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บริษัท เชียงใหม่ฟรอสเซนฟู้ดส์ 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 May 2018

Subject: Management Discussion and Analysis for the period ended 31 March 2018

To: The President

The Stock Exchange of Thailand

Performance Overview

The overall of Thailand's economy in first quarter of 2018 considered slightly recovered as the global consumption started to increase and the improve sentiment for investment since the supporting economic stimulus globally. However, export sector has confronted increasing risk from the appreciation of THB against major currencies, reflected from the Real Effective Exchange Rate (REER) which increased for 5% since the beginning of 2017. The appreciation of THB majorly affected agricultural produces as commodities can be substitute. Therefore, agricultural sector has increasing business risk comparing to other sector. Moreover, USA has initiated the trade barrier policy in selected products and expected for continuation implement on such policy. The situation might amplify into trade war among countries since there might be retaliate action from affected countries. On the other hand, Japan, the major exporting market of the company, constantly recover under the pressure from the domestic consumption which hindered by the short of wage increasing. Mr. Shinzo Abe, the prime minister has request for the cooperation from private company to adjust the wage to increase by 3% in attempts to boost the overall consumption and aligning the inflation, in exchange for the possibility to consider providing tax benefit for those private company who join the campaign. Considering the exchange rate, Thai Baht has continuously appreciated against USD, in which 35.12 THB/USD in the first quarter of 2017, comparing to 31.54 THB/USD in the first quarter of 2018. With the decrease of sales volume in the first quarter of 2018 comparing to 2017, according to the financial statements of the company, the sales revenue has decreased from THB 333.08 Million which presented in the first quarter of 2017 to THB 271.07 Million, equivalent to the decrease of 18.62%. Furthermore, the increasing cost for various production factor including increasing minimum wage and fuel price, has put the pressure on the Net Profit resulting in the first quarter of 2018 of THB 21.58 Million, comparing to the Net Profit for the same quarter in previous year of THB 46.99 Million, equivalent to the decrease of 54.07%. In addition, the Gross Profit Margin has dropped to 15.65% in this quarter, comparing to 29.42% indicated in the first quarter of 2017. Hence, the Net Profit Margin affected in the same direction, in which dropped to 7.96% comparing to 14.11% in the same quarter in 2017.

The financial performance has significantly change more than 20%, whereby the net profit has decreased 54.07% comparing to the same quarter of previous year. The major contribution for such change is majorly from the strongly appreciation of THB against USD, considering the appreciation rate of 10% comparing to the first quarter of 2017,



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added by the decreased of sales volume, and the increasing cost of production from increasing minimum wage and fuel price. Finally, the net profit has greatly decreased.

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

During the period, 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.

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

1. The global economic condition especially Japan, though there are signs of economic recovery, but the target inflation is yet reached, while the minimum wage still not being adjusted, has weaken the domestic consumption for household.
2. The volatility of exchange rate, especially THB has continuously appreciated against USD which affected to the revenue recognition for the Company. However, as JPY has appreciated against USD in the beginning of the year 2018 but started to depreciate until date, the situation is negative to the competitive advantage of the Company considering the pricing as the cost of product to the customer will be perceived as higher. This could put the pressure on the pricing negotiation with the customers during the period.
3. The fuel price which continuously increased could affect the increasing of production cost.
4. The withdrawal to participate in Trans Pacific Partnership (TPP) by USA affected US product as the import tax is imposed which allowed the Company an opportunity to increasing sales volume. Also, as Mr. Somkid Jatusripitak, Deputy Prime Minister, has announced that Thailand will consider joining 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.
5. The effective of the Royal Decree on Managing the Work of Aliens B.E. 2560 (2017) could cause the scarcity for the labor and eventually drive the labor cost to increase, especially in the agricultural industry and its related industry as these industries considered labor-intensive. However, as the government has relaxed the implementation by extending the registration period for alienate worker and the soften for the penalty, the intensity for the shortage of labor has been eased.



