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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

13 August 2019

Subject: Management Discussion and Analysis for the period ended 30 June 2019

To: The President

The Stock Exchange of Thailand

Performance Overview

In the second quarter of 2019, considered growth at decreasing rate affected by the global economics' stagnant growth and political instability, pressured from multiple uncertainties include the unexpected global economic slowdown, prolonged trade ware between China and USA, Brexit situation which potentially affected the global financial market, and the political situation of Thailand after the election which could questioned the stability of the new government and their steering policy. In the second quarter of 2019, Thai Baht has been continuously appreciated against USD from previous quarter, in which 31.59 THB/USD in the second quarter of 2019, comparing to 31.62 THB/USD in the first quarter of 2019. For Japan, the Company's major importer, despite the signal for the economy expansion from the government spending in preparation to host Olympic 2020, and the economic stimulus purposely to support the increasing of consumption tax, the private consumption has further decline. In addition, the export figure from Thailand to Japan has presented negative slope.

The Company has reached THB 312.61 Million of revenue from sale, considered the increasing of THB 39.54 Million, with Net Profit THB 8.89 Million, considered increasing of THB 18.24 Million, comparing to previous quarter. The Net Profit Margin indicated 2.84%, increasing from -3.42% from the previous quarter, as the revenue growth from the increasing seasonal sales volume. However, the sales revenue considered decreased comparing to the second quarter of 2018, which decreased THB 20.87 Million., while the Net Profit has decreased THB 28.99 Million., majorly due to the appreciation of THB against USD. The average exchange rate is THB 31.59 / USD in this quarter, comparing to THB 31.92 / USD in the same quarter last year. In addition, the sale volume has declined comparing to the second quarter of 2018. The reduction of sales revenue considered 6.26%. Further, the cost of production has increasing comparing to the same quarter last year, which is the increasing external cold storage charge due to the increasing quantity of agricultural produces as the farming yield has improved beyond expectation, also The Labor Protection Act (No. 7) B.E. 2562 was announced in the Royal Gazette. This stipulates additional legal severance pay rates for employees who have worked for an uninterrupted period of twenty years or more, with such employees entitled to receive not less than 400 days' compensation at the latest wage rate. The law is effective from 5 May 2019. This change is considered a post-employment benefits plan amendment and the Company have additional long-term employee benefit liabilities as a result. The Company reflected the effect of the change by recognizing past service costs as expenses in the statement of comprehensive income of the current period. These has led to the decreased of



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the Gross Profit Margin of THB 28.93 Million, considered the decreased of 44.63% and the Net Profit Margin has decreased THB 28.99 Million, considered the decreased of 76.53% comparing to the second quarter of 2018. The Gross Profit Margin and Net Profit Margin, therefore, stated 11.84% and 2.84% respectively.

The financial performance has significantly change more than 20%, whereby the Net Profit has decreased 76.53% comparing to the same quarter of previous year. The major contribution for such change is majorly from the appreciation of THB against USD, considering the appreciation rate of 1.03% comparing to the second quarter of 2018 while the export sales volume has also declined. Further, the increasing cost of production from the increasing external cold storage charge due to the increasing quantity of agricultural produces as the farming yield has improved beyond expectation, also increasing production cost related to labor derived from the application of the new Labor Protection Act (No. 7) B.E. 2562, and the decreasing gains from exchange rate. Finally, the net profit has greatly decreased. In this regard, the cost of goods sold per unit specifically derived from external cold storage charge is expected to decline once inventory has been balancing adjusted. 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 by investing in the new machine, 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 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 third quarter are as follows

1. The global economic condition especially Japan. There are signs of economic growth from the increasing government and private investment to support the coming Tokyo Olympic 2020, also expected the acceleration of household spending prior to the increasing of consumption tax in October 2019
2. The volatility of exchange rate, which affected by the intense of trade war situation between USA and China. In case THB has further appreciated against USD, the sales revenue shall be negatively affected. Also, as JPY has also appreciated against USD, the selling price could be perceived as decreasing for importer and could put less pressure on the pricing negotiation with the customers during the next period.
3. 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, led by Japan, has enable the opportunity to import sweet corn from New Zealand with zero tariff. Therefore, the competition in this product has increasing.



