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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

9 November 2018

Subject: Management Discussion and Analysis for the period ended 30 September 2018

To: The President

The Stock Exchange of Thailand

Performance Overview

In the third quarter of 2018, Thailand's economy has recovered through the expansion of private consumption and investment, result from the development of Eastern Economic Corridor Project (EEC). In the meantime, the government spending on the infrastructure tend to accelerate from several bidding which scheduled to commence by the year end and the beginning of next year. However, despite the growth expansion for global economy, the consumption in Japan considered sluggish. Also, Japan has confronted the threat from USA to impose the import tariff from automotive and auto parts industries which would negatively affect Japan economic. Moreover, stagnant consumption in Japan driven by the natural disaster such as several storm and earthquake that hit the country this year.

The THB/USD exchange rate still fluctuated as in the second quarter of 2018, THB has depreciated against USD. The trend has reversed by the beginning of August as foreign fund has flow into Thailand capital market result from the stability of the economic where the intense of trade war between China and USA has emerged. Further, Federal Open Market Committee (FOMC) has reassure the promising US economic supported by the increasing of interest rate for the third time this year, and seemingly to increase the interest rate for the fourth time by November. These factors had affected THB to depreciate against USD in the last September. According to the Bank of Thailand, the THB/USD exchange rate indicated THB 32.97 / USD in the third quarter of 2018, depreciate from THB 31.92 / USD presented in previous quarter, but considered appreciated comparing to THB 33.39 / USD indicated in the third quarter of 2017, equivalent to the appreciation of 1.25%

The Company has reached THB 338.50 Million of revenue from sale, considered slightly increasing from THB 333.48 Million presented in the previous quarter. The slight increase derived from the modest sales volume increased, and the depreciation of THB against USD comparing to previous quarter. The Net Profit indicated THB 27.69 Million, decreasing from THB 37.88 Million presented in the previous quarter. The Net Profit Margin indicated 8.18%, decreasing from 11.36% comparing to previous quarter, driven by the increasing production cost as the bunker oil price has increased from global economic recovery, further the Company has higher external cold storage charge due to the increasing quantity of agricultural produces as the farming yield has improved beyond expectation.

Comparing to the third quarter of 2017, the Sales revenue has declined THB 22.85 Million, while the net profit has decrease 21.05 Million since the appreciation of THB against USD comparing year on year, and the decrease of sales volume due to the stagnant consumption



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in Japan. The sales revenue therefore considered decrease 6.32%. On the other hand, The increasing cost for several factors of production such as the increasing minimum wage for labor which effective in the last April, the increasing bunker oil price due to the global economic recovery, and the increasing external cold storage charge due to the increasing quantity of agricultural produces as the farming yield has improved beyond expectation, resulting in the decrease of Net Profit considered 43.18%

The financial performance has significantly change more than 20%, whereby the Net Profit has decreased 43.18% comparing to the same quarter of previous year. The major contribution for such change is majorly from the strongly appreciation of THB against USD, added by the decreased of sales volume, and the increasing cost of production from increasing minimum wage and fuel price, and the increasing external cold storage charge due to the increasing quantity of agricultural produces as the farming yield has improved beyond expectation. Finally, the net profit has greatly decreased.

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

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 fourth 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. Further, the consumption has been sluggish due to the natural disaster including several storm and earthquake. In addition, USA are considering impose import tariff 25% for automotive and auto parts product from Japan, which would negatively affect Japan economy.
2. The volatility of exchange rate followed the dynamic of global economy especially, concern the consideration to impose import tariff by USA to several export country would consequently trigger trade war. Other factors affected the volatility of exchange rate is the movement of fund which outflow from Thailand as FOMC has consistently announced the increase of interest rate while the Bank of Thailand has maintained its interest rate. Furthermore, the result of mid-term election in USA would lead to either stability or volatility of exchange rate. Meanwhile, as JPY has depreciated against USD, 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.
3. 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



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sales volume which would offer at lower price and compete with the current market for products from Thailand.

4. The fuel price which continuously increased could affect the increasing of production cost.
5. 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. The CPTPP has been determined the commencing by the end of 2018
6. 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.

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)
	3 rd Quarter 2017	2 nd Quarter 2018	3 rd Quarter 2018	% QoQ	% YoY	9M 2017	9M 2018	% YTD
Export Sales Revenue	350.69	325.64	334.02	2.57	(4.75)	1,044.84	926.95	(11.28)
Domestic Sales Revenue	10.66	7.84	4.48	(42.86)	(57.97)	21.82	16.09	(26.24)
Total Sales Revenue	361.35	333.48	338.50	1.51	(6.32)	1,066.66	943.05	(11.59)

In the third quarter of 2018, sales revenue indicated totaling THB 338.50 Million, of which export sales is 98.68% of total sales revenue, insignificantly decreased from proportion 97.65% comparing to the previous quarter. On the other hand, the proportion of domestic sales for the third quarter of 2018 is to 1.32%, insignificantly decreased from 2.35% in the previous quarter.

