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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

10 May 2023

Subject: Management Discussion and Analysis for the period ended 31 March 2023

To: The President

The Stock Exchange of Thailand

### **Performance Overview**

In the first quarter of 2023, the global economic recovery is likely to recover from the outbreak of COVID - 19. The service sector has a tendency to recover continuously, such as the United States and countries in Europe and Asia, receiving positive results from China's opening up and started to show signs of improvement in the first quarter of 2023.

Consider the economic situation of the important trade partner, Japan, in the first quarter of 2023, the economic growth opening up the country and attracting more travel with the depreciation yen currency when the Yen depreciates this is a factory causing import products to have higher product prices.

The situation of the exchange rate of the baht against the US dollar tends to depreciate. The reference exchange rate of baht per US dollar in the first quarter of 2023 was 33.93 baht per US dollar, compared to the first quarter of 2022 at 33.05 baht per US dollar. Although confidence in controlling the COVID-19 epidemic situation in Thailand has improved significantly compared to the same quarter of the previous year, the recovery of the Thai economy in the first quarter of 2023 shows that tourism has the most obvious growth trend considering from the statistics of the arrival of foreign tourists and the growth of international airlines with the same number of flights as before the COVID-19 outbreak and the recovery of private consumption in the first quarter of 2023, as well as the decline in headline inflation. Anyway, the overall picture of the global economy is still uncertain from continuing high inflation trends.

The company's total revenue from sales decreased to THB 282.50 million compared to the revenue in the first quarter of 2022 which presented THB 319.83 million, considered to the decreased of 11.67% and important factor after the recovery from the impact of COVID-19 caused by the import on the Japan economy is the depreciation of Yen. As a result, the competition of product price is higher causing the import pressure to after the cost of goods has increased accordingly. However, the average cost of sales per unit slightly decreased due to the decreased in the purchase price of product. The direct labor cost decreased from the decreased in export sales revenue. The electricity expenses have decreased since the solar roof has completed the installation in January 2021. These conclude the gross profit of THB 43.29 million, decreasing 21.80% compared to the same quarter in 2022, with the gross profit



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margin of 15.33% increasing from 17.31%. The Company has profit on the exchange rate of THB 11.39 million compared to gain loss on the exchange rate of THB 2.55 million in the first quarter of 2022. Also, the selling and administrative expenses has significantly decreased due to the decrease of sea freight and transportation cost as a result from the epidemic situation of Covid-19 has been relieved. The company to net loss for the Company has indicated THB 3.14 million, decreased net loss margin of 1.11%, compared to net loss of THB 5.53 million with net loss margin at 1.73% presented in the first quarter of 2022.

The Company's financial performance has significantly changed more than 20%, with net profit decreasing by 43.23% compared to the previous year. Despite the decreasing revenue from decreasing sales volume and the depreciation of THB, the selling and administrative expenses has decreased from loss on impairment of investment in subsidiary and include the transportation expense and sea freight which affected by the container shortage situation and the decreasing fuel price. Also, the Company has decreasing expenses from COVID-19 prevention measure.

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

1. The outbreak of COVID-19 has a tendency to improve the global economic continued to recover from the service sector especially the United State, Europe and China. While Asia will benefit from China opening up and improvement in the world production in the second half of 2023. In Thailand there is a clear recovery in the tourism sector and private consumption continued to recover. Debt serviceability of business and households overall improved in line with the economic recovery. However, merchandise exports are expected to recover more clearly the second half of 2023.
2. The volatility of exchange rate, as THB has likely to appreciate due to opening of China and expected recovery of the Thailand tourism sector against USD as the market raises expectation of the Federal Reserve policy rate hike in early March 2023 and according to the global economic conditions may affect the revenue recognition of the company. While the Yen tends to depreciate against USD may affect the cost of importing goods that increased.
3. The war between Russia-Ukraine may be more protracted than expected resulting in the cost of fertilizer and agricultural chemical to increase and affect the increasing price for agricultural raw materials.
4. The continuous increase in electricity tariff resulting in higher production cost in addition, the cost of oil which is an important factor in production costs, has also increased.



