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บริษัท เชียงใหม่ฟรอสเซนฟู๊ดส์ จำกัด (มหาชน)

149/34 ซอยมองโกลพลาซ่า 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

24 February 2017

Subject: Management Discussion and Analysis for the year 2016

To: The President

The Stock Exchange of Thailand

Performance Overview

The overall of Thailand's economy in the year 2016 considered in the recover stage with increasing risks concerning the recovery of global economic amidst the uncertainty of political and economic policy of USA, the difficulties concerning the Brexit which could slow down the EU's economic, and the possible risk of financial crisis in EU and China. However, Japan economic, which is our vital trading partner, has been expected the slight increase in GDP from the economic stimulus applied since August 2016 after Japanese Yen has continuously appreciated from the beginning of 2016. However, the volatile of exchange rate during 2016 especially the continuously depreciation of Thai Baht (THB) against U.S. Dollar (USD) have positively affected to all the exporter, include the company. The average exchange rate for the year 2015 revealed in the Bank of Thailand indicated 34.25 THB/USD, comparing to 35.29 THB/USD in 2016. This has directly affected the Company's revenue in which products majorly sold in USD, considered approximately 98% of the total revenue. Therefore, the sales revenue reveals in the financial statement for the year 2016 of THB 1,465.50 Million, increasing of 3.21% comparing to THB 1,419.89 Million indicated in 2015. However, the depreciation of THB against USD might also deteriorate the competitiveness of the company as the import price perceived as increasing. Also, total sales volume of 2016 presented 22,509 Tons, which increased 2.91% comparing to 21,873 Tons in previous year. 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 196.38 Million in the year 2016, equivalent to the significant increase of 64.25% considering previous year performance of THB 119.56 Million, while the gross profit margin and net profit margin in 2016 displayed 27.52% and 13.40% respectively which increase from 24.24% and 8.42% previously shown in 2015

In this year, the sales volume has increased comparing to previous year. However, the financial performance has significantly change more than 20%, whereby the net profit has increased 64.25% comparing to the previous year. The major contribution for such change is the continuous depreciation of THB against USD during 2016 comparing to 2015 which result in the increasing of revenue. In addition, the effective production cost management from the superior quality of agricultural products harvested in previous season, and the slump of global oil price in the year 2016, also the decreasing overhead cost from the limited production hour due to the severe drought in the year, these factors greatly



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contribute to reduce cost of goods for 1.26%. Therefore, the net profit for the Company is increased.

The company has restructured its business structure and subsidiary purposely to reduce 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. On 21 December 2015, AFP is registered the dissolve with the Department of Business Development, the Ministry of Commerce, and the process of liquidation has been completed on 27 December 2016.

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 USD 1.43 million. The lease period is 50 years and the 2 extensions offering right considered 10 years for each extension. The Company shall arrange the deposit for 50% of total lease value, considering USD 0.71 million (equivalent to THB 25.36 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.

On 26 April 2016, the annual meeting of shareholders for the year 2016 has resolved to approve the decrease of registered capital from THB 381,146,251 to THB 381,145,725 to be align with the registered and paid-up capital. The company has completed the reduction of the registered of capital and registered with the Ministry of Commerce on 1 July 2016.

The Company has non-recurrent transaction indicated in the financial statements for the year 2015 and 2016 as follows

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 registered the dissolve on 21 December 2015 and the liquidation has been completed on 27 December 2016.
- The company has profit from the liquidation of subsidiary which is AFP of THB 7.83 Million indicated in the separate financial statement.



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2016

- The company has engaged in pre-deposit agreement to lease the land in Myanmar as the part of investment project to construct the factory for frozen products. The lease value for 50 years considered USD 1.43 Million. The Company has made deposit of 50% of lease value equivalent to USD 0.71 Million, consider THB 25.36 Million.