Total sales revenue in the third quarter of 2018 has decreased THB 22.85 Million comparing to the third quarter of 2017 which presented THB 361.35 Million, equivalent to the decrease of 6.32%. This due to the strongly appreciation of THB



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against USD and the decrease of sales volume from the sluggish private consumption in Japan.

2. Other Revenue

In the third quarter of 2018, the company has indicated other revenue of THB 1.58 Million which decreased from THB 2.78 Million in the second quarter of 2018, equivalent to the decrease of 43.09%, majorly cause by the revenue from the other asset disposal activities. Also, the Company has revenue from investment THB 0.78 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 third quarter of 2018 presented THB 259.81 Million, equivalent to the decrease of 5.97%, comparing to THB 276.29 Million in the third quarter of 2017. The major reasons for the decrease are 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 continuously in the second quarter to the third quarter of 2017.
- However, the overhead production cost per unit has increased as the increasing cost for the production factors such as increasing minimum wage start from last April, the increasing bunker oil price, 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 third quarter of 2018, the Company has reported the selling and administration expenses of THB 40.72 Million which decreased from THB 43.53 Million as reported in the third quarter of 2017, equivalent to the decrease of 6.46% 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 third quarter of 2018 has increased to 23.25% comparing to 19.44% indicated in the previous quarter, which derived from the increasing seasonal sales volume and the depreciation of THB against USD due to strictly international trade policy from US, despite the increasing cost of goods sold per unit from the increasing cost for the factors of production such as increasing minimum wage, increasing bunker oil price, and the increasing external cold storage charge. However, the EBIT Margin has decreased to 10.01% comparing to 14.02% presented in the previous quarter. This is due to the fluctuation of exchange rate which caused the loss on exchange rate for THB 6.46 Million.



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Comparing to the third quarter of 2017, the Gross Profit Margin is not significantly change since the Company has adjust selling price for some products to maintain its margin according to the rising cost of production. However, the EBIT Margin has declined as THB has appreciated against USD in the period and the movement is volatile, consequently, the Company has presented loss on the exchange rate which pressured the EBIT Margin.

Net Profit

In the third quarter of 2018, the Company has indicated Net Profit of THB 27.69 Million, considered decreasing 26.90% comparing to the previous quarter which presented THB 37.88 Million, whereas the Net Profit Margin has decreased to 8.18% comparing to 11.36%. This is due to the increasing cost of goods sold per unit as the cost of production has increased including the increased minimum wage, bunker oil price, and the external cold storage charge, despite the increasing seasonal sales volume and the depreciation of THB against USD comparing to the previous quarter. Also, the fluctuation of exchange rate has caused the loss on the exchange rate in this period which consequently affect the decreased of Net Profit.

Comparing to the third quarter of 2017, the Net Profit has dropped 43.18% since the strong appreciation of THB against USD and the decreased of sales volume, while the cost of production has substantially increased such as minimum wages, bunker cost. In addition, the Selling and Administration Expenses has move in the same direction of these costs. Consequently, the Net Profit Margin has declined to 8.18%, comparing to 13.49%.

Summary Table for the Financial Performance

	Value (THB Million)			Increase (decrease)		Value (THB Million)		Increase (decrease)
	3 rd Quarter 2017	2 nd Quarter 2018	3 rd Quarter 2018	% QoQ	% YoY	9M 2017	9M 2018	% YTD
Sales Revenue	361.35	333.48	338.50	1.51	(6.32)	1,066.66	943.05	(11.59)
Cost of Goods Sold	276.29	268.66	259.81	(3.29)	(5.97)	782.87	757.12	(3.29)
Gross Profit	85.06	64.82	78.69	21.39	(7.48)	283.79	185.93	(34.48)
Gain (Loss) from Exchange Rate	15.24	18.56	(6.45)	(134.78)	(142.34)	22.73	26.22	15.35
Revenue from Investment	4.17	3.99	2.36	(40.85)	(43.41)	12.89	14.20	10.16
Other Revenue	43.53	40.61	40.72	0.26	(6.46)	128.77	119.30	(7.35)
Selling and Administration Expenses	60.94	46.76	33.88	(27.54)	(44.41)	190.64	107.04	(43.85)
Earnings Before Interest and Tax	48.74	37.88	27.69	(26.90)	(43.18)	152.52	87.16	(42.85)
Net Profit (Loss)	72.86	60.24	46.04	(23.58)	(36.81)	224.28	143.44	(36.05)
Earnings Before Interest, Tax, Depreciation and Amortization	(29.86)	32.37	(76.00)	(334.77)	(154.54)	(13.89)	(137.54)	(889.99)
Cash Flow from Operation	0.13	0.10	0.07					
Earnings per share (Baht)	3.76	3.74	3.82					



