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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

26 February 2020

Subject: Management Discussion and Analysis for the year 2019

To: The President

The Stock Exchange of Thailand

Performance Overview

The overall of Thailand's economy in the year 2019 considered contracted since export sector has been negatively affected by the trade war, which cause fragile demand domestically. Investment index and durable goods consumption slow down according to the export. On the other hand, there are several economic stimuli initiate by the government attempted to address the situation. Expected GDP is cut down to only 2.5% growth. The global economic in 2019 has shown the strong sign of slowdown, especially in the manufacturing and export industry due to the prolonged trade war. Japan economic also has been negatively affected from the strongly appreciation of JPY against USD caused by the uncertainty of trade war, together with trade barrier from US in terms of increasing import tax for auto parts. In addition, the increase of consumption tax from 8% to 10% in the last October, caused the shrink demand for private consumption.

During 2019, the volatile of exchange rate especially the continuously appreciation of Thai Baht (THB) against U.S. Dollar (USD) as the result from the outstanding growth of US economic, also the US-China trade war contributed to the fluctuation in currency exchanged market. Therefore, USD strongly depreciated against major currencies. The average exchange rate for the year 2019 revealed in the Bank of Thailand indicated 31.05 THB/USD, comparing to 32.31 THB/USD in 2018, considered the appreciation of 3.90%. The appreciation of THB has directly weakening revenue of the Company, in which products majorly sold in USD currency, considered approximately more than 90% of the total revenue. Therefore, the sales revenue reveals in the financial statement for the year 2019 of THB 1,163.26 Million, decreasing of 10.84% comparing to THB 1,265.51 Million indicated in 2018. Also, total sales volume of 2019 presented 20,458 Tons, which decreased 3.90% comparing to 21,228 Tons in previous year. Moreover, the drought situation in 2019 has caused difficulties for agricultural sector hence the cultivation yield is dropped which caused price for agricultural produce to increase. Furthermore, the recognizing past service costs as extra expenses in the statement of comprehensive income as the announcement of The Labor Protection Act (No. 7) B.E. 2562 was announced in the Royal Gazette and effective on 5 May 2019 has increase the cost for the Company. The company's financial statement has indicated the net profit THB 34.76 Million in the year 2019, equivalent to the decrease of 71.95% considering previous year performance of THB 97.48 Million, while the gross profit margin and net profit margin in 2019 displayed 12.26% and 2.99% respectively which decrease from 19.48% and 7.70% previously shown in 2018



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The financial performance has significantly change more than 20%, whereby the Net Profit has decreased 64.33% comparing to the 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 raw material cost from the drought that caused the decreasing cultivation yield, the increasing cost of production from increasing wage and employee benefits, and the recognizing past service costs as extra expenses as the announcement of The Labor Protection Act (No. 7) B.E. 2562 was announced in the Royal Gazette and effective on 5 May 2019. Finally, the net profit has greatly decreased.

The Company has not indicated any non-recurrent transaction in the financial statements for the year 2019.

During the year, 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.

For the year 2020, the global economic has been expected a modest recovery on the back of lower risk from trade war since the phase I negotiation has been established. Also, the relaxing monetary policy from several countries and the economic stimuli should energized the domestic demand and lower the risk for technical recession. Furthermore, the outbreak of virus COVID-19 since the beginning of this year has possibly push a pressure on the growth of global economic. Further, Japan is expected to grow at decreasing pace due to the increasing consumption tax from 8% to 10% which would cause the slow consumption after October. On the other hand, the domestic factor for Thailand to be carefully monitor are the high possibility of drought which could cause the raw materials from agricultural sector to be increased, also the minimum wage has increase since last January. 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 for alternatives energy, 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.



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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 financial statement categorized by the geographic is as follows,

Sales Revenue	Value (THB Million)			Increase (decrease) %		
	2017	2018	2019	2017	2018	2019
Export Sales Revenue	1,322.71	1,238.32	1,092.29	(7.79)	(6.38)	(11.79)
Domestic Sales Revenue	35.18	27.19	70.97	13.08	(22.71)	161.01
Total Sales Revenue	1,357.89	1,265.51	1,163.26	(7.34)	(6.80)	(8.08)

In 2019, sales revenue indicated totaling THB 1,163.26 Million, of which domestic sales proportion is 6.10% of total sales revenue, increase from proportion 2.15% comparing to 2018, and the proportion of export sales for the year 2019 is 93.90%, slightly decreased from 97.85% in 2018.

Total sales revenue in 2019 totaling THB 1,163.26 Million decreasing from THB 1,265.51 Million in 2018, equivalent to the decrease of 8.08%. This due to the continuously appreciation of THB against USD which the average exchange rate in 2019 is 31.05 THB/USD comparing to average exchange rate of 32.31 THB/USD, equivalent to the appreciation of 3.90%. In addition, the sales volume has been decrease comparing to the previous year.

