

Management's Discussion and Analysis

Highlights of the Consolidated Financial Statements and Key Financial Ratios

(a) Consolidated statements of financial position of CPF and its subsidiaries

as of 1 January 2011, 31 December 2011 and 2012

	As of					
	1 January 2011 ¹		31 December 2011 ¹		31 December 2012	
	THB, million	%	THB, million	%	THB, million	%
Cash and cash equivalents	7,761	6	24,341	15	12,258	4
Accounts receivable - trade and others	15,385	12	15,692	10	23,279	7
Inventories	21,903	17	21,233	13	48,334	16
Current biological assets	10,216	8	12,514	8	19,300	6
Other current assets	1,962	2	2,721	2	6,030	2
Total current assets	57,227	45	76,501	48	109,201	35
Long-term investments	17,051	13	26,108	16	38,031	12
Investment properties	893	1	823	1	1,484	-
Property, plant and equipment	47,142	37	52,025	32	90,812	29
Non-current biological assets	1,851	2	2,120	1	5,200	2
Goodwill	442	-	418	-	54,792	18
Other non-current assets	2,769	2	2,511	2	11,024	4
Total non-current assets	70,148	55	84,005	52	201,343	65
Total assets	127,375	100	160,506	100	310,544	100
Overdrafts and short-term borrowings from financial institutions	10,051	8	22,897	14	47,660	15
Bills of exchange	-	-	-	-	4,951	2
Accounts payable - trade and others	9,707	8	11,733	7	20,620	7
Current portion of long-term debts	8,088	6	5,687	4	9,306	3
Other current liabilities	4,981	4	5,754	4	12,681	4
Total current liabilities	32,827	26	46,071	29	95,218	31
Long-term debts	28,510	22	40,866	25	84,066	27
Other non-current liabilities	7,076	6	6,493	4	10,479	3
Total non-current liabilities	35,586	28	47,359	29	94,545	30
Total liabilities	68,413	54	93,430	58	189,763	61
Total equity	58,962	46	67,076	42	120,781	39

¹ From 1 January 2012, the Company early adopted the International Accounting Standards ("IAS") No. 41 *Agriculture* (see more details in No.3 Changes in accounting policies of the Notes to financial statements), and which has been applied retrospectively to its statements of financial positions as of 1 January 2011 and 31 December 2011, as well as the consolidated statements of income, statements of comprehensive income and the consolidated statement of cash flow for the year ended 31 December 2011. The Company has not, however, restated its financial statements for the year ended 31 December 2010. Consequently, it has not been shown for comparison in this Management's Discussion and Analysis.

(b) Consolidated statements of income of CPF and its subsidiaries

for the years ended 31 December 2011 and 2012

	2011 ²		2012	
	THB, million	%	THB, million	%
Revenue from sale of goods	206,099	98	357,175	95
Gains on changes in fair value of investment in associates	-	-	8,673	2
Gains on sale of investments	1,358	1	6,009	2
Others	1,556	1	2,996	1
Total revenues	209,013	100	374,853	100
Cost of sale of goods	172,487	83	315,838	84
Gains on changes in fair value of biological assets	(87)	-	(229)	-
Selling and administrative expenses	18,909	9	33,260	9
Finance costs	2,432	1	6,377	2
Others	-	-	52	-
Total expenses	193,741	93	355,298	95
Share of profit of associates and jointly-controlled entities	3,863	2	4,139	1
Profit before income tax expense	19,135	9	23,694	6
Income tax expense	2,898	1	2,675	1
Profit for the year	16,237	8	21,019	5
Non-controlling interests	(120)	-	(2,229)	-
Profit for the year attributable to equity holders of the Company	16,117	8	18,790	5

(c) Consolidated statements of comprehensive income for the years ended 31 December 2011 and 2012

(Unit : THB, million)	2011 ²	2012
Profit for the year	16,237	21,019
Other comprehensive income for the year, net of income tax expense (income)	(243)	5,339
Total comprehensive income for the year	15,994	26,358
Non-controlling interests	(185)	(2,439)
Total comprehensive income for the year attributable to equity holders of the Company	15,809	23,919

² Please see details in footnote No.1 on page 34

(d) Consolidated statements of cash flows for the years ended 31 December 2011 and 2012

