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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

13 May 2020

Subject: Management Discussion and Analysis for the period ended 31 March 2020

To: The President

The Stock Exchange of Thailand

Performance Overview

The overall of Thailand's economy in first quarter of 2020 considered contracted from the outbreak of COVID-19 which significantly disrupt the domestic and international supply, especially travel and leisure industry has embraced full impact. Export sector also continuously shrink while government spending has been declined due to the delay of the approval for the 2020 Budget Act. Recently, the Bank of Thailand has adjusted the forecasted economic growth for Thailand down to -5.30% comparing to +2.80% announced in last December. Japan economic also recess as the private investment has been slowdown as the result of the increasing of consumption tax from 8% to 10% in last October. In addition, the outbreak of COVID-19 caused the postpone of Tokyo Olympic 2020 for at least 1 year which would result in the economic slowdown of Japan.

The exchange rate for THB/USD has widely fluctuate with the trend of THB to be depreciated due to outbreak of COVID-19 that caused the global economic slowdown, also, the demand for fuel has continuously drop due to the lockdown of cities. The exchange rate for THB/USD according to the reference rate from the Bank of Thailand for the first quarter of 2020 is THB 31.30/USD, comparing to THB 30.28/USD indicated in previous quarter.

Total revenue from sales in the first quarter of 2020 has increased to THB 299.10 Million, comparing to THB 273.07 Million in the first quarter of 2019, equivalent to the increase of 9.53% as a result from increasing demand from Japan and USA for safety stock in the early period of COVID-19 outbreak. However, the cost of goods sold per unit has increased since the price for agricultural produces has increased during severe drought season. Further, the depreciation cost increased as there is additional investment in new machines. Theses conclude the gross profit of THB 36.38 Million, increasing 61.35% comparing to the same quarter in 2019, with the gross profit margin of 12.16% increasing from 8.25%. The net profit for the Company has indicated THB 2.56 Million, considering net profit margin of 0.85%, comparing to net loss of THB 9.34 Million with net loss margin at -3.42% presented in the first quarter of 2019,

The financial performance has significantly change more than 20%, whereby the net profit has increased 127.35% comparing to the same quarter of previous year. The major contribution for such change is majorly from increasing sales revenue from sales volume from the acceleration of order in attempted to stock the products at the early period of COVID-19 outbreak, although the cost of goods sold per unit has increased due to the increasing price of agricultural produces during severe drought season and the increasing



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depreciation cost from the investment in new machines. However, the cost from the external cold storage charge has decreased since the attempts to manage the balance of agricultural produces and sales volume. However, the management has aware of theses factor and best attempt to reduce such negative effects. Also, the management has continuously determine the policies and strategies to cope with the dynamic of situations such as the continuous improvement for the selection of seeds and its standard in order to improve cultivating yield and production yield, the strive to achieve the effective energy saving production line, the study of the demand for the products in other country rather than existing trade partner, 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.

During the period, the company has not changed the accounting policy, but only adopted the application of accounting standard and reporting standard concerned with the accounting and report on financial instruments (TAS 32 and TFRS 9) which are effective for fiscal periods beginning on or after 1 January 2020. The adoption of these financial reporting standards does not have any significant impact on the Company's financial statement.

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

1. The COVID-19 outbreak which affected several countries globally would causes global economic slowdown, concerning Japan and USA. Also, the social distancing measures to prevent the outbreak has limited the activities for people such as dining out and socializing could lessen the demand from food service sector but, in the other hand, increase the demand for ready to eat product to be consume at home. This could mean both positive and negative affected to future sales volume.
2. The volatility of exchange rate, as THB has depreciated against USD since the global economic slowdown has affected the revenue recognition, while JPY has appreciated against USD which reduce the cost of import for Japanese customers.
3. Severe drought which prolong from the early of 2020 could cause the rising for agricultural produces price, affected the increasing cost of production.
4. The fuel price which continuously decreased could affect the decreasing of production cost and transportation cost.
5. 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 soybeans, 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 2019	1 st Quarter 2020	THB Million	%
Export Sales Revenue	263.10	279.17	16.07	6.11
Domestic Sales Revenue	9.97	19.93	9.96	99.92
Total Sales Revenue	273.07	299.10	26.03	9.53

In the first quarter of 2020, sales revenue indicated totaling THB 299.10 Million, of which export sales is to 93.34%, slightly decreased from 96.35% in the same quarter of 2019. In this regard, the proportion of domestic sales proportion is 6.66% of total sales revenue, increased from proportion 3.65% comparing to same quarter of 2019.

