33	3.54			

Key Financial Ratios

Key Financial Ratios	2013	2014	2015
Current Ratio (Times)	11.68	12.90	11.61
Quick Ratio (Times)	7.37	7.07	6.47
Gross Profit Margin (%)	21.98	19.29	24.24
Operating Profit Margin (%)	10.99	4.99	10.68
Net Profit Margin (%)	9.52	4.27	8.42
Return on Equity (%)	10.35	4.66	9.14
Return on Assets (%)	9.38	4.25	8.32
Debt To Equity Ratio (Times)	0.10	0.09	0.10



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Company's Financial Position

Assets

The Company and subsidiary has total assets according to the consolidated financial statements as of 31 December 2015 of THB 1,488.60 Million comparing to THB 1,387.03 Million in the previous year, equivalent to the increase of 7.32%. The major increase are from the increase of cash and cash equivalent and short term investment in the forms of cash in fix saving account altogether presented THB 559.79 Million in 2015 comparing to THB 468.88 Million in 2014, equivalent to the increase of 19.39%. The increase net cash flow from operation derive from increase sales revenue and decrease of expenses has contributed to such increase of cash.

Trade Receivables in 2015 indicated THB 78.78 Million, decrease from THB 91.58 Million presented in 2014, of which THB 72.06 Million is receivable that not yet due for payment, equivalent to 98.82% of total receivables in 2015. 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 2015, most of the client able to made payment within due.

Liabilities

The Company and subsidiary has total liabilities according to the consolidated financial statements as of 31 December 2015 of THB 139.68 Million which increasing from THB 119.53 Million Baht in 2014, equivalent to the increase of 16.85%. The major contribution for such increase derived from the deferred tax liabilities which increase from THB 1.66 Million in 2014 to THB 13.00 Million in 2015, as the tax incentive from the investment promotion (BOI) has been expired since 31 December 2014. Since then, the company is subjected to the normal corporate tax rate of 20%

As of 31 December 2015, the Company and subsidiary 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 1.2 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



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- The Company has hire the contractor for the repair and maintenance of building and freezing machine for the amount of THB 35.82 Million

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In 2015, the Current Ratio indicated 11.61 times and the Quick Ratio of 6.47 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 and subsidiary.

Shareholder's Equity

Shareholder's equity for the company presented in the consolidated financial statement for the year ended 31 December 2015 of THB 1,348.94 Million, increase from THB 1,267.50 Million comparing to 2014, equivalent to the increase of 6.43%. The major contribution to the increase is the inappropriate retained earnings from better financial performance and net cash flow from operation which indicated THB 861.68 Million in 2015, comparing to THB 780.24 Million in 2014, equivalent to the increase of 10.44%.

Cash flow and Capital Structure

The Company and subsidiary has net cash flow from operation in 2015 at THB 186.19 Million, comparing to THB 29.95 Million. The increase majorly from the increase of net profit from the favorable of exchange rate. The company spent totaling THB 25.71 Million on the repair and maintenance of building and machine, also THB 0.92 Million spending on the computer program. The company also paid dividend for the las year totaling THB 38.08 Million.

In 2015, the Company has sufficient liquidity which evidence from the current ratio of 11.61 times, though slightly decrease from 12.90 times in 2014. The major assets is current assets equivalent to 76.98% of total assets. On the other hand, the Company has only 6.63% of current liabilities which mostly consists of trade payable. There is no outstanding borrowing from the financial institution.

The Company and subsidiary has not engage in any long term borrowing during 2015, whereas the debt to equity ratio is insignificant slightly change from 0.09 to 0.10



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Summary Table for Company's Financial Position

	Value (THB Million)			Increase (Decrease) %			% of Total Assets		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
Current Assets									
Cash and short term investment	581.93	468.88	559.79	3.94	(19.43)	19.39	40.02	33.80	37.60
Inventory	339.47	436.67	451.87	(4.86)	28.63	3.48	23.35	31.48	30.36
Other current assets	135.64	116.41	134.35	19.97	(14.17)	15.41	9.33	8.39	9.02
Total Current Assets	1,057.04	1,021.96	1,146.01	2.65	(3.32)	12.14	72.69	73.68	76.98
Non-Current Assets									
Property Land and Equipment	367.99	347.23	328.03	(3.49)	(5.64)	(5.53)	25.31	25.03	22.04
Other Non-Current Assets	29.11	17.84	14.59	(5.29)	(38.74)	(18.22)	2.00	1.29	0.98
Total Non-Current Assets	397.11	365.07	342.62	(3.62)	(8.07)	(6.15)	27.31	26.32	23.02
Total Assets	1,454.15	1,387.03	1,488.62	0.86	(4.62)	7.32	100.00	100.00	100.00
Current Liabilities	92.02	79.23	98.74	(18.93)	(13.90)	24.63	6.33	5.71	6.63
Non-Current Liabilities	35.30	40.30	40.93	19.31	14.17	1.57	2.43	2.91	2.75
Total Liabilities	127.32	119.53	139.68	(11.02)	(6.11)	16.85	8.76	8.62	9.38
Shareholder's Equity	1,326.83	1,267.50	1,348.94	2.17	(4.47)	6.43	91.24	91.38	90.62

Signed  Managing Director

(Mr. Ankoon Pholpipattanaphong)

