

Management's Discussion and Analysis

Highlights of the Consolidated Financial Statements and Key Financial Ratios

Statements of financial position of CPF and its subsidiaries as of 31 December, 2009, 2010 and 2011

	As of 31 December,					
	2009 ¹		2010 ¹		2011	
	THB, million	%	THB, million	%	THB, million	%
Cash and cash equivalents	10,522	9	7,761	6	24,341	15
Accounts receivable — trade and others	14,361	12	15,385	12	15,692	10
Inventories	26,284	23	33,863	27	35,673	22
Other current assets	2,267	2	1,963	2	2,721	2
Total current assets	53,434	46	58,972	47	78,427	49
Long-term investments	11,946	11	16,820	13	25,699	16
Property, plant and equipment	46,422	40	47,142	37	52,025	33
Other non-current assets	3,668	3	3,159	3	3,753	2
Total non-current assets	62,036	54	67,121	53	81,477	51
TOTAL ASSETS	115,470	100	126,093	100	159,904	100
Overdrafts and short-term borrowings from financial institutions	9,745	8	10,051	8	22,897	14
Accounts payable — trade and others	9,106	8	9,707	8	11,733	7
Current portion of long-term debts	6,294	6	8,088	6	5,687	4
Other current liabilities	4,891	4	4,981	4	5,754	4
Total current liabilities	30,036	26	32,827	26	46,071	29
Long-term debts	26,758	23	28,510	23	40,866	25
Other non-current liabilities	3,856	4	3,812	3	6,448	4
Total non-current liabilities	30,614	27	32,322	26	47,314	29
TOTAL LIABILITIES	60,650	53	65,149	52	93,385	58
SHAREHOLDERS' EQUITY	54,820	47	60,944	48	66,519	42

Remark: ¹ From 1 January 2011, the Company has changed its significant accounting policies consequent to the adoption of new and revised Thai Financial Reporting Standards ("TFRS") (details shown in notes to financial statements No.3 Changes in accounting policies). Comparative information, the Company's statements of financial positions for the year ended 31 December 2009 and 2010, has been re-presented so that it also is in conformity with the revised standard.

Consolidated statement of income of CPF and its subsidiaries for the years ended 31 December 2009, 2010 and 2011

	2009 ¹		2010 ¹		2011	
	THB, million	%	THB, million	%	THB, million	%
Revenue from sale of goods	165,063	99	189,049	98	206,099	99
Other income	2,237	1	3,493	2	2,914	1
TOTAL REVENUES	167,300	100	192,542	100	209,013	100
Cost of sale of goods	138,118	83	159,578	83	172,488	83
Selling and administrative expenses	15,311	9	16,696	9	18,376	9
Others	584	-	709	-	532	-
TOTAL EXPENSES	154,013	92	176,983	92	191,396	92
Share of profit of associates	1,591	1	2,511	1	3,657	2
Profit before finance costs and income tax expense	14,878	9	18,070	9	21,274	10
Finance costs	1,949	1	1,823	1	2,432	1
Income tax expense	2,539	2	2,388	1	2,885	1
Profit after income tax expense	10,390	6	13,859	7	15,957	8
Net attributable to Non-controlling interests	(200)	-	(296)	-	(120)	-
NET PROFIT	10,190	6	13,563	7	15,837	8

Remark: ¹Certain accounts in the statements of income for the year ended 31 December 2009 and 2010 have been reclassified to conform to the presentation in the 2011 financial statements.

Statements of comprehensive income for the years ended 31 December 2009, 2010 and 2011

(Unit: THB, million)

	2009 ²	2010 ²	2011
Profit for the year	10,390	13,859	15,957
Other comprehensive income for the year, net of income tax income	(336)	(846)	(197)
Total comprehensive income for the year	10,054	13,013	15,760

Remark: ²The Company presented the comparative information in accordance with Thai Financial Reporting Standards ("TFRS") 1 Re: Presentation of Financial Statements

Consolidated statements of cash flows for the years ended 31 December 2009, 2010 and 2011

(Unit: THB, million)