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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)	
	1 st Quarter 2017	1 st Quarter 2018	THB Million	%
Export Sales Revenue	327.82	267.29	(60.52)	(18.46)
Domestic Sales Revenue	5.26	3.78	(1.48)	(28.22)
Total Sales Revenue	333.08	271.07	(62.01)	(18.62)

In the first quarter of 2018, sales revenue indicated totaling THB 271.07 Million, of which domestic sales proportion is 1.39% of total sales revenue, insignificantly decreased from proportion 1.58% comparing to same quarter of 2017. In this regard, the proportion of export sales for the first quarter of 2018 is to 98.61%, insignificantly increased from 98.42% in the same quarter of 2017.

Total sales revenue in the first quarter of 2018 totaling THB 271.07 Million decreasing from THB 333.08 Million in the first quarter of 2017, equivalent to the decrease of 18.62%. This due to the continuously appreciation of THB against USD and the decrease of sales volume.

2. Other Revenue

In the first quarter of 2018, the company has indicated other revenue of THB 6.56 Million which increased from THB 4.11 Million in the first quarter of 2017, equivalent to the increase of 59.59%, majorly cause by the revenue from the other assets disposal activities. Also, the Company has revenue from investment THB 1.29 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 first quarter of 2018 presented THB 228.65 Million, equivalent to the decrease of 2.74%, comparing to THB 235.09 Million in the first quarter of 2017. The major reasons for the decrease is as follows,

- The sales volume has decreased comparing to the same quarter in previous year. Since by the end of 2016, domestic produces in Japan has been damage by the extreme cold weather, then the order for the product has unusually increase in the first quarter of 2017.
- The increase overhead production cost per unit as the increase cost for the production factors such as minimum wage and fuel price. Besides, the labor cost



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and electricity cost per unit is also reduce due to the increase of production activities which derive from the improving labor efficiency and improving quality of raw material.

Selling and Administration Expenses

In the first quarter of 2018, the Company has reported the selling and administration expenses of THB 37.97 Million which reduce from THB 42.07 Million as reported in the first quarter of 2017, equivalent to the decrease of 9.74% 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 increase due to the decreasing volume export.

Gross Profit Margin and EBIT Margin

The Gross Profit Margin for the Company presented in financial statement for the period ended 31 March 2018 is 15.65% decrease from 29.42% indicated in the same quarter of previous year, while the EBIT Margin reveal 9.74% decreased from 17.65% comparing to the same quarter of 2017. This is majorly contributed to the strongly appreciation of THB against USD while the sales volume has decreased caused the revenue to drop. While Cost of Goods sold per unit has been pressured by the increasing cost of production including minimum wage and fuel oil price increased.

Net Profit

The Company has indicated net profit in the financial statements or the first quarter of 2018 of THB 21.58 Million, decrease from THB 46.99 Million presented in the first quarter of 2017, equivalent to the decrease of 54.07%. The Net Profit Margin has dropped to 7.96% comparing to 14.11% in the first quarter of 2017. The major contribution to the significant decrease of net profit derive from the appreciation of THB against USD and the decrease sales volume. In addition, the increase of cost of goods per unit as the increase minimum wage and increase fuel price according to the global market, despite the decreased in Selling and Administration Expenses due to the decrease selling activities.



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Summary Table for the Financial Performance

	1 st Quarter (THB Million)		Increase (Decrease)	
	2017	2018	THB Million	%
Sales Revenue	333.08	271.07	(62.01)	(18.62)
Cost of Goods Sold	235.09	228.65	(6.44)	(2.74)
Gross Profit	97.99	42.42	(55.57)	(56.71)
Gain (Loss) from Exchange Rate	(1.25)	14.11	15.36	1230.76
Revenue from Investment	-	1.29	1.29	-
Other Revenue	4.11	6.56	2.45	59.59
Selling and Administration Expenses	42.07	37.97	(4.10)	(9.74)
Earnings Before Interest and Tax	58.78	26.40	(32.37)	(55.08)
Net Profit (Loss)	46.99	21.58	(25.41)	(54.07)
Earnings Before Interest, Tax, Depreciation and Amortization	68.95	37.15	(31.80)	(46.12)
Cash Flow from Operation	(79.91)	(93.91)	(14.00)	(17.52)
Earnings per share (Baht)	0.12	0.06		
Book Value per share (Baht)	3.98	3.84		

