



MANAGEMENT'S DISCUSSION AND ANALYSIS



Highlights of the Consolidated Financial Statements and Key Financial Ratios

(1) Consolidated Statements of financial position of CPF and its subsidiaries as of 31 December 2012, 2013 and 2014

	As of 31 December					
	2012		2013		2014	
	THB mn.	%	THB mn.	%	THB mn.	%
Cash and cash equivalent	12,258	4	19,457	5	33,552	8
Current investments	-	-	3,143	1	5,769	1
Accounts receivable - trade and others	23,279	7	24,241	7	24,953	6
Inventories	48,334	16	48,469	13	49,036	12
Current biological assets	19,300	6	22,425	6	24,378	6
Other current assets	6,030	2	6,509	2	8,566	2
Total current assets	109,201	35	124,244	34	146,254	35
Long-term investments	38,031	12	49,598	14	62,012	15
Investment properties	1,484	-	1,930	1	1,169	-
Property, plant and equipment	90,812	29	110,931	30	124,461	30
Non-current biological assets	5,200	2	5,180	1	5,595	1
Goodwill	54,792	18	59,293	16	60,699	15
Other non-current assets	11,024	4	13,827	4	16,575	4
Total non-current assets	201,343	65	240,759	66	270,510	65
Total assets	310,544	100	365,003	100	416,764	100
Overdrafts and short-term borrowings from financial institutions	47,660	15	61,861	17	63,686	15
Bills of exchange	4,951	2	3,478	1	1,989	1
Accounts payable - trade and others	20,620	7	21,888	6	25,632	6
Current portion of long-term debts	9,306	3	11,517	3	13,433	3
Other current liabilities	12,681	4	16,257	5	18,545	5
Total current liabilities	95,218	31	115,001	32	123,285	30
Long-term debts	84,066	27	109,176	30	116,425	28
Other non-current liabilities	10,479	3	11,253	3	13,088	3
Total non-current liabilities	94,545	30	120,429	33	129,513	31
Total liabilities	189,763	61	235,430	65	252,798	61
Total equity	120,781	39	129,573	35	163,966	39

(2) Consolidated statements of income of CPF and its subsidiaries for the years ended 31 December 2012, 2013 and 2014

	2012		2013		2014	
	THB mn.	%	THB mn.	%	THB mn.	%
Revenue from sale of goods	357,175	95	389,251	97	426,039	98
Gains on changes in fair value of investment in associates	8,673	2	-	-	-	-
Gains on sale of investments	6,009	2	8,219	2	4,662	1
Others	2,996	1	2,107	1	2,801	1
Total income	374,853	100	399,577	100	433,502	100
Cost of sale of goods	315,838	84	350,394	88	368,760	85
Gains on changes in fair value of biological assets	(229)	-	(524)	-	(338)	-
Selling and administrative expenses	33,260	9	36,963	9	42,837	10
Finance costs	6,377	2	7,937	2	8,880	2
Others	52	-	219	-	353	-
Total expenses	355,298	95	394,989	99	420,492	97
Share of profits of associates and jointly-controlled entities	4,139	1	4,947	1	4,869	1
Profit before income tax	23,694	6	9,535	2	17,879	4
Income tax expense	2,675	1	133	-	3,650	1
Profit for the year	21,019	5	9,402	2	14,229	3
Non-controlling interests	(2,229)	-	(2,337)	-	(3,667)	(1)
Profit for the year attributable to equity holders of the Company	18,790	5	7,065	2	10,562	2

(3) Consolidated Statements of comprehensive income for the years ended 31 December 2012, 2013 and 2014

(Unit : THB mn.)	2012	2013	2014
Profit for the year	21,019	9,402	14,229
Other comprehensive income (loss) for the year, net of income tax income	5,339	5,293	(1,258)
Total comprehensive income for the year	26,358	14,695	12,971
Non-controlling interests	(2,439)	(3,596)	(4,102)
Total comprehensive income for the year attributable to equity holders of the Company	23,919	11,099	8,869

(4) Consolidated statements of cash flows for the years ended 31 December 2012, 2013 and 2014