	2009	2010	2011
Net cash provided by operating activities	22,340	9,581	17,558
Net cash used in investing activities	(4,917)	(7,995)	(14,048)
Net cash provided by (used in) financing activities	(10,143)	(4,398)	13,022
Net increase (decrease) in cash and cash equivalents	7,280	(2,812)	16,532
Cash and cash equivalents at the beginning of the year	3,390	10,516	7,755
Effect of exchange rate changes on the balances held in foreign currencies	(154)	51	(294)
Cash and cash equivalents at end of year	10,516	7,755	22,993

Key financial ratios of the consolidated financial statements of CPF and its subsidiaries

	2009	2010	2011
Liquidity ratios			
Current ratio ¹ (times)	1.78	1.80	1.70
Quick ratio ² (times)	0.83	0.71	0.87
Cash flow liquidity ratio ³ (times)	0.64	0.30	0.45
Accounts receivable turnover ⁴ (times)	11.30	12.36	12.94
Collection period ⁵ (Days)	32	29	28
Inventory turnover ratio ⁶ (times)	24.85	29.41	25.08
Inventory turnover ⁷ (Days)	14	12	14
Accounts payable turnover ⁸ (times)	16.26	16.96	16.09
Payable period ⁹ (Days)	22	21	22
Cash Cycle ¹⁰ (Days)	24	20	20

Key financial ratios of the consolidated financial statements of CPF and its subsidiaries

	2009	2010	2011
Profitability ratios			
Gross profit margin ¹¹ (%)	17.69	15.64	16.31
Operating profit margin ¹² (%)	9.01	9.56	10.32
Net profit margin ¹³ (%)	6.03	6.95	7.45
Return on Equity ¹⁴ (%)	20.27	23.40	24.85
Operating efficiency ratios			
Return on fixed assets ¹⁵ (%)	32.40	39.09	41.33
Asset turnover ¹⁶ (times)	1.51	1.61	1.49
Leverage ratios			
Debt to equity ¹⁷ (times)	1.10	1.07	1.40
Interest coverage ¹⁸ (times)	12.02	5.41	7.25
Debt service coverage ¹⁹ (times)	0.80	0.40	0.53
Dividend payout ²⁰ (%)	59.92	70.32	69.80 ²¹

Remark: ¹ Current ratio = Total current assets / Total current liabilities

² Quick ratio = (Cash and cash equivalents + Short term investment + Accounts receivable - trade and others) / Total current liabilities

³ Cash flow liquidity ratio = Net cash provided by operating activities / Average current liabilities

⁴ Accounts receivable turnover = Net sales / Average accounts receivable - trade and others

⁵ Collection period = Average accounts receivable - trade and others / Total revenues*360

⁶ Inventory turnover ratio = Cost of sale of goods / Average finished goods

⁷ Inventory turnover = 360 / Inventory turnover ratio

⁸ Accounts payable turnover = Cost of sale of goods / Average accounts payable

⁹ Payable period = 360 / Accounts payable turnover

¹⁰ Cash Cycle = Average collection period + Inventory turnover - Payable period

¹¹ Gross profit margin = Gross profit / Net sales

¹² Operating profit margin = Profit before finance costs and income tax expense / Net sales

¹³ Net profit margin = Net profit / Total revenues

¹⁴ Return on Equity = Net profit / Average shareholders' equity

¹⁵ Return on fixed assets = (Net profit + Depreciation) / Average fixed assets

¹⁶ Asset turnover = Total revenues / Average total assets

¹⁷ Debt to equity = Total liabilities / Total shareholders' equity

¹⁸ Interest coverage = Net cash provided by operating activities / Interest expenses

¹⁹ Debt service coverage = Net cash provided by operating activities / (Debt payment + Investment expenses + Purchase of assets + Dividend paid)

²⁰ Dividend payout = Dividend paid / Net profit of the Company's separate financial statements

²¹ The Board of Directors shall propose the annual dividend payment for the year 2011 to the Annual General Shareholders' Meeting No. 1/2012 for further approval.

Management's Discussion and Analysis

This management's discussions and analysis is based on the consolidated financial statements of CPF and its subsidiaries. It includes financial statements of CPF and subsidiaries (the "Company") for the year ended 31 December 2011 as stated in notes to the financial statements No.1 General Information.

