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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 August 2017

Subject: Management Discussion and Analysis for the period ended 30 June 2017

To: The President

The Stock Exchange of Thailand

Performance Overview

The overall of Thailand's economy in the second quarter of 2017 considered steadily recovered majorly from the export sector and the continuous growth on tourism industry. However, the domestic consumption is considered slowly recovered from the increase of government spending and private consumption, despite the slower growth comparing to first quarter of this year. On the other hand, Japan, the major exporting market of the company, has gradually recovered, yet the growth in household consumption has been stagnant from the change in demographic to elder society and long-term deflation which discourage the spending purposely for the savings and the payment for insurance. In this regard, Japanese government has recently announced and promote the "Premium Friday" campaign which encourage the company to close early on Friday which intended to increase the spending on goods and services. However, the respond from many private companies is not positive. In addition, the appreciation of THB against USD which started from the beginning of this year has eventually ranked THB as the second appreciation exchange rate among ASEAN countries.

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 333.08 Million which presented in the first quarter of 2017 to THB 372.24 Million, equivalent to the increase of 11.76%. Further, the Company achieve net profit of THB 56.78 Million comparing to THB 46.99 Million presented in the previous quarter, considering the increase of 20.82%. The Gross Profit Margin has slightly decreased to 27.07% in the second quarter of 2017 comparing to 29.42% recorded in the previous quarter, due to the increase cost for factors of production including minimum wages and bunker price. However, the Net Profit Margin in this quarter presented 15.25%, increased from 14.11% stated in the first quarter of 2017.

Considering the financial performance for the second quarter of 2017, the sales revenue has decreased 16.08% comparing to the second quarter of 2016, due to the appreciation of THB against USD started from the beginning of this year. However, with the effective management on the cost reduction, the Net Profit Margin has only slightly decrease to 15.25% comparing to 15.72% indicated in the same quarter of previous year.

The financial performance has significantly change more than 20% due to the increasing order from major client which seasonally surge in second and third quarter comparing to first and fourth quarter.

The Board of Director's meeting No. 3/2017, which held on 12 May 2017, has resolved to invest in Sino Thai Freeze and Dry Company Limited ("STFD") which operated as



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manufacturer, distributor, and exporter of fresh fruits, frozen fruits, freeze dry fruits and foods, herbs and spices. The total investment equivalent to THB 37,500,000. The Company shall obtain total 3,750,000 shares, equivalent to 15% holding proportion of registered capital of THB 250,000,000. The Company also granted the right to appoint at least 1 director. This investment is expected to benefit the Company by creating opportunity to increase revenue from the food and agricultural industry which the Company has strong expertise and considered core business of the Company. This investment also expected to increase value to the Company and expand the business boundary into potentially growth business and create the return value to shareholders.

The non-recurrent transaction for the company is not presented in the financial statements for the second quarter of 2017. During the period, the company has not change the accounting policy.

The factors that would affect the business operation for the second half of 2017 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. Japanese Yen started to depreciate from the policy of the Bank of Japan (BOJ) which held long-term interest at 0% while the interest rate in USA is increasing. However, the risk from political uncertainty in Europe and the trading policies of USA could trigger Japanese Yen to be perceived as safe-heaven for investment and eventually cause the relocation of fund into Japan which could later drive Japanese Yen to appreciate.
2. The agriculture commodity price started to recover which signal the promising market after the slump of commodity price and the severe drought in the previous year. 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 increase could affect the production cost to be increased.



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- 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.
- 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.

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)
	Q2 2016	Q1 2017	Q2 2017	% QoQ	% YoY	6 months 2016	6 months 2017	% YTD
Export Sales Revenue	435.53	327.81	366.34	11.75	-15.89	739.35	694.15	-6.11%
Domestic Sales Revenue	8.03	5.26	5.90	12.13	-26.51	12.33	11.16	-9.50%
Total Sales Revenue	443.55	333.08	372.24	11.76	-16.08	751.69	705.31	-6.17%

In the second quarter of 2017, sales revenue reached totaling THB 372.24 Million, increasing THB 39.16 Million from previous quarter, of which the export sales revenue and domestic sales revenue has increase 11.75% and 12.13% 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 decrease of THB 71.32 Million, equivalent to the decrease of 16.08% due to the appreciation of THB against USD and the stagnant demand from consumer.

Total sales revenue in the first 6 months of 2017 totaling THB 705.31 Million decreasing from THB 751.69 Million in the first 6 months of 2016, equivalent to the slightly decrease of 6.17%. This due to the continuously appreciation of THB against USD in the first 6 months of 2017. However, the sales volume has been slightly decrease comparing to the sales volume in the first 6 months of 2016 due to the sluggish recovery in Japan and stagnant demand from consumer during the deflation, which is the major trade partner to the company.