Total sales revenue in the first quarter of 2020 totaling THB 299.10 Million increasing from THB 273.07 Million in the first quarter of 2019, equivalent to the increase of 9.53%. This due to the increase sales volume from increasing order from domestic and overseas market.

2. Other Revenue

In the first quarter of 2020, the company has indicated other revenue of THB 2.05 Million which decreased from THB 2.31 Million in the first quarter of 2019, equivalent to the decrease of 11.30%, majorly cause by the revenue from the other assets disposal activities. Also, the Company has revenue from investment THB 0.30 Million as the return from the investment in fixed income term fund and money market.



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Cost of Goods Sold

Cost of goods sold in the first quarter of 2020 presented THB 262.72 Million, equivalent to the increase of 4.86%, comparing to THB 250.55 Million in the first quarter of 2019. The major reason for the increase is as follows,

- The increasing sales volume from domestic and oversea market.
- The increase overhead production cost per unit as the raw material price has increased from the severe drought, also the depreciation cost has increase from the new investment in machines.

Selling and Administration Expenses

In the first quarter of 2020, the Company has reported the selling and administration expenses of THB 37.13 Million which slightly reduced from THB 37.28 Million as reported in the first quarter of 2019, equivalent to the decrease of 0.38% which derive from decrease of travelling expenses during COVID-19 outbreak. However, the freight transportation expense, the transportation expense, and the export expenses which is the cost for the transportation of finished goods to be delivered at domestic seaport and the custom fee, is increase due to the increasing 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 2020 is 12.16% increase from 8.25% indicated in the same quarter of previous year, while the EBIT Margin reveal 0.93% increased from -3.37% comparing to the same quarter of 2019. This is due to the increasing sales revenue from increasing sales volume from domestic and overseas market while the overhead production cost per unit as the raw material price has increased from the severe drought, also the depreciation cost has increase from the new investment in machines. Further, the cost from the external cold storage charge has decreased since the attempts to manage the balance of agricultural produces and sales volume.

Net Profit

The Company has indicated net loss in the financial statements or the first quarter of 2020 of THB 2.56 Million, increase from net loss of THB 9.34 Million presented in the first quarter of 2019, equivalent to the increase of 127.35%. The Net Profit Margin has stated 0.85% comparing to Net Loss Margin of -3.42% in the first quarter of 2019. The major contribution to the significant increase of net profit derive from the increasing sales revenue from increasing sales volume from domestic and overseas market while the overhead production cost per unit as the raw material price has increased from the severe drought, also the depreciation cost has increase from the new investment in machines. Further, the cost from the external cold storage charge has decreased since the attempts to manage the balance of agricultural produces and sales volume. Besides, the gain from exchange rate has decreased comparing to the same quarter in previous year due to exchange rate fluctuation in the year 2020, despite the Selling and Administration Expenses has decline due to the decrease travelling activities during COVID-19 outbreak but the transportation expenses concerning sales activities has increased.



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Summary Table for the Financial Performance

	1 st Quarter (THB Million)		Increase (Decrease)	
	2019	2020	THB Million	%
Sales Revenue	273.07	299.10	26.03	9.53
Cost of Goods Sold	250.55	262.72	12.18	4.86
Gross Profit	22.55	36.38	13.86	61.53
Gain (Loss) from Exchange Rate	2.50	0.64	(1.85)	(74.29)
Interest Revenue	0.63	0.54	(0.09)	(14.12)
Revenue from investment	0.76	0.30	0.17	124.61
Other Revenue	2.31	2.05	(0.26)	(11.30)
Selling and Administration Expenses	37.28	37.13	(0.14)	(0.38)
Earnings Before Interest and Tax	(9.19)	2.77	11.96	130.17
Financial Cost	0.05	0.05	(0.01)	(10.04)
Tax	0.10	0.17	0.07	64.10
Net Profit (Loss)	(9.34)	2.56	11.90	127.35
Earnings Before Interest, Tax, Depreciation and Amortization	4.59	19.61	15.02	327.08
Cash Flow from Operation	9.46	(13.28)	(22.47)	(240.47)
Earnings per share (Baht)	(0.02)	0.01		
Book Value per share (Baht)	3.71	3.59		

Key Financial Ratios

Key Financial Ratios	1 st Quarter 2019	1 st Quarter 2020
Current Ratio (Times)	15.59	7.47
Quick Ratio (Times)	3.53	2.24
Gross Profit Margin (%)	8.25	12.16
EBIT Margin (%)	(3.37)	0.93
Net Profit Margin (%)	(3.42)	0.85
Return on Equity (%)	4.62	3.35
Return on Assets (%)	5.35	3.47
Debt To Equity Ratio (Times)	0.08	0.15