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 2017, the global economic expected to slowly recover amidst the uncertainty of economic and financial system driven by the direction and policy of USA after the president election, the Brexit which considered negative effect to the recovery of EU, and the fear of possible financial crisis in EU and China. However, Japan is expected to grow from the government's stimulus expected to be effective to the economic system after applied in August 2016. The agricultural sector of Thailand is also expected to recovery after the severe drought during the mid-year. The oil price tended to stable and positively increase after continuous slump for the past few years. Moreover, the withdrawal of USA from the Trans-Pacific Partnership possibly allows the Company the greater opportunity for the business competition in Japan market. 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.

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 financial statement categorized by the geographic is as follows,

| Sales Revenue | Value (THB Million) | | | Increase (decrease) % | | |
|------------------------|---------------------|----------|----------|-----------------------|--------|-------|
| | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 |
| Export Sales Revenue | 1,401.70 | 1,401.40 | 1,434.39 | 0.09 | (0.02) | 2.35 |
| Domestic Sales Revenue | 11.86 | 18.49 | 31.11 | (25.36) | 55.90 | 68.25 |
| Total Sales Revenue | 1,413.56 | 1,419.89 | 1,465.50 | (0.91) | 0.45 | 3.21 |



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In 2016, sales revenue indicated totaling THB 1,465.50 Million, of which domestic sales proportion is 2.12% of total sales revenue, increasing from proportion 1.30% comparing to 2015, and the proportion of export sales for the year 2016 is to 97.88%, slightly decreased from 98.70% in 2015.

Total sales revenue in 2016 totaling THB 1,465.50 Million increasing from THB 1,419.89 Million in 2015, equivalent to the increase of 3.21%. This due to the continuously depreciation of THB against USD which the average exchange rate in 2016 is 35.29 THB/USD comparing to average exchange rate of 34.25 THB/USD, equivalent to the depreciation of 3.04%. In addition, the sales volume has been increase comparing to the previous year due to the increasing demand from customers.

2. Other Revenue

In 2016, the company has indicated other revenue of THB 13.48 Million which increased from THB 12.30 Million in 2015, equivalent to the increase of 9.52%.

Cost of Goods Sold

Cost of goods sold in 2016 presented THB 1,062.17 Million, equivalent to the decrease of 1.26%, comparing to THB 1,075.74 Million in 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 enhancing of production yield, and the adjusting effect of production cost to be more realistically reflect the production activities. However, the cost of goods sold possibly increased this year due to the low quality and quantity of agriculture produces cultivated during seriously drought season.
- The decrease overhead production cost as the global oil price is decrease. The average fuel oil price in 2016 is THB 19.38 per litre while reveal THB 20.91 per litre in 2015. Besides, the overtime labor cost and electricity cost is also reduced due to the decrease of production activities.

Selling and Administration Expenses

In 2016, the Company has reported the selling and administration expenses of THB 181.28 Million which slightly increase from THB 178.05 Million as reported in 2015, equivalent to the increase of 1.81% which derive from the following factors,

- The domestic transportation expenses is increase due to the increasing sales volume
- 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 increase due to the increasing sales volume



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Gross Profit Margin and Net Profit Margin

The Gross Profit Margin for the Company presented in the financial statement for the year ended 31 December 2016 is 27.52% increase from 24.24% indicated in previous year, while the Net Profit Margin reveal 16.64% significantly increase from 10.68% comparing to 2015. This is majorly contributed to the depreciation of exchange rate which favor the sales revenue of the company, while the sales volume is increased. At the same time, cost of goods has been decrease due to the effective management of production and inventory costing, the decrease of production activities also decrease the overhead production cost, and the continuously drop of fuel oil price. However, the selling and administration expenses has increased due to the increase sales volume and activities for the year.

Net Profit

The Company has indicated net profit in the financial statements in 2016 of THB 196.38 Million, significantly increase from THB 119.56 Million presented in 2015, equivalent to the increase of 64.25%. 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 average quarterly exchange rate range fluctuated between 34.88–35.66 THB/USD. Also, the cost of goods has been decreased due to the effective management of production costing and inventory costing. and the drop of price for fuel due to oversupply globally. Although, the selling and administration expenses is increase from increasing of sales volume.