2. Other Revenue

In the second quarter of 2017, the company has indicated other revenue of THB 4.60 Million which increased from THB 4.11 Million in the first quarter of 2017, equivalent to the increase of THB 0.37 Million, majorly caused by the revenue from the other assets disposal activities.



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Cost of Goods Sold

Cost of goods sold in the second quarter of 2017 presented THB 271.49 Million, equivalent to the increase of 15.48%, comparing to THB 235.09 Million in the first quarter of 2017, due to the increase of sales. Considered the first 6 months of 2017, the cost of goods sold has been decrease THB 35.65 Million comparing to cost of goods sold presented in the first 6 months of 2016. 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 result from the effective cold storage cost management and the increasing production activities to compensate the shortage of inventory during the drought period last year. However, the bunker price is increase as well as the increase of minimum labor wage could pressure on the increasing cost of production for the net period.

Selling and Administration Expenses

In the second quarter of 2017, the Company has reported the selling and administration expenses of THB 43.16 Million which slightly increase from THB 42.07 Million as reported in the first quarter of 2017 due to the decrease of sales activities. For the first 6 months of 2017, the selling and administration expenses is slightly decrease 2.31% comparing to the figures presented in the first 6 months of 2016 due to the decrease of sales activities.

Gross Profit Margin and Net Profit Margin

The Gross Profit Margin for the Company presented in financial statement for the second period of 2017 is 27.07% decrease from 29.42% indicated in the previous quarter while the Net Profit Margin reveal 19.05% marginally increase from 17.65%. This is majorly contributed to the effective cold storage cost management as the part of cost saving policy. However, as THB started to appreciate against USD in the second quarter of 2017, the Company has gain from exchange rate THB 8.73 Million comparing to the loss from exchange rate of THB 1.25 Million presented in the financial statements for the first quarter of 2017. This is due to the forward contract rate the Company has engage is higher than the exchange rate recorded on the selling date.

Net Profit

The Company has indicated net profit in the financial statements or the second quarter of 2017 of THB 56.78 Million Baht, increase from THB 46.99 Million presented in the first quarter of 2017, equivalent to the increase of 20.82%. The Net Profit Margin has slightly increased from 14.11% to 15.25% from previous quarter. This is due the seasonally increase sales order from client comparing to the first quarter and the effective cold storage cost management. However, the Net profit has decreased marginally THB 12.94 Million and the net profit margin has slightly decrease from 15.72% comparing to the second quarter of 2016. The major contribution derive from the unfavorable exchange rate as THB is continuously appreciated against USD from average THB 35.13 / USD in the second quarter of 2016 to THB 34.12 / USD in second quarter of 2017.



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Summary Table for the Financial Performance

	THB Million			Increase (Decrease)		THB Million		Increase (Decrease)
	Q2 2016	Q1 2017	Q2 2017	% QoQ	% YoY	6 months 2016	6 months 2017	% YTD
Sales Revenue	443.55	333.08	372.24	11.76	(16.08)	751.69	705.31	(6.17)
Cost of Goods Sold	313.71	235.09	271.49	15.48	(13.46)	542.23	506.58	(6.57)
Gross Profit	129.84	97.99	100.75	2.82	(22.40)	209.46	198.74	(5.12)
Gain (loss) on exchange rate	1.03	(1.25)	8.73	799.62	750.03	(3.75)	7.48	299.45
Others Income	4.24	4.11	4.61	12.07	8.73	7.28	8.71	19.65
Selling and administration Expenses	48.41	42.07	43.16	2.60	(10.83)	87.25	85.24	(2.31)
Earnings Before Interest and Tax	86.69	58.78	70.92	20.67	(18.19)	125.74	129.70	
Net Profit	69.72	46.99	56.78	20.82	(18.56)	102.66	103.77	3.15
Earnings Before Interest, Tax, Depreciation and Amortization	99.46	68.95	82.46	19.59	(17.09)	147.82	151.42	2.44
Cash Flow from Operation	160.10	-79.91	95.71	219.77	(40.22)	122.21	15.80	(87.07)
Earnings per share (Baht)	0.18	0.12	0.15					
Book Value per share (Baht)	3.61	3.98	3.78					