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## **Summary of Financial Performance**

### **Revenue Structure**

#### 1. Sales Revenue

The Company has sales revenue mainly from the sales of frozen vegetables such as frozen soybeans, frozen green beans, frozen sweet corn 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 <sup>st</sup> Quarter 2022	1 <sup>st</sup> Quarter 2023	THB million	%
Export Sales Revenue	301.04	260.94	(40.11)	(13.32)
Domestic Sales Revenue	18.78	21.56	2.78	14.79
Total Sales Revenue	319.82	282.50	(37.33)	(11.67)

In the first quarter of 2023, sales revenue indicated totaling THB 282.50 million, of which export sales is 92.37%, slightly increased from 94.13% in the same quarter of 2022. In this regard, the proportion of domestic sales proportion is 7.63% of total sales revenue, decreased from proportion 5.87% compared to same quarter of 2022.

Total sales revenue in the first quarter of 2023 totaling THB 282.50 million increased from THB 319.82 million in the first quarter of 2022, equivalent to the decrease of 11.67%. This is due to the decrease of sales volume from export as decreasing order from overseas market compared to the same quarter last year being the period when growth in major trade partners slowed down in order to purchase goods.

#### 2. Other Revenue

In the first quarter of 2023, the company has indicated other revenue of THB 5.45 million which increased from THB 2.21 million in the first quarter of 2022, equivalent to the increase of 146.19%, majorly caused by the revenue from the other assets disposal activities.

### **Cost of Goods Sold**

Cost of goods sold in the first quarter of 2023 presented THB 248.92 million equivalent to the increase of 5.88%, compared to THB 264.47 million in the first quarter of 2022. The major reason for the increase is as follows:

- The decreasing sales volume from oversea market.



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- The direct labor costs decreased compared to the first quarter of 2023, due to a decrease in foreign sales from key partners who slowed down orders. Also the electricity expenses has decreased from the use of electricity generated from solar roof.

### **Selling and Administration Expenses**

In the first quarter of 2023, the Company has reported the selling and administrative expenses of THB 48.81 million which decreased from THB 57.44 million as reported in the first quarter of 2022, equivalent to the increase of 15.02% which derive from the decreasing freight transportation expense due to the shortage container situation.

### **Gross Profit Margin and EBIT Margin**

The Gross Profit Margin for the Company presented in financial statement for the period ended 31 March 2023 is 11.89% increase from 17.31% indicated in the same quarter of previous year, while the EBIT Margin reveal 0.57% decreased from -0.76% compared to the same quarter of 2022. This is due to the significantly decreasing sea freight as the container shortage situation and the decreasing fuel price. While the Company has loss on the exchange rate of THB 11.39 million, compared to gain on the exchange rate of THB 2.55 million stated in previous year. The overhead production cost per unit has decreased as the raw material price has decreased compared to the severe drought last year, also the electricity cost has decreased as the use of electricity generated from solar roof.

### **Net Profit**

The Company has indicated net loss in the financial statements or the first quarter of 2023 of THB 3.14 million, decrease from net loss of THB 5.53 million presented in the first quarter of 2022, equivalent to the decrease of 1.11%. The Net Loss Margin has stated 1.73% compared to 1.73% in the first quarter of 2022. The company has adjusted loss on impairment of investment in subsidiary in the first quarter of 2023 equal to THB 12 million compared to the same quarter of the previous year will from the temporary ceased of operation of subsidiary, resulting in the increase of net profit. Although the export sales revenue and volume is decreased, while the overhead production cost per unit as the raw material price has decreased compared to the raw material price during the severe drought last year, also the electricity expenses has decreased from the consumption of electricity generated by solar roof. Further, the Company has profit on the exchange rate as the exchange rate has fluctuated during last year. However, the selling and administrative expense has significantly decreased from the decreasing sea freight expense due to the container shortage situation.



