

CHANGMAI FROZEN FOODS PUBLIC COMPANY LIMITED AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

1. GENERAL INFORMATION

Chiangmai Frozen Foods Public Company Limited was a public company limited and was listed on the Stock Exchange of Thailand in 1993. The Company and subsidiaries are engaged in business of manufacturing and exporting of frozen fruits and vegetable, frozen dough and bakery products and transmuted sweet corn distribution. The registered office of the Company is located at 149/34 Soi Anglo Plaza, Surawongse road, Bangrak, Bangkok.

2. BASIS OF FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS PREPARATION

The consolidated and the Company's financial statements have been prepared in accordance with Thai Generally Accepted Accounting Principles under the Accounting Act, B.E.2543 being those Thai Accounting Standards issued under the Accounting Profession Act, B.E. 2547 and the financial reporting requirements of the Securities and Exchange Commission.

The consolidated financial statements include the account of Chiangmai Frozen Foods Public Company Limited and Subsidiaries which are owned directly by Chiangmai Frozen Foods Public Company Limited as follows:

	PERCENTAGE OF HOLDING		NATURE OF BUSINESS
	2004	2003	
C&W INTERFOODS CO.,LTD.	49.00	49.00	Frozen Dough and Bakery Products
AGRIFOOD PROCESSING CO., LTD.	100.00	51.00	Transmuted Sweet Corn Distribution

During the year 2004 the subsidiary increased the authorized share capital amounted to Baht 67.50 million. The Company purchased those increased share of Baht 33.08 million to maintain the same percentage of holding.

During the year 2003, the Company had jointed with River Kwai International Food Industry Co., Ltd. to establish the new registered company, Agrifood Processing Co.,Ltd. with the percentage of holding 51%. On July 1, 2004 the company acquired additional investment in shares of Agrifood Processing Co., Ltd. amounting to approximately Baht 8.1 million, as a result, the percentage of shareholding in Agrifood Processing Co., Ltd. increased from 51 % to 100 %.

Subsidiaries undertakings are those companies in which the Group, directly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the financial and operating policies, have been consolidated. Subsidiaries are consolidated from the date on which effective control transferred to the Group.

The significant transactions between the Company and its subsidiaries have been eliminated in the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of the Company and subsidiaries' financial statements are as follows:

3.1 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits at financial institutions. The Company and subsidiary maintain cash on hand for general use. Deposits at financial institutions, including short – term saving deposits, are highly liquid investments that are readily convertible to known amounts with original maturities of three (3) months or less and that are subject to an insignificant risk of change in value.

3.2 Accounts Receivable

Accounts receivable are carried at original invoice amount less allowance for doubtful accounts.

3.3 Allowance For Doubtful Accounts

The Company and subsidiaries provide allowance for doubtful accounts equal to the estimated losses that may be incurred in the collection of receivables and receivables- planters. The estimated losses are based on the collection experiences and the review of the current status of the existing receivables.

3.4 Inventories

Inventories are valued at the lower of cost weighted average or net realizable value, after provision for obsolescence.

3.5 Investments

Investments in subsidiaries are valued by the equity method.

Equity method of accounting involves recognizing the Company's share of the subsidiaries' profit or loss for the years. The Company's investments in the subsidiaries which carried in the Company's balance sheets are the amount that reflects its share of net assets in the subsidiaries.

3.6 Property, Plant and Equipment

Property, plant and equipment are initially recorded at cost. All assets except for land are stated at historical cost less accumulated depreciation.

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Depreciation of property and equipment are calculated on the straight line method over their estimated useful lives as follows :

	<u>No. of Years</u>
Buildings	20
Machineries and equipment	10
Vehicles	5
Office equipment and fixtures	5

When assets are sold or retired, the Company and subsidiaries will eliminated their costs and accumulated depreciation from the accounts and any gain or loss resulting from their disposal is included in the statements of income.