(Unit : THB mn.)	2012	2013	2014
Net cash provided by operating activities	529	9,452	23,185
Net cash used in investing activities	(59,494)	(24,222)	(33,163)
Net cash provided by financing activities	46,449	17,792	23,533
Net increase (decrease) in cash and cash equivalent	(12,516)	3,022	13,555
Cash and cash equivalents at the beginning of the year	23,993	12,250	17,180
Effect of exchange rate changes on the balances held in foreign currencies	773	1,908	1,189
Cash and cash equivalents at end of year	12,250	17,180	31,924

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

	2012	2013	2014
Liquidity ratios			
Current ratio ¹ (times)	1.15	1.08	1.19
Quick ratio ² (times)	0.37	0.41	0.52
Cash flow liquidity ratio ³ (times)	0.01	0.09	0.19
Accounts receivable turnover ⁴ (times)	17.93	16.00	16.92
Collection period ⁵ (days)	20	23	21
Inventory turnover ratio ⁶ (times)	33.14	28.86	27.55
Inventory turnover ⁷ (days)	11	12	13
Accounts payable turnover ⁸ (times)	19.52	16.49	15.52
Payable period ⁹ (days)	18	22	23
Cash Cycle ¹⁰ (days)	13	13	11
Profitability ratios			
Gross profit margin ¹¹ (%)	11.57	9.98	13.44
Operating profit margin ¹² (%)	8.42	4.49	6.28
Net profit margin ¹³ (%)	4.96	1.74	2.41
Return on Equity ¹⁴ (%)	20.00	5.64	7.20
Operating Efficiency ratios			
Return on fixed assets ¹⁵ (%)	35.43	14.53	16.59
Asset turnover ¹⁶ (times)	1.61	1.20	1.12

	2012	2013	2014
Leverage ratios			
Debt to equity ¹⁷ (times)	1.57	1.82	1.54
Interest coverage ¹⁸ (times)	0.08	1.25	2.89
Debt service coverage ¹⁹ (times)	0.01	0.14	0.32
Dividend payout ²⁰ (%)	105.79	56.32	64.99

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 / 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

Management's Discussion and Analysis

The following financial analysis is based on the Company's consolidated financial statements ending 31 December 2014 includes the financial statements of CPF and its subsidiaries (The Company) as disclosed in No. 1 General Information of the notes to the financial statements.

In 2014, the significant events impacted the preparation and presentation of the Company's consolidated financial statements for the period ending 31 December 2014 including:

Business combination by acquisition of shares

During 2014, CPF acquired shares of 3 companies - 1) Tops Foods NV (Tops Foods); 2) Hefei Chia Tai Co., Ltd. (HCT); and 3) Kaifeng Chia Tai Co., Ltd. (Kaifeng) obtaining control of 80.02%, 74.62% and 74.18%, respectively on the acquisition date. The Company's financial statements as of 31 December 2014 already included the performance of these 3 new subsidiaries. The Company has applied Thai Financial Reporting Standards (TFRS) No. 3 (revised 2012) Business Combinations to recognise the business combination transaction which is disclosed in No. 5 of the notes to the financial statements - Business combination by acquisition of shares and partial disposal of interest in subsidiary.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date of the 3 companies:

(1) Share acquisition of Tops Foods NV

	(Unit: THB million)
Cash and cash equivalents	8
Accounts receivable - trade and others	58
Inventories	57
Other current assets	8
Property, plant and equipment	618
Intangible assets	17
Borrowings	(233)
Accounts payable - trade and others	(53)
Other current liabilities	(20)
Deferred tax liabilities	(121)

	(Unit: THB million)
Net assets	339
Non-controlling interests of the acquire	(68)
Group's ownership interest	271
Goodwill	145
Consideration transferred	416

The benefit of acquiring shares in Tops Foods is the modern food production technology and high production standards which will enhance CPF Group's business capability as well as expand the Group's ready-to-eat food production base into Europe.