Key Financial Ratios

Key Financial Ratios	1 st Quarter 2017	Year 2017	1 st Quarter 2018
Current Ratio (Times)	11.22	13.44	13.79
Quick Ratio (Times)	6.83	7.68	6.70
Gross Profit Margin (%)	29.42	23.81	15.65
EBIT Margin (%)	17.65	14.59	9.74
Net Profit Margin (%)	14.11	11.81	7.96
Return on Equity (%)	14.52	11.01	9.06
Return on Assets (%)	13.18	10.05	8.25
Debt To Equity Ratio (Times)	0.11	0.09	0.09

Company's Financial Position**Assets**

The Company has total assets according to the financial statements as of 31 March 2018 of THB 1,596.67 Million comparing to THB 1,575.69 Million in the previous quarter, equivalent to the increase of 1.33%. The major increase is from the increase of inventory from the last quarter of 2017 to the first quarter of the year 2018 as THB 433.55 Million to THB 560.83 Million, equivalent to the increase of 29.36% according to increase of production activities to compensate the depleted of inventory. Also, the cash and cash equivalent has decrease THB 108.41 Million, equivalent to the decrease of 19.47%, as the increasing raw material purchased in the quarter

Trade Receivables in the first quarter of the year 2018 indicated THB 122.29 Million, slightly decrease from THB 124.26 Million presented in the previous quarter, equivalent to



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the decrease of 1.58% as the sales volume has decreased. 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 31 March 2018 of THB 131.30 Million which decrease THB 0.61 Million, equivalent to the decrease of 0.46%, comparing to the previous quarter.

As of 31 March 2018, 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 11.0 Million

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the first quarter of 2018, the Current Ratio indicated 13.79 times and the Quick Ratio of 6.70 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 March 2018 of THB 1,465.37 Million, increase from THB 1,443.79 Million comparing to the previous quarter, equivalent to the increase of 1.49%. The major contribution to the increase is the inappropriate retained earnings which indicated THB 978.11 Million in the first quarter of 2018, comparing to THB 956.53 Million in previous quarter, equivalent to the increase of 2.26%.

Cash flow and Capital Structure

The Company has increased net cash flow used in operation THB 14.00 Million, comparing to the first quarter of 2017 due to the increasing purchased of raw material as the increase production activities to compensate the depleted inventory. In addition, the company paid 15.80 Million for the procurement of building and equipment.



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In the first quarter of the year 2018, the Company has sufficient liquidity which evidence from the current ratio of 13.79 times, slightly increase from 13.44 times in 2017. The major assets are current assets equivalent to 70.88% of total assets. On the other hand, the Company has only 5.14% of current liabilities which mostly consists of trade payable. There is no outstanding borrowing from the financial institution.

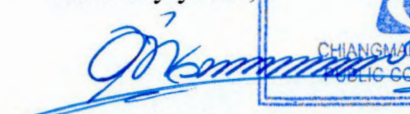
The Company has not engage in any long term borrowing during the first quarter of 2018, whereas the debt to equity ratio is remains at 0.09 times as indicated in the previous quarter.

Summary Table for Company's Financial Position

	Value (THB Million)			QoQ Increase (Decrease)	YoY Increase (Decrease)
	1 st Quarter 2017	4 th Quarter 2017	1 st Quarter 2018	%	%
Current Assets					
Cash and short term investment	648.77	556.94	448.53	(19.47)	(30.86)
Inventory	129.15	124.26	122.29	(1.58)	(5.31)
Other current assets	477.14	433.55	560.83	29.36	17.54
Total Current Assets	1,255.06	1,114.75	1,131.65	1.52	(9.83)
Non-Current Assets					
Property Land and Equipment	352.84	352.72	357.06	1.23	1.20
Other Non-Current Assets	68.38	108.22	107.96	(0.24)	57.88
Total Non-Current Assets	421.22	460.94	465.02	0.89	10.40
Total Assets	1,676.28	1,575.69	1,596.67	1.33	(4.75)
Current Liabilities	111.85	82.97	82.05	(1.11)	(26.64)
Non-Current Liabilities	48.34	48.94	49.25	0.64	1.88
Total Liabilities	160.20	131.91	131.30	(0.46)	(18.04)
Shareholder's Equity	1,516.08	1,443.79	1,465.37	1.49	(3.34)

Please be informed accordingly

Faithfully yours,


Ankoon Pholpipattanaphong

Managing Director