Key Financial Ratios

Key Financial Ratios	Q2 2016	Q1 2017	Q2 2017
Current Ratio (Times)	10.66	11.22	9.85
Quick Ratio (Times)	6.38	6.83	5.85
Gross Profit Margin (%)	29.27	29.42	27.07
Operating Profit Margin (%)	19.55	17.65	19.05
Net Profit Margin (%)	15.72	14.11	15.25
Return on Equity (%)	12.84	14.52	14.03
Return on Assets (%)	14.07	13.18	12.62
Debt To Equity Ratio (Times)	0.11	0.11	0.11

Company's Financial Position

Assets

The Company has total assets according to the financial statements as of 30 June 2017 of THB 1,604.36 Million comparing to THB 1,676.28 Million in the previous quarter, equivalent to the slightly decrease of 4.29%. The major decrease derived from the increase of trade receivables aligned with the increasing sales order, and the decrease of cash and cash equivalent from purchasing raw material and increasing the production activities to compensate the shortage of stocks caused by severe drought last year. In addition, cash has been invested in Sino Thai Freeze and Dry Company Limited. The cash and cash equivalent has been decreased THB 91.83 Million, equivalent to the decrease of 14.15%

Trade Receivables in the second quarter of the year 2017 indicated THB 155.48 Million, increase from THB 129.15 Million presented in the previous quarter, equivalent to the



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increase of 20.39%. 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 made payment within due.

Liabilities

The Company has total liabilities according to the financial statements as of 30 June 2017 of THB 164.90 Million which increase THB 4.70 Million, equivalent to the increase of 2.94%, comparing to the previous quarter. The increase is due to increasing activities of production which the Company has increase its purchasing activities which indicated trade payable increasing THB 15.07 Million.

As of 30 June 2017, 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 appropriate and sufficient liquidity for the payment of liabilities and obligation. In the second quarter of 2017, the Current Ratio indicated 9.85 times and the Quick Ratio of 5.85 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 2017 of THB 1,439.46 Million, decrease from THB 1,516.08 Million comparing to the previous quarter, equivalent to the decrease of 5.05%. The major contribution to the decrease is the inappropriate retained earnings from better financial performance and dividend payout which indicated THB 952.20 Million in the second quarter of 2016, comparing to THB 1,028.82 Million in previous quarter, equivalent to the decrease of 7.45%.

Cash flow and Capital Structure

The Company has increased net cash flow from operation THB 15.80 Million, decreasing THB 106.42 Million, comparing to the second quarter of 2016 due to the decreasing revenue from sales and the appreciation of THB against USD. In addition, the company spent totaling THB 130.85 Million on the investing activities majorly on the short term



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investment THB 48.34 Million, investment in affiliated company of THB 37.5 Million and the acquisition of building and equipment of THB 45.16 Million.

In the second quarter of the year 2017, the Company has sufficient liquidity which evidence from the current ratio of 9.85 times, though slightly decrease from 11.22 times in the first quarter of 2017. The major assets are current assets equivalent to 71.06% of total assets. On the other hand, the Company has only 7.21% 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 2017, whereas the debt to equity ratio is stable at 0.11 comparing to the previous quarter.

Summary Table for Company's Financial Position

	Value (THB Million)			Increase (Decrease)		Increase (Decrease)	
	Q2 2016	Q1 2017	Q2 2017	THB Million QoQ	% QoQ	THB Million YoY	% YoY
Current Assets							
Cash and short term investment	545.88	648.77	556.94	(91.83)	(14.15)	11.06	2.03%
Trade Receivables	196.77	129.15	155.48	26.33	20.39%	(41.28)	-20.98%
Inventory	404.00	477.14	427.61	(49.53)	(10.38)	23.61	5.84%
Total Current Assets	1,146.65	1,255.06	1,140.03	(115.03)	(9.17)	(6.62)	-0.58%
Non-Current Assets							
Property Land and Equipment	335.49	352.84	357.69	4.85	1.37	22.20	6.62
Other Non-Current Assets	43.43	68.38	106.64	38.26	55.95	63.21	145.56
Total Non-Current Assets	378.92	421.22	464.33	43.11	10.23	85.41	22.54
Total Assets	1,525.57	1,676.28	1,604.36	(71.92)	(4.29)	78.79	5.16
Current Liabilities	107.58	111.85	115.75	3.89	3.48	8.16	7.59
Non-Current Liabilities	42.61	48.34	49.15	0.81	1.67	6.54	15.34
Total Liabilities	150.20	160.20	164.90	4.70	2.94	14.70	9.79
Shareholder's Equity	1,375.37	1,516.08	1,439.46	(76.62)	(5.05)	64.09	4.66

Please be informed accordingly

Faithfully yours,



Ankoon Pholpipattanaphong

Managing Director