2. Other Revenue

In 2019, the company has indicated other revenue which mainly derived from the selling of by-product of THB 7.84 Million which decreased from THB 12.03 Million in 2018, equivalent to the decrease of 38.39%. Also, the Company has revenue from investment THB 4.36 Million as the return from the investment in fixed income term fund and money market.

Cost of Goods Sold

Cost of goods sold in 2019 presented THB 1,021.76 Million, equivalent to the increase of 0.37%, comparing to THB 1,018.94 Million in 2018. The major reasons for the increase is as follows,

- The sales volume has decreased comparing to the previous year, since Japan household consumption has slightly stagnant in 2019.
- However, the raw material cost has increased concern the dropped cultivation yield derived from the drought during the period. Also, the other overhead production cost per unit has increased as the increasing cost for the production factors such as increasing minimum wage, employee benefits. The increasing depreciation from the investment in new machines and the maintenance of old storage building and its system. However, the external cold storage charge has declining due to the balancing inventory with the agricultural produces.



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Selling and Administration Expenses

In 2019, the Company has reported the selling and administration expenses of THB 150.91 Million which decreased from THB 162.55 Million as reported in 2018, equivalent to the decrease of 9.75% 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. Also, the appreciation of Thai Baht against USD caused the decline in sea freight expenses. Further, the external cold storage charge has decreased from the attempt to manage the inventory and the cultivation.

Gross Profit Margin and EBIT Margin

The Gross Profit Margin for the Company presented in the financial statement for the year ended 31 December 2019 is 12.16% decrease from 19.48% indicated in previous year, while the EBIT Margin reveal 3.61% decrease from 9.44% comparing to 2018. This is majorly contributed to the appreciation of exchange rate which unfavorable to the sales revenue of the company, while the sales volume is decreased. At the same time, cost of goods has been increased due to the increase raw material cost from drought and the labor related cost has increase through the recognizing past service costs as extra expenses as the announcement of The Labor Protection Act (No. 7) B.E. 2562 was announced in the Royal Gazette and effective on 5 May 2019. In addition, the Company has higher gain on Exchange rate comparing to previous period due to the continuous appreciation of THB against USD.

Net Profit

The Company has indicated net profit in the financial statements in 2019 of THB 34.76 Million, decreased from THB 97.48 Million presented in 2018, equivalent to the decrease of 64.34%. The major contribution to the decrease of net profit derive from the unfavorable exchange rate as THB is continuously appreciated against USD. Also, the decrease of sales volume is considered affected the Net Profit. Moreover, the raw material cost has been increased due to the drought has caused cultivation yield to drop, the production cost has been increased due to the increasing employee benefits and the depreciation of new machines to improve the efficiency of production line. The Company has determined to focus on production cost management including the attempt to improve the quality of seeds and level up its selection standard, increase the production efficiency, improve the cold storage area purposely to improve capacity management and reduce external cold storage charge.



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Summary Table for the Financial Performance

Financial Highlight	Value (THB Million)			Increase (decrease) %		
	2016	2017	2018	2016	2017	2018
Sales Revenue	1,357.89	1,265.51	1,163.26	(7.34)	(6.80)	(8.08)
Cost of Goods Sold	1,034.56	1,018.94	1,021.76	(2.60)	(1.51)	0.28
Gross Profit	323.33	246.57	141.50	(19.84)	(23.74)	(42.61)
Gain on Exchange Rate	34.63	19.17	39.21	316.38	(44.64)	104.50
Revenue from short term investment	6.62	4.17	4.36	26.56	(36.99)	4.44
Other Revenue	8.57	12.03	7.84	3.87	40.50	(34.84)
Operating Profit	373.15	281.95	192.90	(12.23)	(24.44)	(31.58)
Selling and administration Expenses	175.07	162.55	150.91	(3.42)	(7.16)	(7.16)
Earnings Before Interest and Tax	198.08	119.40	41.99	(18.77)	(39.72)	(64.83)
Net Profit	160.41	97.48	34.76	(18.32)	(39.23)	(64.34)
Earnings Before Interest, Tax, Depreciation and Amortization	241.90	163.11	91.87	(14.55)	(32.57)	(43.67)
Cash Flow From Operation	80.76	(66.08)	206.66	(75.87)	(181.82)	412.75
Earnings per share (Baht)	0.42	0.26	0.09			
Book Value per share (Baht)	3.79	3.74	3.70			

Key Financial Ratios

Key Financial Ratios	2016	2017	2018
Current Ratio (Times)	13.44	12.94	14.85
Quick Ratio (Times)	7.68	5.45	7.32
Gross Profit Margin (%)	23.81	19.48	12.16
Operating Profit Margin (%)	14.59	9.44	3.61
Net Profit Margin (%)	11.81	7.70	2.99
Return on Equity (%)	11.01	6.80	2.45
Return on Assets (%)	10.05	6.22	2.70
Debt To Equity Ratio (Times)	0.09	0.09	0.10