(Unit : THB, million)	2011 ²	2012
Net cash provided by operating activities	17,558	529
Net cash used in investing activities	(14,048)	(59,494)
Net cash provided by financing activities	13,022	46,449
Net increase (decrease) in cash and cash equivalents	16,532	(12,516)
Cash and cash equivalents at beginning of the year	7,755	23,993
Effect of exchange rate changes on balances held in foreign currencies	(294)	773
Cash and cash equivalents at end of year	23,993	12,250

(e) Key financial ratios of the consolidated financial statements of CPF and its subsidiaries

	2011	2012
Liquidity ratios		
Current ratio ³ (times)	1.66	1.15
Quick ratio ⁴ (times)	0.87	0.37
Cash flow liquidity ratio ⁵ (times)	0.45	0.01
Accounts receivable turnover ⁶ (times)	12.94	17.93
Collection period ⁷ (Days)	28	20
Inventory turnover ratio ⁸ (times)	25.08	33.14
Inventory turnover ⁹ (Days)	14	11
Accounts payable turnover ¹⁰ (times)	16.09	19.52
Payable period ¹¹ (Days)	22	18
Cash cycle ¹² (Days)	20	13
Profitability ratios		
Gross profit margin ¹³ (%)	16.31	11.57
Operating profit margin ¹⁴ (%)	10.46	8.42
Net profit margin ¹⁵ (%)	7.57	4.96
Return on equity ¹⁶ (%)	25.57	20.00
Operating efficiency ratios		
Return on fixed assets ¹⁷ (%)	41.90	35.43
Asset turnover ¹⁸ (times)	1.48	1.61
Leverage ratios		
Debt to equity ¹⁹ (times)	1.39	1.57
Interest coverage ²⁰ (times)	7.25	0.19
Debt service coverage ²¹ (times)	0.53	0.01
Dividend payout ²² (%)	69.78	105.79 ²³

Management's Discussion and Analysis

This management's discussion and analysis is based on the consolidated financial statements of CPF and its subsidiaries, which are together referred to as the 'Company' for the year ended 31 December 2012. It includes the financial statements of CPF and its subsidiaries, as stated in No.1 General Information of the Notes to the financial statements.

In 2012, the following significant events affected the preparation and presentation of the consolidated financial statements for the year ended 31 December 2012, and the consolidated financial statements used for comparison are as follows:

(1) Changes in accounting policy

From 1 January 2012, the Company has early adopted the International Accounting Standards ('IAS') No. 41 *Agriculture* (see more details in No.3 Changes in accounting policies of the Notes to the financial statements for the year ended 31 December 2012), and this has been applied retrospectively to its statements of financial position, as well as the consolidated income

statement, statements of comprehensive income and the consolidated statement of cash flow for the year ended 31 December 2011.

(2) Business Combinations by share acquisition

In 2012, the Company acquired three companies, namely (1) C.P. Pokphand Company Limited ('CPP') (2) Makin Jernih Sdn. Bhd. ('MJSB'), and (3) Chester Foods Company Limited ('Chester'), by acquiring shares equal to 76.13%, 99.99% and 99.99%, respectively. As a result, these three companies became new subsidiaries of the Company, and are included in the consolidated financial statements for the year ended 31 December 2012. The Company has applied Thai Financial Reporting Standards ('TFRS') No. 3 (revised 2009) *Business Combinations* to recognize the business combination transactions, and they are disclosed in the notes to the financial statements for the year ended 31 December 2012 No 5. Business Combinations - buy shares.

² Please see details in footnote No.1 on page 34

³ Current ratio = Total current assets / Total current liabilities

⁴ Quick ratio = (Cash and cash equivalents + Short-term investment + Accounts receivable - trade and others) / Total current liabilities

⁵ Cash flow liquidity ratio = Net cash provided by operating activities / Average current liabilities

⁶ Accounts receivable turnover = Net sales / Average accounts receivable - trade and others

⁷ Collection period = Average accounts receivable / Total revenues*360

⁸ Inventory turnover ratio = Cost of sale of goods / Average finished goods

⁹ Inventory turnover = 360 / Inventory turnover ratio

¹⁰ Accounts payable turnover = Cost of sale of goods / Average accounts payable

¹¹ Payable period = 360 / Accounts payable turnover

¹² Cash cycle = Average collection period + Inventory turnover - Payable period

¹³ Gross profit margin = Gross profit / Net sales

¹⁴ Operating profit margin = Profit before finance costs and income tax expense / Net sales