Building-in-progress and machinery under installation are stated at cost. These assets are not depreciated until such time as the relevant assets are completed and ready for their intended operational use.

3.7 Finance Leases

Leases of assets where the Company and subsidiaries have substantially been transferred all the risks and rewards of ownership are classified as finance leases. Finance leases are recognized as assets and liabilities at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period. The lease payment amount net of finance charges is recorded as the reduction of the outstanding liability. The depreciable assets acquired under finance leases are depreciated over the useful life of the assets.

3.8 Impairment of Assets

The Company and subsidiaries reviewed the impairment of assets whenever events or changes in circumstances indicate that the recoverable amount of assets is below the carrying amount (the higher of an assets selling price or value in use). The review is made for individual assets or the cash generating unit.

In case that the carrying value of an asset exceeds its recoverable amount, the Company and subsidiaries recognize the impairment losses in the statements of income. The reversal of impairment losses recognized in prior years is recorded as other income when there is an indication that the impairment losses recognized for the assets no longer exist or are decreased.

3.9 Foreign Currency Transactions

Transactions in foreign currencies throughout the years are recorded in Baht at rates prevailing at the date of transactions. Outstanding foreign currency balances of assets and liabilities at the balance sheet dates are translated into Baht at the prevailing bank rates as of those dates. Transactions cover by foreign currency forward exchange contracts which are recorded at forward rates adjusted with unamortized premium. Gain or loss is credited or charged to current operations.

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3.10 Revenue Recognition

The Company and subsidiaries recognized sales as income when goods are delivered and the risks and rewards are transferred to customers.

3.11 Income Tax

The Company and subsidiaries recorded income tax based on the actual amount currently payable according to the Revenue Code.

3.12 Basic Earnings per Share

Basic earnings per share is calculated by dividing the net income by weighted average number of paid - up common shares during the years.

4. TRANSACTION WITH PERSON AND RELATED PARTIES

The Company have certain transactions with their subsidiaries, person and related companies. A portion of assets, liabilities, revenues and expenses arose from transactions with said person and related companies. These related companies are related through common shareholding and/or directorships. The effects of these transactions are reflected in the accompanying financial statements on the bases mutually considered by the companies concerned, and other entities, normal course of business.

4.1 Relationships and pricing policies

The relationship and pricing policies among the Company, Subsidiaries, Person and Related companies are as follows:

	Relation Ships	Pricing policy	
<u>Subsidiaries :</u>			
Agrifood Processing Co., Ltd.	Shareholding	Sales	At normal business prices, as same as other entities.
		Rental	At normal business prices based on utilized spaces.
C & W Interfood Co., Ltd.	Shareholding	Share subscription payable	
<u>Related companies :</u>			
Itochu Corporation Co., Ltd.	Shareholder of the company	Sales	At normal business prices, as same as other entities.
P.P Foods Supply Co.,Ltd.	Cross shareholding	Sales	At normal business prices, as same as other entities.
Ing shiang Co., Ltd.	Cross shareholding	Sales	At normal business prices, as same as other entities.
River Kwai International Food Industry Co., Ltd.	Partner in Subsidiary	Sales	At normal business prices, as same as other entities.
<u>Related person :</u>			
Mr. Suwat Phongphasura	Director	Loans	Non - interest bearing

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4.2 Balances of transactions with Subsidiaries , Related Person and Companies

Balances of transactions among the Company, Subsidiaries, Related Person and companies as at December 31, 2004 and 2003 are as follows :