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**Summary Table for the Financial Performance**

	1 <sup>st</sup> Quarter (THB Million)		Increase (Decrease)	
	2022	2023	THB million	%
Sales Revenue	319.83	282.50	(37.33)	(11.67)
Cost of Goods Sold	264.47	239.21	25.26	(9.55)
Gross Profit	55.36	43.29	(12.07)	(21.80)
Gain (Loss) from Exchange Rate	(2.55)	11.39	(13.94)	(546.60)
Other Revenue	2.21	5.45	3.24	146.19
Selling and Administration Expenses	57.44	58.52	1.08	1.87
Earnings Before Interest and Tax	(2.42)	1.62	4.04	(166.81)
Financial Cost	1.07	3.73	2.66	248.60
Tax	2.08	1.31	0.77	(36.90)
Net Profit (Loss)	(5.53)	(3.14)	2.39	(43.23)
Earnings Before Interest, Tax, Depreciation and Amortization	22.60	23.14	0.54	2.38
Cash Flow from Operation	(26.89)	36.75	9.86	36.67
Earnings (Loss) per share	(0.003)	0.008		
Book Value per share	3.45	3.33		

**Key Financial Ratios**

Key Financial Ratios	1 <sup>st</sup> Quarter 2022	1 <sup>st</sup> Quarter 2023
Current Ratio (Times)	3.49	3.47
Quick Ratio (Times)	0.66	0.83
Gross Profit Margin (%)	17.31	15.33
EBIT Margin (%)	(0.76)	0.57
Net Profit Margin (%)	(1.73)	(1.11)
Return on Equity (%)	(0.41)	(0.25)
Return on Assets (%)	(0.32)	(0.19)
Debt To Equity Ratio (Times)	0.27	0.28



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## Company's Financial Position

### Assets

The Company has total assets according to the financial statements as of 31 March 2023 of THB 1,626.04 million compared to THB 1,663.69 million in the previous quarter, equivalent to the decrease of 0.52%. The major decrease is from the decrease of Inventories which decreased THB 6.96 million, decreased to THB 559.29 million representing the decrease of 1.47% from the decreasing produces harvested in this season, considered sales volume has increased, Trade receivables decreasing from THB 118.53 million, decreasing THB 7.06 million or 5.96%. 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 2023 of THB 357.49 million increasing THB 1.48 million, equivalent to the increase of 0.42%, compared to the previous quarter. The main reason derived from the increased of THB 1.70 Million in Derivative Liabilities, considered increasing 72.34% since the depreciation of THB in the forward contract the Company intended to use as financial instruments to protect the exchange rate risk.

As of 31 March 2023, the Company has liabilities obligation other than employee benefits which are as follows:

- As of March 31, 2023, the Company and directors of the Group have obligations with financial institutions to guarantee loan liabilities for Sino-Thai Freeze and Dry Co., Ltd., a subsidiary, in the amount of THB 196.4 million. (Note to item 15,17 and 18) Currently it in the process of negotiation to find a new investor in the subsidiary and negotiate debt repayment term with the financial institutions. The legal action was taken by a financial institution after defaulting on loan payments. However, the company's executives have considered together with the legal department and believe that the Company does not have to pay such debts on behalf of the subsidiary as the value of assets of subsidiaries used as collateral is worth more than the liabilities with financial institutions. Therefore, the company did not record contingent liabilities in the finance statement.
- The Group has entered into a contract to purchase the license to use the program and to hire a consultant to design the said system. The Group has contractual obligations in the amount of approximately THB 0.31 million.



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- The Group has contingent liabilities from banks issuing letters of guarantee for the Group to government agencies amounting to approximately THB 11.02 million.
- The Group has commitments in respect of hiring a contractor for installing solar power systems and machinery in the amount of THB 2.32 million.
- A subsidiary entered into a gas purchase agreement with a company. The contract has a term of 5 years and the gas charge is charged according to the conditions specified in the contract.