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Key Financial Ratios

Key Financial Ratios	3 rd Quarter 2017	2 nd Quarter 2018	3 rd Quarter 2018
Current Ratio (Times)	13.46	9.70	11.02
Quick Ratio (Times)	7.26	4.58	4.28
Gross Profit Margin (%)	23.54	19.44	23.25
EBIT Margin (%)	16.87	14.02	10.01
Net Profit Margin (%)	13.49	11.36	8.18
Return on Equity (%)	12.68	8.10	6.58
Return on Assets (%)	11.64	7.27	5.99
Debt To Equity Ratio (Times)	0.09	0.12	0.10

Company's Financial Position

Assets

The Company has total assets according to the financial statements as of 30 September 2018 of THB 1,606.42 Million comparing to THB 1,591.84 Million in the previous quarter, equivalent to the slightly increase of 0.92%. The major increase is from the decrease of cash and cash equivalent to purchase raw materials totaling THB 95.25 Million. Therefore, the inventory has increased to THB 653.60 Million, comparing to 547.09 Million, considered increasing of 19.47%, resulted from the increasing quantity of agricultural produces as the farming yield has improved beyond expectation.

Trade Receivables in the third quarter of the year 2018 indicated THB 182.81 Million, decrease from THB 186.49 Million presented in the previous quarter, equivalent to the decrease of 1.98% as the decreased from Receivable from Farmers as the Company has purchase more agricultural produces within the period. 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 September 2018 of THB 151.70 Million which decrease THB 13.11 Million, equivalent to the decrease of 7.95%, comparing to the previous quarter. The major reason for the decreased is the trade payable and other payable, which decreased to THB 79.27 Million, comparing to THB 97.56 Million in the previous quarter.

As of 30 September 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



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- 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 third quarter of 2018, the Current Ratio indicated 11.02 times and the Quick Ratio of 4.28 times, while most of the assets are in the form of current assets.

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 September 2018 of THB 1,454.72 Million, increase from THB 1,427.03 Million comparing to the previous quarter, equivalent to the increase of 1.94%. The major contribution to the increase is the inappropriate retained earnings which indicated THB 967.46 Million in the third quarter of 2018, comparing to THB 939.77 Million in previous quarter, equivalent to the increase of 2.95%.

Cash flow and Capital Structure

The Company has net cash paid in operating activities as of 30 September 2018 of THB 137.54 Million, increased from net cash paid in operating activities THB 17.71 Million stated in same period last year. The major reason is cash received from sales is less than last year due to the appreciation of THB against USD and the decline of sales volume. Further, the company has spent its cash to purchase raw material from the increasing quantity of agricultural produces as the farming yield has improved beyond expectation which result in the increasing inventory. On the other hand, the Company has net cash provide by investing activities of THB 186.23 Million. In this regard, the Company has spent its short-term investment on the acquisition of building and equipment THB 46.94 Million. The Company has net cash used in financing activities of THB 77.02 Million, majorly to paid dividend to shareholders.

In the third quarter of the year 2018, the Company has sufficient liquidity which evidence from the current ratio of 11.02 times, increase from 9.70 times in previous quarter. The major assets are current assets equivalent to 70.64% of total assets. On the other hand, the Company has only 6.41% 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 third quarter of 2018, whereas the debt to equity ratio slightly decrease to 0.10 times comparing to 0.12 times indicated in the previous quarter.



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Summary Table for Company's Financial Position

	Value (THB Million)			Increase (decrease)		Increase (decrease)	
	3 rd Quarter 2017	2 nd Quarter 2018	3 rd Quarter 2018	THB Million QoQ	% QoQ	THB Million YoY	% YoY
Current Assets							
Cash and short term investment	466.93	393.67	298.42	(95.25)	(24.19)	(168.51)	(36.09)
Inventory	155.08	186.49	182.81	(3.68)	(1.98)	27.73	17.88
Other current assets	485.25	547.09	653.60	106.50	19.47	168.35	34.69
Total Current Assets	1,107.26	1,127.25	1,134.83	7.57	0.67	27.57	2.49
Non-Current Assets							
Property Land and Equipment	352.66	357.54	365.06	7.52	2.10	12.41	3.52
Other Non-Current Assets	107.02	107.04	106.53	(0.51)	(0.48)	(0.49)	(0.45)
Total Non-Current Assets	459.68	464.58	471.60	7.01	1.51	11.92	2.59
Total Assets	1,566.94	1,591.84	1,606.42	14.59	0.92	39.49	2.52
Current Liabilities	82.24	116.16	102.99	(13.17)	(11.34)	20.75	25.23
Non-Current Liabilities	49.85	48.65	48.71	0.06	0.13	(1.14)	(2.29)
Total Liabilities	132.09	164.81	151.70	(13.11)	(7.95)	19.61	14.85
Shareholder's Equity	1,434.85	1,427.03	1,454.72	27.69	1.94	19.88	1.39

Please be informed accordingly

Faithfully yours,

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 CHIANGMAI FROZEN FOODS
 PUBLIC COMPANY LIMITED

Ankoon Pholpipattanaphong

Managing Director