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Company's Financial Position

Assets

The Company has total assets according to the financial statements as of 31 December 2019 of THB 1,549.27 Million comparing to THB 1,559.00 Million in the previous year, equivalent to the slightly decrease of 0.62%. The major decrease is from the decrease of inventory from THB 613.17 Million to THB 499.86 Million, equivalent to the decreased of 18.48% since the reduce cultivation yield caused by drought. Cash and cash equivalent and short-term investment in the forms of cash in fix saving account altogether presented THB 371.54 Million in 2019 comparing to THB 312.45 Million in 2018, equivalent to the increase of 18.91%.

Trade Receivables in 2019 indicated THB 109.32 Million, decrease from THB 139.48 Million presented in 2018, of which THB 62.07 Million is receivable that not yet due for payment, equivalent to 65.683% of total receivables in 2019 which indicated THB 105.13 Million. 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 2019, most of the clients able to settle the payment within due.

Liabilities

The Company has total liabilities according to the financial statements as of 31 December 2019 of THB 139.40 Million which slightly increase from THB 134.29 Million, equivalent to the increase of 3.81%, comparing to the previous year. This is due to the increase of non-current liabilities, employee benefits obligation which increase from THB 49.64 Million in 2018, to THB 69.32 Million in 2019 as the new calculation on the employee benefits according to the The Labor Protection Act (No. 7) B.E. 2562 which was announced in the Royal Gazette and effective on 5 May 2019.

As of 31 December 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 0.25 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 18.04 Million



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The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the year 2019, the Current Ratio indicated 14.85 times and the Quick Ratio of 7.32 times, while most of the current assets are in the form of inventory, including 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 December 2019 of THB 1,409.87 Million, decrease from THB 1,424.71 Million comparing to the previous year, equivalent to the decrease of 1.04%. The major contribution to the decrease is the inappropriate retained earnings from financial performance which indicated THB 922.61 Million in 2019, comparing to THB 937.45 Million in 2018, equivalent to the decrease of 1.58%.

Cash flow and Capital Structure

In the year 2019, the Company has net cash flow received from operation THB 206.66 Million, comparing to the cash flow paid in operation THB 66.08 Million indicated in 2018. Though, the net profit is decreasing comparing to 2018, the balancing of inventory level during the drought, the Company has spent less on purchasing raw materials. In addition, the Company has been reported THB 105.49 Million on the investing activities majorly on acquiring new machine and the repair and maintenance of building and machine, and THB 43.19 Million as the dividend payment in the year 2019.

In 2019, the Company has sufficient liquidity which evidence from the current ratio of 14.85 times, slightly increase from 12.94 times in 2018. The major assets are current assets equivalent to 65.32% of total assets. On the other hand, the Company has only 4.40% 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 year 2019, whereas the debt to equity ratio is slightly increase to 0.10, comparing to 0.09 debt to equity ratio indicated previous year.



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Summary Table for Company's Financial Position

	Value (Million Baht)			Increase (decrease) %			Common Size		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
Current Assets									
Cash and short term investment	556.94	312.45	371.54	(26.31)	(43.90)	18.91	35.35	20.24	23.98
Trade Receivables	124.26	147.54	126.99	5.09	18.74	(13.93)	7.89	9.46	8.20
Short-Term Loan	-	-	13.60	-	-	-	-	-	0.88
Inventory	433.55	613.17	499.86	25.64	41.43	(18.48)	27.52	39.33	32.26
Total Current Assets	1,114.75	1,073.17	1,011.99	(8.56)	(3.73)	(5.70)	70.75	68.84	65.32
Non-Current Assets									
Property Land and Equipment	352.72	379.02	425.48	6.79	7.46	12.26	22.39	24.31	24.76
Other Non-Current Assets	108.22	106.81	111.80	58.91	(1.30)	4.67	6.87	6.85	7.22
Total Non-Current Assets	460.94	485.83	537.28	15.70	5.40	10.59	29.25	31.16	34.68
Total Assets	1,575.69	1,559.00	1,549.27	(2.59)	(1.06)	(0.62)	100.00	100.00	100.00
Current Liabilities	82.97	82.96	68.14	(19.85)	(0.01)	(17.86)	5.27	5.32	4.40
Non-Current Liabilities	48.94	51.33	71.26	8.97	4.89	38.82	3.11	3.29	4.60
Total Liabilities	131.91	134.29	139.40	(11.13)	1.80	3.81	8.37	8.61	9.00
Shareholder's Equity	1,443.79	1,424.71	1,409.87	(1.72)	(1.32)	(1.04)	91.63	91.39	91.00

Please be informed accordingly

Faithfully yours,

Ankoon Pholpipattanaphong

Managing Director