Summary Table for the Financial Performance

| Financial Highlight | Value (THB Million) | | | Increase (decrease) % | | |
|--|---------------------|----------|----------|-----------------------|---------|--------|
| | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 |
| Sales Revenue | 1,413.56 | 1,419.89 | 1,465.50 | (0.91) | 0.45 | 3.21 |
| Cost of Goods Sold | 1,140.89 | 1,075.74 | 1,062.17 | 2.51 | (5.71) | 1.26 |
| Gross Profit | 272.67 | 344.15 | 403.33 | (13.05) | 26.21 | 17.20 |
| Gain on Exchange Rate | (29.63) | (26.78) | 8.32 | (267.26) | 9.63 | 131.06 |
| Other Revenue | 19.79 | 12.30 | 13.48 | 3.50 | (37.81) | 9.52 |
| Operating Profit | 262.83 | 329.68 | 425.13 | (25.00) | 25.44 | 28.95 |
| Selling and administration Expenses | 192.33 | 178.05 | 181.28 | (0.70) | (7.43) | 1.81 |
| Earnings Before Interest and Tax | 70.49 | 151.63 | 243.85 | (55.02) | 115.10 | 60.82 |
| Net Profit | 60.43 | 119.56 | 196.38 | (65.28) | 97.86 | 64.25 |
| Earnings Before Interest, Tax, Depreciation and Amortization | 130.77 | 202.47 | 283.10 | (39.57) | 54.83 | 39.82 |
| Cash Flow From Operation | 29.95 | 186.20 | 339.02 | (83.45) | 521.63 | 82.07 |
| Earnings per share (Baht) | 0.16 | 0.31 | 0.52 | | | |
| Book Value per share (Baht) | 3.33 | 3.54 | 3.85 | | | |



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Key Financial Ratios

| Key Financial Ratios | 2014 | 2015 | 2016 |
|------------------------------|-------|-------|-------|
| Current Ratio (Times) | 12.90 | 11.61 | 11.78 |
| Quick Ratio (Times) | 7.07 | 6.47 | 7.98 |
| Gross Profit Margin (%) | 19.29 | 24.24 | 27.52 |
| Operating Profit Margin (%) | 4.99 | 10.68 | 16.64 |
| Net Profit Margin (%) | 4.27 | 8.42 | 13.40 |
| Return on Equity (%) | 4.66 | 9.14 | 13.94 |
| Return on Assets (%) | 4.25 | 8.32 | 12.64 |
| Debt To Equity Ratio (Times) | 0.09 | 0.10 | 0.10 |

Company's Financial Position

Assets

The Company has total assets according to the financial statements as of 31 December 2016 of THB 1,617.52 Million comparing to THB 1,488.62 Million in the previous year, equivalent to the increase of 8.66%. The major increase is from the increase of cash and cash equivalent and short term investment in the forms of cash in fix saving account altogether presented THB 755.81 Million in 2016 comparing to THB 559.79 Million in 2015, equivalent to the increase of 35.02%. The increase net cash flow from operation derive from increase sales revenue has contributed to such increase of cash.

Trade Receivables in 2016 indicated THB 69.96 Million, decrease from THB 78.78 Million presented in 2015, of which THB 62.82 Million is receivable that not yet due for payment, equivalent to 94.76% of total receivables in 2016. 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 2016, most of the client able to made payment within due.

Liabilities

The Company has total liabilities according to the financial statements as of 31 December 2016 of THB 148.43 Million which increase from THB 139.68 Million, equivalent to the increase of 6.26%, comparing to the previous year. This is due to the increase of defer tax liabilities which increase from THB 13.00 Million in 2015, to THB 25.45 Million in 2016 as the Company has increasing sales revenue and Earnings before interest and tax.