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4. 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.

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)		Value (THB Million)		Increase (decrease)
	2 nd Quarter 2018	1 st Quarter 2019	2 nd Quarter 2019	% QoQ	% YoY	6M 2018	6M 2019	% YTD
Export Sales Revenue	325.64	263.10	299.37	13.79	(8.07)	592.93	562.47	(5.13)
Domestic Sales Revenue	7.84	9.97	13.24	32.80	68.88	11.62	23.21	99.74
Total Sales Revenue	333.48	273.07	312.61	14.48	(6.26)	604.55	585.68	(3.12)

In the second quarter of 2019, sales revenue indicated totaling THB 312.61 Million, of which export sales is 95.76% of total sales revenue, insignificantly decreased from proportion 96.34% comparing to the previous quarter. On the other hand, the proportion of domestic sales for the second quarter of 2018 is to 4.24%, insignificantly increased from 3.66% in the previous quarter.

Total sales revenue in the second quarter of 2019 has decreased THB 20.87 Million comparing to the second quarter of 2018 which presented THB 333.48 Million, equivalent to the decrease of 6.26%. This due to the strongly appreciation of THB against USD and the decrease of sales volume.

2. Other Revenue

In the second quarter of 2019, the company has indicated other revenue of THB 2.24 Million which decreased from THB 2.31 Million in the first quarter of 2019, equivalent to the decrease of 3.03%, majorly cause by the revenue from the other assets disposal activities. Also, the Company has revenue from investment THB 1.16 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 second quarter of 2019 presented THB 276.72 Million, equivalent to the decrease of 3.00%, comparing to THB 268.66 Million in the second quarter of 2018. The major reasons for the decrease are as follows,

- Cost of Production has increased partially from The Labor Protection Act (No. 7) B.E. 2562 which result in the additional long-term employee benefit liabilities as a result. The Company reflected the effect of the change by recognizing past service costs as expenses in the statement of comprehensive income of the current period.
- The increase overhead production cost per unit as the increase cost for the production factors such, the increasing depreciation of new machine and equipment invested purposely to increase efficiency and the repair and maintenance cost for cold storage, and the increasing external cold storage charge due to the increasing quantity of agricultural produces as the farming yield has improved beyond expectation.

Selling and Administration Expenses

In the second quarter of 2019, the Company has reported the selling and administration expenses of THB 40.54 Million which reduce from THB 40.61 Million as reported in the second quarter of 2018, equivalent to the decrease of 0.17% 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 decrease due to the decreasing volume export.

Gross Profit Margin and EBIT Margin

The Gross Profit Margin for the second quarter of 2019 has increased to 11.48% comparing to 8.25% indicated in the previous quarter, while EBIT Margin has increased to 2.38% comparing to -3.37%. This is due to the increasing seasonal sales volume, despite the increasing production cost per unit. However, the Gross Profit Margin and EBIT Margin has declined comparing to the second quarter of 2018 which stated 19.44% and 14.02% respectively. The major reason for the decreasing revenue is the strong appreciation of THB against USD and the decreasing sales volume. On the other hand, the production cost per unit has increased as the Company has reflected the effect of the change of post-employment benefit by recognizing past service costs as expenses in the statement of comprehensive income of the current period, due to the new Labor Protection Act, while the depreciation expense has increased due to the new investment in machines. Further, the production cost has increased due to the increasing external cold storage charge due to the increasing quantity of agricultural produces as the farming yield has improved beyond expectation. In addition, the gains on exchanges has significantly dropped from THB 18.58 Million in the second quarter of 2018 to THB 8.67 Million in this quarter. Consequently, these factors have put the pressure on the Gross Profit Margin and as well EBIT Margin.