¹⁵ Net profit margin = Net profit / Total revenues

¹⁶ Return on equity = Net profit / Average shareholders' equity

¹⁷ Return on fixed assets = (Net profit + Depreciation) / Average fixed assets

¹⁸ Asset turnover = Total revenues / Average total assets

¹⁹ Debt to equity = Total liabilities / Total shareholders' equity

²⁰ Interest coverage = Net cash provided by operating activities / Interest expenses

²¹ Debt service coverage = Net cash provided by operating activities / (Debt payment + Investment expenses + Purchase of assets + Dividend paid)

²² Dividend payout = Dividend paid / Net profit of the Company's separate financial statements

²³ The Board of Directors shall propose the annual dividend payment for the year 2012 to the Annual General Shareholder's Meeting No. 1/2013 for further approval.

The following summarizes the recognized amounts of assets acquired and liabilities assumed on the acquisition date:

Unit: THB, million

	CPP	MJSB	Chester
Loans to related companies	4,493	-	-
Current assets	34,240	128	136
Property, plant and equipment	19,095	543	77
Non-current assets	15,070	188	494
Borrowings from related companies	(395)	-	-
Borrowings from financial institutions	(15,892)	(55)	-
Current and non-current liabilities	(16,665)	(180)	(264)
Net assets	39,946	624	443
Less Non-controlling interests	(12,449)	-	-
The Company's previously held equity interest	(12,184)	-	-
Goodwill	55,936	43	7
Consideration transferred	71,249	667	450

1. Operating Results

(1) The overview of the operating results

In 2012, the Company had faced with many challenges, including the over-supply of meat in both the domestic market, and in many other countries, as well as the fluctuation of raw material prices, and higher production costs. Severe drought in America in the third quarter of 2012 caused the price of maize and soybean meal, which are the major raw material for feed production to increase steeply. As a result, the production cost of raising animal protein increased accordingly, when compared to 2011.

In addition, the over-supply of meat especially in Thailand, as a result of capacity expansion in the meat industry, led to the average market price for meat being lower than costs of production. Furthermore, the world economy is still subject to fluctuations, and the future is not very bright, especially in the European Union countries. As a result, exporters are having difficulty matching the cost to the selling price.

Moreover, in the fourth quarter 2012, the Thai shrimp industry was adversely affected by the outbreak of a new disease, which resulted in a dramatic fall in the supply of shrimp to the market. Currently, however, the government and private sector are conducting research as to the causes of the disease, so as to prevent an escalation of the outbreak.

The Company's total sales in 2012 was THB 357,175 million increased by 73% from THB 206,099 million in 2011. The increase of sales was from operational sales growth in Thailand of 3%, as well as international sales growth of 281%. Sales from international operations increased primarily as a result of sales from a new subsidiary, which has been consolidated since the first quarter of 2012, representing a 275% of the international sales growth.

The Company's net profit in 2012 of THB 18,790 million was up 17% from THB 16,117 million in 2011, mainly as a result of gains on changes in fair value of investments in CP Vietnam Corporation ('CPV') of THB 8,673 million. Recognition of such gain complied with TFRS No. 3 (revised 2009) *Business Combinations* (see more details in No. 5.1.2 of the Notes to the financial statements for the year ended 31 December 2012).

(2) Results of each business line

	2010		2011		2012	
	THB, million	%	THB, million	%	THB, million	สัดส่วน
1. Thailand Operations						
1.1 Domestic						
Feed	47,631	25	51,704	25	56,471	16
Farm	53,629	29	58,349	28	54,817	15
Food	11,747	6	15,505	8	17,274	5
1.2 Export						
Feed	316	-	1,462	1	344	-
Farm	5,465	3	6,107	3	7,552	2
Food	20,604	11	21,022	10	22,966	7
<i>Total sales from Thailand operations</i>	<i>139,392</i>	<i>74</i>	<i>154,149</i>	<i>75</i>	<i>159,424</i>	<i>45</i>
2. International Operations						
Feed	26,160	14	25,994	13	144,650	40
Farm	21,428	11	23,371	11	49,858	14
Food	2,069	1	2,585	1	3,243	1
<i>Total sales from international operations</i>	<i>49,657</i>	<i>26</i>	<i>51,950</i>	<i>25</i>	<i>197,751</i>	<i>55</i>
Total revenue from sales	189,049	100	206,099	100	357,175	100

Results of each business operation and business line

(1) Thailand operations

Sales from Thailand operations totaled THB 159,424 million in 2012, an increase of 3% from THB 154,149 million in 2011. Details of the operating results for each business line are as follows:

Domestic sales

Domestic sales increased by 2% to THB 128,562 million in 2012, from THB 125,558 million in 2011. This was due to an increase in the sales from animal feed and food products.