As stated in No.3 Changes in accounting policies of the notes to the financial statements, the Company has changed its significant accounting policies consequent to the adoption of new and revised Thai Financial Reporting Standards ("TFRS") from 1 January 2011. Comparative information for the year ended 31 December 2009 and 2010 has been re-presented so that it also is in conformity with the revised standard.

The new accounting policies adopted which have a major effect to the Company's financial statements are summarized as follows:

1) Accounting for investment properties

The Company has applied TAS 40 (revised 2009) Investment Property. The Company has selected the cost model for accounting for its investment properties, which has been applied retrospectively, including the reversal of any amount held in revaluation surplus for the investment properties recorded in equity. As a result, the Company's total assets, total liabilities and total equity as of 31 December 2009 and 2010, and 1 January 2011 decreased THB 228 million, THB 69 million and THB 159 million, respectively.

2) Accounting for employee benefits

The Company has applied TAS 19 Employee Benefits. The Company has selected to adjust retained earnings as at 1 January 2011 in accordance with the transitional provisions of the revised standard. As a result, as of 1 January 2011, the Company's total liabilities and total assets increased THB 3,232 million and THB 925 million, respectively, and total equity decreased THB 2,307 million. In addition, the Company recognized additional employee benefits expenses of THB 500 million in its statement of income at the year ended 31 December 2011.

1. Operating Results

1.1 The overview of the operating results

The Company's total sales in 2011 of THB 206,099 million increased 9% from THB 189,049 million in 2010. The increase of sales was from Thailand operations' sales growth of 11% and overseas operations' sales growth of 5%.

The Company's net profit in 2011 of THB 15,837 million, up 17% from THB 13,563 million in 2010, primarily reflecting the increase of share in profit from associates and continuous improvement of production cost management efficiency.

1.2 Operating results of each business line

CPF and its subsidiaries	2009		2010		2011		% Change from previous year
	THB, million	%	THB, million	%	THB, million	%	
1. Thailand Operations	133,000	81	139,392	74	154,149	75	11
1.1 Livestock business	95,503	58	100,652	53	113,658	55	13
Feed	26,987	16	28,406	15	33,169	16	17
- Domestic	26,987	16	28,303	15	31,957	15	13
- Export	-	-	103	-	1,212	1	1,077
Farm	43,712	27	46,618	24	52,089	25	12
- Domestic	43,396	27	46,230	24	51,579	25	12
- Export	316	-	388	-	510	-	-
Food	24,804	15	25,628	14	28,400	14	11
- Domestic	9,539	6	11,272	6	15,028	8	33
- Export	15,265	9	14,356	8	13,372	6	(7)
1.2 Aquatic business	37,497	23	38,740	21	40,491	20	5
Feed	19,001	12	19,541	10	19,997	10	2
- Domestic	19,001	12	19,328	10	19,747	10	2
- Export	-	-	213	-	250	-	17
Farm	11,853	7	12,476	7	12,367	6	-
- Domestic	8,532	5	7,399	4	6,770	3	(8)
- Export	3,321	2	5,077	3	5,597	3	10
Food	6,643	4	6,723	4	8,127	4	21
- Domestic	415	-	475	-	477	-	-
- Export	6,228	4	6,248	4	7,650	4	22
2. Overseas Operations	32,063	19	49,657	26	51,950	25	5
2.1 Livestock business	21,508	13	36,944	19	40,377	19	9
2.2 Aquatic business	10,555	6	12,713	7	11,577	6	(9)
TOTAL SALES	165,063	100	189,049	100	206,099	100	9

Operating results of each business operation and business line

Thailand operations

Sales from Thailand operations totaled THB 154,149 million in 2011, increased 11% from THB 139,392 million in 2010. Details of operating results of each business line are as follows:

Livestock business in Thailand

Sales from the livestock business in Thailand increased 13% to THB 113,658 million in 2011 from THB 100,652 million in 2010. This was due to the increase of sales from 3 main products including livestock feed, farm and food products. Sales from livestock business in Thailand accounted for 55% of the Company's total sales with the proportion of domestic sales to export sales of 87% and 13%, respectively.