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Net Profit

In the second quarter of 2019, the Company has indicated Net Profit of THB 8.89 Million, considered increasing 195.16% comparing to the previous quarter which presented Net Loss of THB 9.34 Million, whereas the Net Profit Margin has increased to 2.84% comparing to -3.42%. This is due to the increasing seasonal sales volume. However, the cost of production has increasing as the result from the announcement of the new Labor Protection Act, the increasing depreciation expense from the new investment in machines and equipment, also, the increasing external cold storage charge due to the increasing quantity of agricultural produces as the farming yield has improved beyond expectation. Also, the Selling and Administration Expenses moving in the same direction.

Comparing to the second quarter of 2018, the Net Profit has dropped 76.53% since the appreciation of THB against USD and the decreased of sales volume, while the cost of production has substantially increased as explained above. In addition, the Selling and Administration Expenses has move in the same direction of these costs. Consequently, the Net Profit Margin has declined to 2.84%, comparing to 11.36%.

Summary Table for the Financial Performance

	Value (THB Million)			Increase (decrease)		Value (THB Million)		Increase (decrease)
	2 nd Quarter 2018	1 st Quarter 2019	2 nd Quarter 2019	% QoQ	% YoY	6M 2018	6M 2019	% YTD
Sales Revenue	333.48	273.07	312.61	14.48	(6.26)	604.55	585.68	(3.12)
Cost of Goods Sold	268.66	250.55	276.72	10.45	3.00	497.31	527.26	6.02
Gross Profit	64.82	22.52	35.89	59.38	(44.63)	107.24	58.41	(45.53)
Gain (Loss) from Exchange Rate	18.56	2.50	8.67	247.48	(53.26)	32.67	11.17	(65.81)
Revenue from Investment	3.99	3.07	3.40	10.74	(14.79)	11.84	6.47	(45.35)
Other Revenue	40.61	37.28	40.54	8.76	(0.17)	78.58	77.82	(0.98)
Selling and Administration Expenses	46.76	(9.19)	7.43	(180.83)	(84.12)	73.16	(1.76)	(102.41)
Earnings Before Interest and Tax	37.88	(9.34)	8.89	195.16	(76.53)	59.47	(0.45)	(100.76)
Net Profit (Loss)	60.24	4.59	19.77	330.64	(67.18)	97.40	24.37	(74.98)
Earnings Before Interest, Tax, Depreciation and Amortization	32.37	9.46	69.77	637.53	115.54	(61.53)	79.23	228.77
Cash Flow from Operation	0.10	(0.02)	0.02					
Earnings per share (Baht)	3.74	3.71	3.62					



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Key Financial Ratios

Key Financial Ratios	2 nd Quarter 2018	1 st Quarter 2019	2 nd Quarter 2018
Current Ratio (Times)	9.70	15.59	13.32
Quick Ratio (Times)	4.58	6.19	5.88
Gross Profit Margin (%)	19.44	8.25	11.48
EBIT Margin (%)	14.02	(3.37)	2.38
Net Profit Margin (%)	11.36	(3.42)	2.84
Return on Equity (%)	8.10	4.65	2.71
Return on Assets (%)	7.27	5.35	2.86
Debt To Equity Ratio (Times)	0.12	0.08	0.10

Company's Financial Position

Assets

The Company has total assets according to the financial statements as of 30 June 2019 of THB 1522.20 Million comparing to THB 1,535.12 Million in the previous quarter, equivalent to the slightly decrease of 0.84%. The major decrease is from the decrease of inventory from increasing sales volume comparing to previous quarter. As the seasonal sales increase, the inventory has decline to THB 547.55 Million comparing to THB 611.53 Million presented in the previous quarter, considered decrease of 10.46%

Trade Receivables in the second quarter of the year 2019 indicated THB 156.77 Million, increase from THB 126.00 Million presented in the previous quarter, equivalent to the increase of 24.43% as the seasonal sales volume has increased. 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 30 June 2019 of THB 142.32 Million which increase from THB 119.75 Million, equivalent to the increase of 18.85%, comparing to the previous quarter. The major reason for the increased is the trade payable and other payable, which increased to THB 69.18 Million, comparing to THB 53.62 Million in the previous quarter.