(2) Share acquisition of Hefei Chia Tai Co., Ltd. (HCT) and Kaifeng Chia Tai Co., Ltd. (Kaifeng)

	(Unit: THB million)	
	HCT	Kaifeng
Cash and cash equivalents	12	55
Accounts receivable - trade and others	21	107
Inventories	142	251
Other current assets	106	81
Plant and equipment	156	185
Other intangible assets	658	656
Other current liabilities	89	218
Borrowings	-	(260)
Accounts payable - trade and others	(79)	(58)
Other current liabilities	(234)	(196)
Deferred tax liabilities	(197)	(205)
Net assets	674	834
Goodwill	499	781
Consideration transferred	1,173	1,615

Acquisition of shares in the 2 companies in China will strengthen the Company's animal feed business in China.

Partial disposal of the investment in C.P. Pokphand Co., Ltd. (CPP) without a change in control

During the third quarter of 2014, the Company sold a total of 6,017,959,308 ordinary shares or 25% of CPP's total issued and paid-up ordinary shares (or 23.76% of total issued and paid-up shares of CPP) to ITOCHU Corporation, a listed company on the Tokyo Stock Exchange at the selling price of HKD 1.10 per share for a total consideration of HKD 6,620 million or approximately THB 27,258 million. After the completion of the transaction, the Company's shareholding in CPP was 50.43% of CPP's total issued and paid-up shares (equivalent to 47.83% of CPP's total issued and paid-up ordinary shares). The Company recognised a decrease in the Company's ownership interest in CPP of THB 24,309 million, an increase in non-controlling interests of the same amount and recorded a gain of THB 4,130 million in "Surplus from change in equity in subsidiaries" in the consolidated statement of financial position as at 31 December 2014.

Details of the transactions have been disclosed in No. 5 of the Company's notes to financial statements for the

year ended 31 December 2014- Business combination by acquisition of shares and partial disposal of interest in subsidiary

1. Operating Results

(1) Overview of Operating Results

In 2014, the Company's total sales revenue was THB 426,039 million (2013 : THB 389,251 million), an increase of 9% over the previous year resulting from growth in sales of Thailand operations and international operations by 7% and 11%, respectively. A large part of the increase in sales comes from the increase in sales of farm products both Thailand and International operations.

The Company's net profit for 2014 totaled THB 10,562 million or a per share earnings of THB 1.43 as compared to a net profit of THB 7,056 million in the previous year, a 49% jump. This level of performance reflects the enhanced efficiency in animal farming and higher average meat price resulting in a 13.4% gross profit margin which is higher than the 10.0% level earned in 2013.

(2) Operating Performance of Each Business Line

	2012		2013		2014	
	THB mn.	%	THB mn.	%	THB mn.	%
1. Thailand Operations						
Feed	56,815	16	51,243	13	51,850	12
Farm	61,600	17	69,922	18	79,212	19
Food	41,009	12	43,177	11	44,212	10
Total Sales - Thailand Operations	159,424	45	164,342	42	175,274	41
2. International Operations						
Feed	148,321	41	164,348	42	173,448	41
Farm	45,679	13	55,583	15	70,036	16
Food	3,751	1	4,978	1	7,281	2
Total Sales - International Operations	197,751	55	224,909	58	250,765	59
Total Sales Revenue	357,175	100	389,251	100	426,039	100

Operating Results by Business Operations and Business Line

Thailand Operations

Total sales revenue generated from Thailand operations for 2014 totaled THB 175,274 million (2013 : THB 164,342 million), a 7% increase over the previous year. Details are as follows:

(1) Domestic Sales

Domestic sales for 2014 totaled THB 148,288 million (2013 : THB 134,362 million), a 10% increase over the previous year was mostly from the higher sale of farm products as a result of high average meat price.

(2) Exports

Revenue from exports for 2014 totaled THB 26,986 million (2013 : THB 29,980 million), a 10% decrease from the previous year, mostly from a drop in sales of aquatic business.

International Operations

Sales revenue from international operations for 2014 totaled THB 250,765 million (2013 : THB 224,909 million), a year-on-year increase of 11%. Mostly as a result of sales increase of in Vietnam, China and India.

Operating profit generated in 2014 totaled THB 20,561 million (2013 : THB 7,464 million), a 175% increase over the previous year. The improvement largely reflects the enhanced efficiency in animal farming while the average meat price was higher than that of the previous year benefitting the Company in terms of improved gross profit margin of livestock business.