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2004	2003	2004	2003
Trade accounts receivable				
Subsidiary				
Agrifood Processing Co., Ltd.	-	-	4,168,633	7,442,841
Related companies				
Itochu Corporation Co., Ltd.	10,796,896	5,405,574	9,892,790	5,405,574
P.P Foods Supply Co., Ltd.	9,004,349	5,746,508	9,004,349	5,746,508
Ing shiang Co., Ltd.	2,327,404	-	-	-
River Kwai International Food Industry Co.,Ltd.	-	9,041,460	-	-
Total	22,128,649	20,193,542	18,897,139	11,152,082
Grand Total	22,128,649	20,193,542	23,065,772	18,594,923
Other current assets				
Agrifood Processing Co., Ltd	-	-	-	296,810
Short – term loan from related person				
Mr. Suwat Phongphasura	-	3,000,000	-	-
Share subscription payable				
C&W Interfoods Co.,Ltd.	-	-	-	9,800,000
Accrued expenses				
Agrifood Processing Co., Ltd	-	-	-	30,000
Other current liabilities				
Agrifood Processing Co., Ltd	-	-	-	9,770,439

4.3 Revenue among the Company , Subsidiaries and Related Companies

Revenue among the Company , Subsidiaries and Related companies for the years then ended December 31, 2004 and 2003 are as follows :

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2004	2003	2004	2003
Sales				
Subsidiary				
Agrifood Processing Co., Ltd.	-	-	81,487,874	31,826,284
Related companies				
Itochu Corporation Co., Ltd.	174,616,356	182,276,394	162,230,315	182,276,394
P.P Foods Supply Co., Ltd.	16,692,868	14,120,616	16,692,868	14,120,616
Ing shiang Co., Ltd.	8,631,615	-	-	-
River Kwai International Food Industry Co.,Ltd.	17,717,074	26,880,264	8,241,120	-
Total	217,657,913	223,277,274	187,164,303	196,397,010
Grand Total	217,657,913	223,277,274	268,652,177	228,223,294

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	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2004	2003	2004	2003
Surcharge income from defaulting condition In purchase and sale agreement				
Agrifood Processing Co., Ltd	-	-	8,057,830	-
Other income				
Agrifood Processing Co., Ltd.	-	-	1,479,524	621,574

5. CASH AND CASH EQUIVALENTS

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2004	2003	2004	2003
Cash on hand	286,404	1,238,000	100,023	972,709
Regular checking accounts	3,382,030	2,438,416	3,021,799	1,003
Saving accounts	82,221,994	194,742,819	65,104,211	182,078,223
Total	85,890,428	198,419,235	68,226,033	183,051,935

The weighted average effective interest rates of deposits at financial institutions were 0.25% – 0.75 % per annum (2003: 0.25 % – 1.80 % per annum)

6. CURRENT INVESTMENTS

Current investments are deposits at financial institution - fixed deposits which bear interest at the rate of 1.10 - 1.40% per annum (2003 : 1.10% per annum)

7. TRADE ACCOUNTS RECEIVABLE

The aging of outstanding balances as at December 31, 2004 and 2003 are as follows:

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2004	2003	2004	2003
Trade accounts Receivable–Related Companies				
Past due not over 3 months	20,703,119	18,543,594	21,640,241	16,944,975
Over 3 months	1,425,530	1,649,948	1,425,530	1,649,948
Total Accounts Receivable–Related Companies	22,128,649	20,193,542	23,065,771	18,594,923
Trade accounts Receivable–Other Companies				
Past due not over 3 months	72,360,668	47,204,701	50,831,962	31,137,031
Over 3 months	3,685,319	271,782	-	271,782
Total Trade accounts Receivable–Other Companies	76,045,987	47,476,483	50,831,962	31,408,813

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8. INVENTORIES - NET

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2004	2003	2004	2003
Finished goods and semi – products	207,880,735	236,890,235	206,678,932	236,769,794
Seeds, insecticide, fertilizer	18,810,688	26,874,539	18,810,688	26,874,539
Raw material and supplies	37,893,744	37,875,992	30,198,167	32,298,406
Total	264,585,167	301,640,766	255,687,787	295,942,739
<u>Less</u> Provision for obsolescence	(13,841,485)	(18,617,480)	(13,841,485)	(18,617,480)
Net	250,743,682	283,023,286	241,846,302	277,325,259

9. ACCOUNTS RECEIVABLE - PLANTERS - NET

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2004	2003	2004	2003
Accounts receivable-planters	36,052,692	26,757,059	36,052,692	26,757,059
<u>Less</u> Allowance for doubtful accounts	(3,605,269)	(2,675,706)	(3,605,269)	(2,675,706)
Net	32,447,423	24,081,353	32,449,423	24,081,353

The Company provides allowance for doubtful accounts equal to 10% of accounts receivable-planters.