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the first quarter of 2023, the Current Ratio indicated 3.47 times and the Quick Ratio of 0.83 times, while most of the assets are current assets.

Currently, there is no file or active case of lawsuit against the Company.

### **Shareholders Equity**

Shareholder's equity for the company presented in the financial statement for the period ended 31 March 2023 of THB 1,268.55 million, decreasing from THB 1,314.02 million compared to the first quarter of 2022, equivalent to the decrease of 3.46%. However, the unappropriated retained earning has decrease from THB 770.02 million to THB 798.37 million, considered 3.68% decreased compared to first quarter of 2022. This is due to loss from operation in STFD. Also 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 1.70 million according to the newly adopted accounting standard and reporting standard.

### **Cash flow and Capital Structure**

In the first quarter of 2023, the Company has net cash flow used in operation THB 36.75 million, compared to the net cash flow used in operation THB 26.89 million in the first quarter of 2022 due to the increasing payment received from customer as sales volume has increased. Besides, the company paid THB 7.76 million for the procurement of machines and equipment.

In the first quarter of the year 2023, the Company has sufficient liquidity which evidence from the current ratio of 3.47 times, decreasing from 3.49 times in the same quarter in previous year. This is due to the increase of current liabilities as they are liabilities from STFD consolidated to the Company. However, the major assets are current assets equivalent to 56.38% of total assets. On the other hand, the Company has only 16.25% of current liabilities which mostly consists of trade payable. There is no outstanding borrowing from the financial institution.



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The Company has not engaged in any long term borrowing during the first quarter of 2023, but the subsidiary has the long-term borrowing stated is the liability of STFD, whereas the debt to equity ratio decrease to 0.28 times, compared to 0.27 times as indicated in the same quarter of previous year.

### Summary Table for Company's Financial Position

	Value (THB million)			Increase (decrease)		Increase (decrease)	
	1 <sup>st</sup> Quarter 2022	4 <sup>th</sup> Quarter 2022	1 <sup>st</sup> Quarter 2023	THB million QoQ	% QoQ	THB million YoY	% YoY
Current Assets							
Cash and Cash Equivalent	167.03	192.07	220.59	28.53	14.85	53.57	32.07
Account Receivables	105.69	223.76	209.61	(14.15)	(6.32)	103.92	98.32
Short-term loan	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	559.29	473.05	466.09	(6.96)	(1.47)	(93.20)	(16.66)
Derivatives Assets	4.68	23.09	20.57	(2.51)	(10.89)	15.89	339.57
Other Current Assets	41.70	0.00	0.00	0.00	0.00	(41.70)	(100)
Total Current Assets	878.38	911.97	916.86	4.89	0.54	38.47	4.38
Non-Current Assets							
Property Land and Equipment	707.21	668.67	655.24	(13.43)	(2.01)	(51.96)	(7.35)
Other Non-Current Assets	78.09	53.85	53.95	0.10	0.19	(24.14)	(30.91)
Total Non-Current Assets	785.30	722.52	709.18	(13.34)	(1.85)	(76.12)	(9.69)
Total Assets	1,663.69	1,634.49	1,626.04	(8.45)	(0.52)	(37.64)	(2.26)
Current Liabilities	251.79	260.53	264.20	3.68	1.41	12.41	4.93
Non-Current Liabilities	97.88	95.49	93.29	(2.20)	(2.30)	(4.59)	(4.69)
Total Liabilities	349.67	356.01	357.49	1.48	0.42	7.83	2.24
Shareholder's Equity	1,314.02	1,278.48	1,268.55	(9.93)	(0.78)	(45.47)	(3.46)

Please be informed accordingly

Faithfully yours,

Ankoon Pholpipattanaphong

Managing Director