2. Changes in Other Comprehensive Income

In 2014, changes in other components of shareholders' equity after tax presented in the Company's comprehensive income decreased THB 1,258 million. This was mainly due to the loss arising from the currency translation of international subsidiaries.

3. Financial Status

(1) Assets

As of 31 December 2014, the Company's total assets were THB 416,764 million consisting of current assets of THB 146,253 million, land, buildings and equipment of THB 124,461 million, along with long-term investments and other assets of THB 146,050 million.

Total assets as of year-end 2014 increased by 14% mostly from the increase in cash and cash equivalents, along with land, buildings and equipment, and investments in related companies.

(2) Liquidity

Net cash flow from operating activities for 2014 totaled THB 23,185 million while net cash used in investments activities was THB 33,164 million. Net cash provided by financing activities was THB 23,533 million derived from net borrowing totaling THB 11,064 million, sale of interest in subsidiaries totaling THB 27,258 million, an outflow in payment of interest, dividend and others totaling THB 14,789 million. Cash and cash equivalents items net of any overdraft as at 31 December 2014 totaled THB 31,924 million.

The Company's liquidity ratio as at 31 December 2014 was 1.19 times, an increase from 1.08 times from the previous year while the cash cycle for the same period was 11 days, decreasing from 2013's 13 days as collection period decreased from 23 days in 2013 to 21 days in 2014.

The Company's current portion of long-term borrowings due for payment in 2015 totals THB 13,427 million; 2016 - THB 10,441 million; 2017 - THB 23,997 million and 2018 - 2041 a total of THB 81,981 million.

Details of CPF's THB 63,060 million outstanding debentures as of 31 December 2014 are as follows:

	Amount (THB mn.)	Issued Date	Maturity Date	Tenor (Years)	Coupon Rate per Annum (%)
1. CPF Debenture #1/2009 Series 3	3,000	25 Nov 2009	25 Nov 2015	6	4.80
2. CPF Debenture #2/2009	1,000	22 Dec 2009	30 May 2015	5 years 5 months 8 days	4.40
3. CPF Debenture #1/2010	1,000	11 Feb 2010	30 May 2015	5 years 3 months 19 days	4.20
4. CPF Debenture #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%
5. CPF Debenture #1/2011 Series 1	3,000	19 Aug 2011	19 Aug 2018	7	4.65
6. CPF Debenture #1/2011 Series 2	3,000	19 Aug 2011	19 Aug 2011	10	4.87
7. CPF Debenture #1/2011 Series 3*	4,000	19 Aug 2011	19 Aug 2041	30	5.42
8. CPF Debenture #2/2011*	6,000	21 Dec 2011	21 Dec 2041	30	5.42
9. CPF Debenture #1/2012	6,060	15 Mar 2012	15 Mar 2016	4	4.17
10. CPF Debenture #2/2012 Series 1	6,000	3 Aug 2012	3 Aug 2019	7	Year 1-4 = 4.35% Year 5-7 = 5.00%
11. CPF Debenture #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%
12. CPF Debenture #2/2012 Series 3	5,000	3 Aug 2012	3 Aug 2032	20	5.30
13. CPF Debenture #1/2013	6,000	9 May 2013	9 May 2018	5	3.93
14. CPF Debenture #2/2013 Series 1	2,000	2 Aug 2013	2 Aug 2017	4	4.04
15. CPF Debenture #2/2013 Series 2	2,200	2 Aug 2013	2 Aug 2019	6	4.54
16. CPF Debenture #2/2013 Series 3	5,500	2 Aug 2013	2 Aug 2021	8	4.90