10. RECEIVABLES FROM SALES OF INVESTMENTS - NET

On April 12, 2000, the Company entered into an agreement to sell all of its investments in LAIYANG CHONGTAI FROZEN FOODS CO., LTD and C.T LAIYANG FROZEN FOODS CO., LTD to the existing shareholder amounted to Baht 15.3 million reflecting gain on sales of investments of Baht 3.0 million, which included in income from operations for the year 2000. The proceed from sales was payable in installments up to year 2005 as follows:

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2004	2003	2004	2003
Year 2003	-	1,636,884	-	1,636,884
Year 2004	2,498,084	3,110,484	2,498,084	3,110,484
Year 2005	1,493,364	1,513,459	1,493,364	1,513,459
Total	3,991,448	6,260,827	3,991,448	6,260,827
<u>Less</u> Current portion	(3,991,448)	(4,747,368)	(3,991,448)	(4,747,368)
Net	-	1,513,459	-	1,513,459

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11. INVESTMENTS IN SUBSIDIARIES

AS AT DECEMBER 31, 2004

Activities	Paid up Capital (In Baht)	% Holdings	In Baht			Dividends
			At Cost	At Equity		
C & W Interfoods Co., Ltd.	Frozen Dough and Bakery Products	287,500,000	49.0	140,875,000	66,509,645	-
Agrifood Processing Co., Ltd.	Transmuted Sweet - corn distribution	30,000,000	100.0	23,353,658	21,852,211	-
Total				<u>164,228,658</u>	<u>88,361,856</u>	

AS AT DECEMBER 31, 2003

Activities	Paid up Capital (In Baht)	% Holdings	In Baht			Dividends
			At Cost	At Equity		
C & W Interfoods Co., Ltd.	Frozen Dough and Bakery Products	220,000,000	49.0	107,800,000	64,643,871	-
Agrifood Processing Co., Ltd.	Transmuted Sweet - corn distribution	30,000,000	51.0	15,300,000	13,201,671	-
Total				<u>123,100,000</u>	<u>77,845,542</u>	

12. PROPERTY, PLANT AND EQUIPMENT - NET

CONSOLIDATED

IN BAHT

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	Land	Building	Machinery and equipment	Vehicle	Office equipment and fixtures	Building in progress and machinery under installation	Total
At December 31, 2003							
Cost	108,820,860	298,041,454	621,303,722	36,772,932	25,000,666	2,585,444	1,092,525,078
<u>Less</u> Accumulated Depreciation	-	(112,061,394)	(335,764,185)	(21,783,687)	(17,195,156)	-	(486,804,422)
Impairment of assets	-	-	(5,528,835)	-	-	-	(5,528,835)
Net book amount	<u>108,820,860</u>	<u>185,980,060</u>	<u>280,010,702</u>	<u>14,989,245</u>	<u>7,805,510</u>	<u>2,585,444</u>	<u>600,191,821</u>
For the year ended December 31, 2004							
Opening net book amount	108,820,860	185,980,060	280,010,702	14,989,245	7,805,510	2,585,444	600,191,821
<u>Add</u> Acquisition	6,900,000	2,082,849	43,373,696	10,254,188	2,582,938	88,900,278	154,093,949
Transfer in (out)	-	411,000	12,269,835	-	-	(12,680,835)	-
<u>Less</u> Disposals	-	-	(147,831)	(45,418)	(195,460)	-	(388,709)
Depreciation charge	-	(15,270,089)	(55,835,081)	(6,060,676)	(2,512,070)	-	(79,677,916)
Closing net book amount	<u>115,720,860</u>	<u>173,203,820</u>	<u>279,671,321</u>	<u>19,137,339</u>	<u>7,680,918</u>	<u>78,804,887</u>	<u>674,219,145</u>
At December 31, 2004							
Cost	115,720,860	300,535,303	675,822,298	46,614,209	26,928,046	78,804,887	1,244,425,603
<u>Less</u> Accumulated Depreciation	-	(127,331,483)	(390,622,143)	(27,476,870)	(19,247,128)	-	(564,677,623)
Impairment of assets	-	-	(5,528,835)	-	-	-	(5,528,835)
Net book amount	<u>115,720,860</u>	<u>173,203,820</u>	<u>279,671,321</u>	<u>19,137,339</u>	<u>7,680,918</u>	<u>78,804,887</u>	<u>674,219,145</u>