In 2011, the gross profit margin of the livestock business in Thailand increased to 18% from 16% in 2010.

Aquatic business in Thailand

Sales from the aquatic business in Thailand increased 5% to THB 40,491 million in 2011 from THB 38,740 million in 2010. This was mainly due to an increase of sales from food products. The proportion of domestic sales to export sales was 67% and 33%, respectively.

In 2011, the gross profit margin of the aquatic business in Thailand increased to 22% compared to 2010 gross profit margin of 19%.

Overseas operations

Sales from overseas operations totaled THB 51,950 million in 2011, increase 5% from THB 49,657 million in 2010. This was primarily due to the sales contributed from subsidiaries in India and Taiwan.

In 2011, the gross profit margin of overseas livestock business declined to 6% from 11% in 2010. This was mainly due to a decrease in selling price of farm products of the Company's subsidiary in Turkey. The gross profit margin of overseas aquatic business was 18% equivalent to the previous year.

2. Changes in Comprehensive Income

For the year ended 31 December 2011, the Company recognized changes in other components of net equity after tax presented in the Company's comprehensive income. As a result, the Company's interim comprehensive income as of 1 January 2011 declined THB 196 million. This is mainly due to foreign exchange differences arising from the translation and changes in the fair value of the Company's investments.

3. Financial position

Assets

As of 31 December 2011, the Company's total assets were THB 159,904 million, comprising of THB 78,427 million in current assets, THB 52,025 million in property, plant and equipment, and THB 29,452 million in long-term investments and others.

Total assets as of 31 December 2011 increased 27% from the previous year mainly due to the increase in cash and cash equivalent, investments in associates and related companies, and property, plant and equipment.

Liquidity

In 2011, the Company had net cash provided by operating activities of THB 17,558 million whereas net cash used in investment activities was THB 14,048 million. Net cash provided by financing was THB 13,022 million as a result of cash receipt from debentures and loans from financial institutions of THB 31,269 million and cash payments made on long term loans, debentures, interest expenses, dividend and others of THB 18,247 million. The Company's cash and cash equivalents (net of bank overdrafts) as of 31 December 2011 was THB 23,993 million.

As of 31 December 2011, the Company's current ratio was 1.70 times, decreased from 1.80 times at the end of previous year. Cash cycle was 20 days equivalent to last year.

As of 31 December 2011, the Company's long term loans and debentures totaled THB 46,542 million, comprising of long term loans and debentures of THB 6,642 million and THB 39,900 million, respectively. The Company is obliged to make payments on long term loans and debentures in the amounts of THB 5,684 million in 2012, THB 6,885 million in 2013, and THB 33,973 million from 2014 to 2041. The Company's outstanding debentures totaled THB 39,900 million. Details are as follows:

	Amount (THB, million)	Issued Date	Maturity Date	Maturity Term (Years)	Coupon Rate per Annum (%)
1. Debenture of CPF #1/2007 Series 2	2,500	19 Oct 2007	19 Oct 2012	5	4.90
2. Debenture of CPF #1/2008 Series 2	3,000	15 Aug 2008	15 Aug 2013	5	5.70
3. Debenture of CPF #1/2009 Series 1	2,200	25 Nov 2009	25 Nov 2013	4	3.90
4. Debenture of CPF #1/2009 Series 2	3,200	25 Nov 2009	25 Nov 2014	5	4.30
5. Debenture of CPF #1/2009 Series 3	3,000	25 Nov 2009	25 Nov 2015	6	4.80
6. Debenture of CPF #2/2009	1,000	22 Dec 2009	30 May 2015	5 years 5 months 8 days	4.40
7. Debenture of CPF #1/2010	1,000	11 Feb 2010	30 May 2015	5 years 3 months 19 days	4.20
8. Debenture of CPF #2/2010 Series 1	3,000	3 Nov 2010	3 Nov 2014	4	Year 1-3 = 3.0% Year 4 = 4.0%
9. Debenture of CPF #2/2010 Series 2	5,000	3 Nov 2010	3 Nov 2017	7	Year 1-3 = 3.0% Year 4-5 = 4.0% Year 6-7 = 5.0%
10. Debenture of CPF #1/2011 Series 1	3,000	19 Aug 2011	19 Aug 2018	7	4.65
11. Debenture of CPF #1/2011 Series 2	3,000	19 Aug 2011	19 Aug 2021	10	4.87
12. Debenture of CPF #1/2011 Series 3*	4,000	19 Aug 2011	19 Aug 2041	30	5.42
13. Debenture of CPF #2/2011*	6,000	21 Dec 2011	21 Dec 2041	30	5.42