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Company's Financial Position

Assets

The Company has total assets according to the financial statements as of 31 March 2020 of THB 1,576.37 Million comparing to THB 1,549.27 Million in the previous quarter, equivalent to the increase of 1.75%. The major increase is from the increase inventory to THB 532.89 Million consider the increase of THB 33.04 Million or 6.61% from the increasing produces harvested in this season. Also, Trade receivables indicated THB 130.49 Million, increasing THB 21.17 Million or 19.37%. 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 2020 of THB 208.37 Million which increase THB 69.33 Million, equivalent to the increase of 49.74%, comparing to the previous quarter. The main reason for the increase is due to the derivatives liabilities of THB 65.62 Million which is recognized from fair value of forward contracts at the end of the period

As of 31 March 2020, 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 0.25 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 10.07 Million
- The Company has capital expenditure in respect of the repairing of the plant amounting of THB 10.45 Million

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the first quarter of 2020, the Current Ratio indicated 7.47 times and the Quick Ratio of 2.24 times, while most of the assets are 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 31 March 2020 of THB 1,367.64 Million, decrease from THB 1,409.87 Million comparing to the previous quarter, equivalent to the decrease of 3.00%. The major contribution to the decrease is the other components of shareholder's equity which is the recognized of the change in fair value of derivatives for hedging cash flow at the value THB -47.53 Million according to the newly adopted accounting standard and reporting standard, also the inappropriate retained earnings which indicated THB 927.91 Million in the first quarter of 2020, comparing to THB 922.61 Million in previous quarter, equivalent to the increase of 0.57% as the Company has net profit in the first quarter of 2020.

Cash flow and Capital Structure

In the first quarter of 2020, the Company has net cash flow used in operation THB 13.28 Million, comparing to the net cash flow from operation THB 9.46 Million in the first quarter of 2019 due to the increasing purchase of the raw material. Besides, the company paid THB 6.04 Million for the procurement of building and equipment.

In the first quarter of the year 2020, the Company has sufficient liquidity which evidence from the current ratio of 7.47 times, decrease from 15.59 times in the same quarter in previous year. This is due to the increase of current liabilities especially derivatives liabilities which recognized by the newly adopted accounting and reporting standard. However, the major assets are current assets equivalent to 65.60% of total assets. On the other hand, the Company has only 8.78% 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 first quarter of 2020, whereas the debt to equity ratio increase to 0.15 times, comparing to 0.08 times as indicated in the same quarter of previous year.



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Summary Table for Company's Financial Position

	Value (THB Million)			Increase (decrease)		Increase (decrease)	
	1 st Quarter 2019	4 th Quarter 2019	1 st Quarter 2020	THB Million QoQ	% QoQ	THB Million YoY	% YoY
Current Assets							
Cash and Cash Equivalent	95.14	180.33	160.89	(19.44)	(10.78)	65.75	69.11
Other Current Financial Assets	190.24	191.21	191.52	0.30	0.16	1.27	0.67
Trade and other receivables – include planters	126.00	126.99	135.19	8.20	6.45	9.19	7.30
Short-term loan	13.60	13.60	13.60	0.00	0.00	0.00	0.00
Inventory	611.53	499.86	532.89	33.04	6.61	(78.64)	(12.86)
Derivatives Assets	0.00	0.00	0.04	0.04	-	0.04	-
Total Current Assets	1,036.51	1,011.99	1,034.12	22.13	2.19	(2.38)	(0.23)
Non-Current Assets							
Property Land and Equipment	391.80	425.48	416.76	(8.72)	(2.05)	24.96	6.37
Other Non-Current Assets	106.81	111.80	125.49	13.69	12.24	18.67	17.48
Total Non-Current Assets	498.61	537.28	542.25	4.97	0.93	43.64	8.75
Total Assets	1,535.12	1,549.27	1,576.37	27.10	1.75	41.26	2.69
Current Liabilities	66.50	68.14	138.37	70.22	103.05	71.87	108.08
Non-Current Liabilities	53.25	71.26	70.37	(0.89)	(1.25)	17.11	32.14
Total Liabilities	119.75	139.40	208.73	69.33	49.74	88.98	74.31
Shareholder's Equity	1,415.37	1,409.87	1,367.64	(42.23)	(3.00)	(47.73)	(3.37)

Please be informed accordingly

Faithfully yours,

Ankoon Pholpipattanaphong

Managing Director