Export sales

Export sales increased by 8% to THB 30,862 million in 2012 from THB 28,591 million in 2011, due to an increase in the sales of farm and food products.

In 2012, the gross profit margin for Thailand operations was 11%, decreased from 19% in 2011. This was due to a combination of lower meat prices and higher raw material costs for animal feed production.

(2) International operations

Sales from international operations totaled THB 197,751 million in 2012, which represented an increase of 281% from THB 51,950 million in 2011. This was primarily due to the sales contributed by the new subsidiary, which has been consolidated since quarter of 2012, and which amounted to THB 143,027 million. As a result, sales from international operations increased to 55% of total consolidated sales.

In 2012, the gross profit margin of international operations increased to 12% from 9% in 2011. This was mainly due to the consolidation of the new subsidiary's operating results, as well as the improvement of operating performance of subsidiaries in Turkey and Taiwan.

2. Changes in other Comprehensive Income

For the year ended 31 December 2012, the Company recorded changes in other components of net equity after tax presented in the Company's comprehensive income statements. As a result, the Company's other comprehensive income increased by THB 5,339 million. This was mainly due to an increase in revaluation differences on assets equivalent to THB 5,638 million, fair value changes on investments of THB 894 million, and a decrease in foreign exchange differences arising on the currency translation of THB 1,263 million.

3. Financial position

(1) Assets

As of 31 December 2012, the Company's total assets amounted to THB 310,544 million, and this figure included THB 109,201 million in current assets, THB 90,812 million in property, plant and equipment, and THB 110,531 million in long-term investments and others.

Total assets as of 31 December 2012 increased by 93% from the previous year, mainly due to the acquisition of the new subsidiaries as mentioned above in '(2) Business Combinations by share acquisition' on page 37.

(2) Liquidity

In 2012, the Company had net cash provided by operating activities equivalent to THB 529 million, whereas net cash used in investment activities was THB 59,494 million. Net cash provided by financing was THB 46,449 million, as a result of cash receipts from debentures, bill of exchange, short-term and long-term loans from financial institutions, the sale of treasury shares and others of THB 72,401 million, as well as cash payments made on short-term loans, debentures, long-term loans, interest expenses, dividend and others amounting to THB 25,952 million. The Company's cash and cash equivalents (net of bank overdrafts) as of 31 December 2012 was THB 12,250 million.

As of 31 December 2012, the Company's current ratio was 1.15 times, decreased from 1.66 times at the end of previous year. The cash cycle was 13 days - a decrease from 20 days last year, as a result of a shorter collection period from 28 days in 2011 to 20 days in 2012.

As of 31 December 2012, the Company was obliged to make payments on long-term loans and debentures amounting to THB 9,301 million in 2013, THB 9,695 million in 2014, and THB 9,692 million in 2015 and THB 64,670 million from 2016 to 2041.

Details of the outstanding CPF debentures of THB 58,460 million as of 31 december 2012 are as follows:

	Amount (THB, million)	Issued Date	Maturity Date	Maturity Term (Years)	Coupon Rate per Annum (%)
1. Debenture of CPF #1/2008 Series 2	3,000	15 Aug 2008	15 Aug 2013	5	5.70
2. Debenture of CPF #1/2009 Series 1	2,200	25 Nov 2009	25 Nov 2013	4	3.90
3. Debenture of CPF #1/2009 Series 2	3,200	25 Nov 2009	25 Nov 2014	5	4.30
4. Debenture of CPF #1/2009 Series 3	3,000	25 Nov 2009	25 Nov 2015	6	4.80
5. Debenture of CPF #2/2009	1,000	22 Dec 2009	30 May 2015	5 years 5 months 8 days	4.40
6. Debenture of CPF #1/2010	1,000	11 Feb 2010	30 May 2015	5 years 3 months 19 days	4.20
7. Debenture of CPF #2/2010 Series 1	3,000	3 Nov 2010	3 Nov 2014	4	Year 1-3 = 3.00% Year 4 = 4.00%
8. Debenture of CPF #2/2010 Series 2	5,000	3 Nov 2010	3 Nov 2017	7	Year 1-3 = 3.00% Year 4-5 = 4.00% Year 6-7 = 5.00%
9. Debenture of CPF #1/2011 Series 1	3,000	19 Aug 2011	19 Aug 2018	7	4.65
10. Debenture of CPF #1/2011 Series 2	3,000	19 Aug 2011	19 Aug 2021	10	4.87
11. Debenture of CPF #1/2011 Series 3*	4,000	19 Aug 2011	19 Aug 2041	30	5.42
12. Debenture of CPF #2/2011*	6,000	21 Dec 2011	21 Dec 2041	30	5.42
13. Debenture of CPF #1/2012	6,060	15 Mar 2012	15 Mar 2016	4	4.17
14. Debenture of CPF #2/2012 Series 1	6,000	3 Aug 2012	3 Aug 2019	7	Year 1-4 = 4.35% Year 5-7 = 5.00%
15. Debenture of CPF #2/2012 Series 2	4,000	3 Aug 2012	3 Aug 2022	10	Year 1-4 = 4.40% Year 5-9 = 5.00% Year 10 = 6.00%
16. Debenture of CPF #2/2012 Series 3*	5,000	3 Aug 2012	3 Aug 2032	20	5.30

* Debenture with holder's early redemption right at the end of year 15

(3) Source of funds

The Debt to Equity ratio as of 31 December 2012 was 1.57 times, and the Net Debt²⁴ to Equity ratio was 1.41 times (lower than the indicated 2.00 times Net Debt to Equity ratio which the Company has to maintain under the specified terms in the Terms and Condition of debenture issuers and debenture holders for all outstanding debentures).

Total liabilities amounted to THB 189,763 million, an increase of 103% from 31 December 2011, due to an increase of interest bearing debt equal to THB 76,753 million, as well as non-interest bearing debt of THB 19,580 million. This was mainly due to the liabilities of new subsidiaries, as previously mentioned in '(2) Business Combinations by share acquisition' on page 37, and financing for the purchase of CPP's shares.

The Company's total liabilities of THB 189,763 million, comprised of non-interest bearing debt and interest bearing debt, amounted to THB 146,203 million and THB 43,560 million, respectively. Interest bearing debt, comprising short-term and long-term debt, amounted to THB 62,137 million and THB 84,066 million, respectively.

As of 31 December 2012, shareholders' equity was THB 120,781 million, which represented an increase of 80% year-on-year. The increase in shareholders' equity came mostly from the increase of paid-up share capital and premiums on ordinary shares arising from an increase in capital for financing the purchase of CPP's shares, an increase in retained earnings due to an increase in operating profits after the payment of interim dividends for 2012, as well as the increase in non-controlling interests and revaluation differences on assets.

(4) Investment in 2013-2015

The Company's capital expenditure for 2013-2015 is approximately THB 50,000 million. Investment in Thailand will mainly be for creating value added to its current businesses, while investment internationally will focus on business expansion in both existing and new markets. Investment plans may change according to changes in the business environment.

(5) Dividend payment

In accordance with the Company's dividend policy, the sum for dividend payments for each year's operating results will be approximately 50% of net profit after tax and legal reserve requirements (based on the separate financial statements of the Company). On 22 February 2013, the Company's Board of Directors passed a resolution approving a dividend payment to shareholders of THB 1.10 per share in total. The Company paid the first dividend payment to shareholders, as an interim dividend of THB 0.60 per share on 7 September 2012. Therefore, the second dividend payment, which will be paid as an annual dividend payment for 2012, will be THB 0.50 per share. The Board of Directors will propose the annual dividend payment to the Annual General Shareholders' Meeting No. 1/2013, to be held on 24 April 2013 for further approval.

(6) Factors affecting the Company's performance in the future

In addition to the risks described under the 'Risk factors', the Company has assessed the information available at present, and the factors that may affect the achievement of the Company's goals and performance in 2013 are as follows: 1) The continuation of the disease outbreak in shrimp that occurred in the fourth quarter of 2012; 2) An increase of raw material prices in excess of the Company's estimates, and 3) An over-supply of meat in the domestic market which may result in a lower selling price for meat than that which the Company estimates.

²⁴ 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