Note: *The debenture holders have the redemption right as at the end of year 15.

In addition, on 15 March 2012, the Company issued Baht 6.06 billion unsubordinated and unsecured debentures in registered name with the terms of 4 years, bearing interest rate of 4.17% per annum, and fully repayable on 15 March 2016. The debentures were issued to the institutional and/or high-networth investors.

Source of funds

The Debt to Equity ratio as of 31 December 2011 was 1.40 times and the Net Debt¹ to Equity ratio was 1.02 times (lower than the indicated 2.00 times Net Debt to Equity ratio which the Company has to remain under the specified terms in the Term and Condition of debt issuers and representatives for all outstanding debentures). Total liabilities was THB 93,385 million, increasing 43% from 31 December 2010 due to the increase of non-interest bearing debt of THB 5,435 million and interest bearing debt of THB 22,801 million which increased mainly due to the financing to purchase shares of C.P. Pokphand Co., Ltd. The Company's total liabilities comprised of non-interest bearing debt and interest bearing debt totaling THB 23,935 million and THB 69,450 million, respectively. Interest bearing debt comprised of short term debt and long term debt amounting to THB 28,584 million and THB 40,866 million, respectively.

As of 31 December 2011, shareholders' equity was THB 66,519 million, increasing 9% from prior year. Increase in shareholders' equity was mostly from the increase in operating profits after dividend payment and the decrease in retained earning as of 1 January 2011 due to a recognized of the employee benefit obligations.

Dividend payment

In accordance with the Company's dividend policy, the sum of dividend payments from each year operating results will be approximately 50% of the net profit after tax and legal reserve requirements (based on the separate financial statements of the Company). On 22 February 2012, the Company's Board of Directors had a resolution to pay the dividends to the shareholders of THB 1.20 per share in total. The Company already paid the first dividend payment to shareholders as an interim dividend of THB 0.60 per share on 9 September 2011. Therefore, the second dividend payment which will be paid as an annual dividend payment for the year 2011 will be THB 0.60 per share. The Board of Directors shall propose the annual dividend payment to the Annual General Shareholders' Meeting No. 1/2012 which will be held on 25 April 2012 for further approval.

Investment in 2012

The Board of Directors approved the Company's 2012 capital expenditure of THB 16,075 million. The Company plans to invest THB 6,972 million in Thailand and THB 9,103 million will be used in the overseas expansion. Investment plans may change according to changes in the business environment.

Remark: ^{1/} Net Debt = Total liabilities - Cash and cash equivalents + Guarantee to any persons or juristic persons excluded (1) guaranteed by CPF to its subsidiaries and guaranteed by CPF's subsidiaries to CPF and (2) deferred tax liabilities

The Auditors' Remunerations

CPF's auditors for the year 2011 were Mr. Charoen Phosamritlert C.P.A. (Thailand) Registration No. 4068, Mr. Veerachai Ratanajaratkul C.P.A. (Thailand) Registration No. 4323, Mrs. Munchupa Singuksawat C.P.A. (Thailand) Registration No. 6112 of KPMG Phoomchai Audit Limited.

The remunerations that CPF and its subsidiaries paid to KPMG Phoomchai Audit Limited in 2011¹ were as follows:

(Unit: THB)

	CPF	Subsidiaries
1. The audit fees on company's accounts	3,710,000	10,889,000
2. Other audit fees on special projects	1,040,000	1,430,000

Note: ¹ The above fee excluded out-of-pocket expenses to be reimbursed by KPMG Phoomchai Audit Limited.