As of 30 June 2019, 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 0.6 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 10.1 Million
- The Company has capital expenditure in respect of the repairing of the plant amounting of Baht 35.87 Million.

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the second quarter of 2019, the Current Ratio indicated 13.32 times and the Quick Ratio of 5.88 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 2019 of THB 1,379.88 Million, decrease from THB 1,415.37 Million comparing to the previous quarter, equivalent to the decrease of 2.51%. The major contribution to the decrease is the inappropriate retained earnings which indicated THB 892.62 Million in the second quarter of 2019, comparing to THB 928.11 Million in previous quarter, equivalent to the decrease of 3.82%. The retain earnings has decreased due to resolution in the Annual General Meeting of Shareholders on 24 April 2018 which approved the dividend payment paid to the shareholders on 9 May 2019.

Cash flow and Capital Structure

The Company has net cash received from operating activities as of 30 June 2019 of THB 79.19 Million, increased THB 140.73 Million comparing to the same period last year. The major reason is the decline in receivables from farmers to balance the agriculture produces with the inventory level. Further, the Company has net cash provide by investing activities of THB 62.36 Million, of which THB 49.41 Million paid to acquisition of plants and equipment, and the Company has provide short term loan to other company of THB 13.60 Million, then the net cash used in financing activities totaling THB 42.74 Million

In the second quarter of the year 2019, the Company has sufficient liquidity which evidence from the current ratio of 13.32 times, though decrease from 15.59 times in previous quarter. The major assets are current assets equivalent to 66.01% of total assets. On the other hand, the Company has only 4.96% 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 second quarter of 2018, whereas the debt to equity ratio slightly increase to 0.10 times comparing to 0.08 times indicated in the previous quarter.



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	Value (THB Million)			Increase (decrease)		Increase (decrease)	
	2 nd Quarter 2018	1 st Quarter 2019	2 nd Quarter 2019	THB Million QoQ	% QoQ	THB Million YoY	% YoY
Current Assets							
Cash and short term investment	393.67	285.38	286.83	1.45	0.51	(106.84)	(27.14)
Trade Receivables	186.49	126.00	156.77	30.78	24.43	(29.72)	(15.93)
Short-Term Loan	0.00	13.60	13.60	0.00	0.00	13.60	-
Inventory	547.09	611.53	547.55	(63.99)	(10.46)	0.45	0.08
Total Current Assets	1,127.25	1,036.51	1,004.75	(31.76)	(3.06)	(122.50)	(10.87)
Non-Current Assets							
Property Land and Equipment	357.54	391.80	407.05	15.26	3.89	49.51	13.85
Other Non-Current Assets	107.04	106.81	110.40	3.58	3.36	3.36	3.13
Total Non-Current Assets	464.58	498.61	517.45	18.84	3.78	52.87	11.38
Total Assets	1,591.84	1,535.12	1,522.20	(12.92)	(0.84)	(69.64)	(4.37)
Current Liabilities	116.16	66.50	75.45	8.95	13.46	(40.71)	(35.05)
Non-Current Liabilities	48.65	53.25	66.87	13.62	25.57	18.22	37.46
Total Liabilities	164.81	119.75	142.32	22.57	18.85	(22.49)	(13.65)
Shareholder's Equity	1,427.03	1,415.37	1,379.88	(35.49)	(2.51)	(47.15)	(3.30)

Please be informed accordingly

Faithfully yours,

- Signature -

Ankoon Pholpipattanaphong

Managing Director