As of 31 December 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



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- 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 11.0 Million
- The Company has hire the contractor for the repair and maintenance of building and freezing machine for the amount of THB 15.80 Million

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the year 2016, the Current Ratio indicated 11.78 times and the Quick Ratio of 7.98 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 31 December 2016 of THB 1,469.09 Million, increase from THB 1,348.94 Million comparing to the previous year, equivalent to the increase of 8.91%. The major contribution to the increase is the inappropriate retained earnings from better financial performance which indicated THB 981.83 Million in 2016, comparing to THB 861.68 Million in 2015, equivalent to the increase of 13.94%.

Cash flow and Capital Structure

The Company has increased net cash flow from operation THB 338.39 Million, comparing to THB 186.20 Million indicated in 2015 due to the increasing revenue from sales and the depreciation of THB against USD, while the sales volume has increase. In addition, the company spent totaling THB 25.36 Million as deposit for the lease agreement as the part of investment plan in Myanmar, THB 72.11 Million on the investing activities majorly on the repair and maintenance of building and machine, THB 1.39 Million on the purchase of computer software, and THB 76.64 Million as the dividend payment in the year 2016.

In the 2016, the Company has sufficient liquidity which evidence from the current ratio of 11.78 times, increase from 11.61 times in 2015. The major assets are current assets equivalent to 75.37% of total assets. On the other hand, the Company has only 6.40% 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 year 2016, whereas the debt to equity ratio is remain at 0.10 comparing both year.



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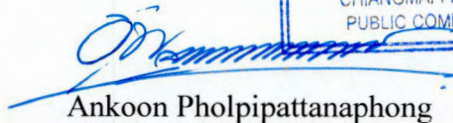
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Summary Table for Company's Financial Position

| | Value (THB Million) | | | Increase (Decrease) % | | | % of Total Assets | | |
|---------------------------------|---------------------|-----------------|-----------------|-----------------------|---------------|--------------|-------------------|---------------|---------------|
| | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 | 2014 | 2015 | 2016 |
| Current Assets | | | | | | | | | |
| Cash and short term investment | 468.88 | 559.79 | 755.81 | (19.43) | 19.39 | 35.02 | 33.80 | 37.60 | 46.73 |
| Inventory | 116.41 | 134.35 | 118.24 | (14.17) | 15.41 | (11.99) | 8.39 | 9.02 | 7.31 |
| Other current assets | 436.67 | 451.87 | 345.07 | 28.63 | 3.48 | (23.64) | 31.48 | 30.36 | 21.33 |
| Total Current Assets | 1,021.96 | 1,146.01 | 1,219.12 | (3.32) | 12.14 | 6.38 | 73.68 | 76.98 | 75.37 |
| Non-Current Assets | | | | | | | | | |
| Property Land and Equipment | 347.23 | 305.90 | 330.29 | (5.64) | (11.90) | 7.97 | 25.03 | 20.55 | 20.42 |
| Other Non-Current Assets | 17.84 | 36.72 | 68.10 | (38.74) | 105.85 | 85.48 | 1.29 | 2.47 | 4.21 |
| Total Non-Current Assets | 365.07 | 342.62 | 398.39 | (8.07) | (6.15) | 16.28 | 26.32 | 23.02 | 24.63 |
| Total Assets | 1,387.03 | 1,488.62 | 1,617.52 | (4.62) | 7.32 | 8.66 | 100.00 | 100.00 | 100.00 |
| Current Liabilities | 79.23 | 98.74 | 103.52 | (13.90) | 24.63 | 4.83 | 5.71 | 6.63 | 6.40 |
| Non-Current Liabilities | 40.30 | 40.93 | 44.91 | 14.17 | 1.57 | 9.71 | 2.91 | 2.75 | 2.78 |
| Total Liabilities | 119.53 | 139.68 | 148.43 | (6.11) | 16.85 | 6.26 | 8.62 | 9.38 | 9.18 |
| Shareholder's Equity | 1,267.50 | 1,348.94 | 1,469.09 | (4.47) | 6.43 | 8.91 | 91.38 | 90.62 | 90.82 |

Please be informed accordingly

Faithfully yours,


Ankoon Pholpipattanaphong

Managing Director