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

In addition to CPF's debentures, in January 2014, C.P. Foods Holdings Limited (CPFH), a 100% holding subsidiary of CPF also issued exchangeable bonds (EBs) totaling USD 290.4 million due in 2019 with a per annum coupon of 0.5%. The EBs holders can exchange the EBs into a pro rata share of the Exchange Property with a sponsor undertaking from the Company. The Exchange Property, at the EBs issue date, initially comprised 180 million shares in CP ALL Public Company Limited (CPALL Shares), which belong to CPFH and which were deposited with the Custody Account with Merrill Lynch International (the Custodian or Merrill Lynch) pursuant to the details set out in the Terms and Conditions of the EBs. Under the terms and conditions of the EBs,

the EB holders have the options to (1) exchange the EBs into CPALL Shares as held by CPFH, or (2) put the EBs to CPFH on the date falling 2 years from the issue date of the EBs, or (3) hold the EBs until maturity, whereby in the case of (2) and (3) CPFH will repay the EB holders in cash. In accordance with the terms and conditions of the EBs, where the EB holders exercise the exchange right, CPFH has the option to deliver CPALL Shares to the EB holders or redeem the EBs using cash of equivalent market value of CPALL shares. The initial exchange ratio of EBs is 123,966.94 CPALL Shares for each USD 200,000 principal amount of EBs (1 CPALL share equivalent to Baht 53.29 (rounded up) at the exchange rate USD 1: THB 33.03).

As of 31 December 2014 the carrying amount of the EBs was USD 292 million or equivalent to THB 9,599 million.

(3) Sources of Capital

As at 31 December 2014, the Company's debt to equity

ratio was 1.54 times while the net debt to equity ratio as calculated based on the specified Terms and Condition of debenture issuers and holders for the outstanding debentures are as follows:

	Net Debt to Equity Ratio (Times)	
	Consolidated financial statements	Separate financial statements
Debentures issued before CPF debenture #1/2013 ²¹	1.29	0.76
CPF debentured # 1/2013 ²¹	1.29	N/A
CPF debentured # 2/2013 ²²	0.94	N/A

Note: The net debt to equity ratio which the Company has to maintain under the specified Terms and Condition of debenture issuers and holders for all debentures is no more than 2 times and 1.15 : 1.00 times, respectively on a consolidated basis and on a Company stand alone basis for the financial periods ending 30 June and 31 December for which the financial auditor has either reviewed or audited (as the case may be).

Total liabilities as at 31 December 2014 totaled THB 252,798 million, a 7% increase over the previous year. Interest bearing debt increased by THB 9,524 million while non-interest bearing debt increased by THB 7,843 million. Non-interest bearing debt and interest bearing debt total THB 56,869 million and THB 195,929 million, respectively. Of the total interest bearing debt, THB 79,503 million is short-term while the long-term portion is THB 116,426 million.

As of 31 December 2014, total shareholders' equity totaled THB 163,966 million, an increase of 27% over the previous year as a result of an increase in non-controlling interests occurred from partial disposal of interest in subsidiary and surplus from the change in equity in subsidiaries.

(4) Capital Expenditure Plan for 2015-2019

The Company's estimated capital expenditure for the period of 2015-2019 totals approximately THB 50,000 million. Domestic investments will be geared towards adding value to the Company's current range of businesses while

investments abroad will be geared towards growing its business and expanding its market reach. The investment budget is subject to change as the situation may warrant.

(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 26 February 2015, the Company's Board of Directors passed a resolution to approve a dividend payment to shareholders of THB 0.75 per share in total. The Company paid the first dividend payment to shareholders, as an interim dividend of THB 0.30 per share on 12 September 2014. Therefore, the second dividend payment will be THB 0.45 per share. The Board of Directors will propose such dividend payment to the Annual General Shareholders' Meeting No. 1/2015, to be held on 22 April 2015 for further approval.

²¹ 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

²² Net debt = Total interest-bearing liabilities excluded liabilities under financial lease agreements - Cash and cash equivalents and current investments

(6) Factors Bearing Impact on the Company's Future Performance

Although having systematic approaches to manage risks that bear impact on the Company's operations to be within an acceptable level as detailed in section "Risk Factors", there is still the possibility that the stipulated risk management procedures may not be sufficiently effective. As a result, the Company may not be able to achieve its expected operating results from uncontrollable factors as in the case of the EMS epidemic which requires the cooperation of relevant parties to overcome. Economic health and political stability of various countries around the world are a direct uncontrollable factors bearing direct impact on the Company's operations.