THE COMPANY ONLY

IN BAHT

	Land	Building	Machinery and equipment	Vehicle	Office equipment and fixtures	Building in progress and machinery under installation	Total
At December 31, 2003							
Cost	89,483,205	251,018,684	497,729,634	25,017,819	19,781,318	1,854,561	884,885,221
<u>Less</u> Accumulated Depreciation	-	(108,405,789)	(314,729,246)	(19,446,863)	(15,940,127)	-	(458,522,025)
Impairment of assets	-	-	(5,528,835)	-	-	-	(5,528,835)
Net book amount	<u>89,483,205</u>	<u>142,612,895</u>	<u>177,471,553</u>	<u>5,570,956</u>	<u>3,841,191</u>	<u>1,854,561</u>	<u>420,834,361</u>
For the year ended December 31, 2004							
Opening net book amount	89,483,205	142,612,895	177,471,553	5,570,956	3,841,191	1,854,561	420,834,361
<u>Add</u> Acquisition	6,900,000	120,000	29,446,103	9,306,682	1,401,310	82,489,481	129,663,576
Transfer in (out)	-	411,000	5,140,997	-	-	(5,551,997)	-
<u>Less</u> Disposals	-	-	(10,310)	(1)	(9,306)	-	(19,617)
Depreciation charge	-	(12,851,812)	(40,805,319)	(3,580,820)	(1,353,938)	-	(58,591,889)
Closing net book amount	<u>96,383,205</u>	<u>130,292,083</u>	<u>171,243,024</u>	<u>11,296,817</u>	<u>3,879,257</u>	<u>78,792,045</u>	<u>491,886,431</u>
At December 31, 2004							
Cost	98,383,205	251,549,684	531,422,657	33,997,229	20,822,428	78,792,045	1,012,967,248
<u>Less</u> Accumulated Depreciation	-	(121,257,601)	(354,650,799)	(22,700,412)	(16,943,171)	-	(515,551,982)
Impairment of assets	-	-	(5,528,835)	-	-	-	(5,528,835)
Net book amount	<u>96,383,205</u>	<u>130,292,083</u>	<u>171,243,024</u>	<u>11,296,817</u>	<u>3,879,257</u>	<u>78,792,045</u>	<u>491,886,431</u>

Net book value of land and structures thereon and portion of equipment amounted to Baht 321.2 million were mortgaged and pledged as collateral against bank overdrafts ,short-term loans from financial institutions and long - term loans as discussed in Notes 13 and 16 to the financial statements.

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As at December 31, 2004 and 2003, the Company had gross carrying amounts that are fully depreciated. These are still in active use amounting to approximately Baht 173.9 million and Baht 179.2 million, respectively.

13. BANK OVERDRAFTS

As at December 31, 2004 and 2003, the Company and a subsidiary have the bank overdraft lines amounted to Baht 80 million, which bears interest at the rate of MOR per annum. Such overdrafts are guaranteed by mortgaging land and structures thereon and pledging portion of machineries of the Company and a subsidiary. (Note 12)

14. LIABILITIES UNDER FINANCE LEASE CONTRACTS – NET

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2004	2003	2004	2003
Liabilities under finance lease contracts	4,332,747	5,664,133	-	-
<u>Less</u> : Current portion of liabilities under finance lease contracts	(1,741,863)	(1,752,830)	-	-
Net	2,590,884	3,911,303	-	-

In 2004 and 2003, subsidiary acquired its assets under financial lease contracts with a leasing term of 3 to 4 years. The leases will due within February 2008. (In 2003 : June 2007) The value of leased assets amounted to approximately Baht 8.0 million. (In 2002: Baht 7.6 million) The subsidiary has a purchase option based on the prices indicated in the contracts when the period of leases are expired.

15. LIABILITIES UNDER HIRE - PURCHASE CONTRACTS – NET

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2004	2003	2004	2003
Liabilities under hire-purchase contracts	-	256,392	-	-
<u>Less</u> :Deferred Interest	-	(5,212)	-	-

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Current portion of liabilities
under hire-purchase contracts
(net deferred interest amount Baht
5,212)

Net

-	(251,180)	-	-
-	-	-	-

The ownership of the assets under hire - purchase contracts will be transferred to the Subsidiary when the last installment is paid.

16. LONG -TERM LOANS – NET

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2004	2003	2004	2003
Loans denominated in Thai Baht	37,900,000	50,000,000	-	-
<u>Less</u> Current portion	<u>(13,200,000)</u>	<u>(12,100,000)</u>	<u>-</u>	<u>-</u>
Net	<u>24,700,000</u>	<u>37,900,000</u>	<u>-</u>	<u>-</u>

In the first quarter of year 2003, subsidiary obtained loan from a financial institution amounted to Baht 50 million. The last installments will be maturity within February 2008, The interest payment will be made on monthly basis and the loan bears interest at the rates ranging from MLR -0.75% to MLR per annum.

The aforementioned loans were collateralized by mortgaged land and structures and pledged portion of machinery of subsidiary. (Note 12)

17. LEGAL RESERVE

Under the provisions of the Limited Public Company Act B.E 2535, the Company is required to appropriate at least 5% of its annual net income after deduction of the deficit brought forward (if any) as reserve fund until the reserve equal to 10% of authorized share capital. The reserve is not available for dividend distribution. As at December 31, 2004 and 2003, the Company's legal reserve reaches 10 % of authorized share capital.

18. MINORITY INTEREST

	IN BAHT	
	CONSOLIDATED	
	2004	2003
Beginning balance	69,766,354	68,576,804
Increase in share capital	44,625,000	35,227,500
Acquisition or Investment in subsidiary	(8,057,071)	-

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Shares of losses from subsidiaries	(37,109,958)	(34,037,950)
Ending balance	69,224,325	69,766,354

19. DIVIDENDS PAID

At the Ordinary Shareholders' Meeting for the year 2004 held on April 29, 2004, the shareholders were unanimously approved the payment of Dividends from net income under the Board of Investment Promotional Certificate No. 1397/2537 to the shareholders for 21 million shares, at Baht 3 per share totalling Baht 63 million. Such dividends paid on May 28, 2004.

At the Ordinary Shareholders' Meeting for the year 2003 held on April 30, 2003, the shareholders were unanimously approved the payment of Dividends from net income under the Board of Investment Promotional Certificate No. 1397/2537 to the shareholders for 21 million shares, at Baht 3 per share totalling Baht 63 million. Such dividends paid on May 30, 2003.

20. PROFIT FROM OPERATING

The following expenditures, classified by nature, have been charged in profit from operating as follows :

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2004	2003	2004	2003
Staff costs (Baht)	222,379,255	196,704,845	180,247,581	164,301,155
Number of employees as at December 31, (persons)	2,431	2,606	2,608	2,216

21. PROMOTIONAL PRIVILEGES

By virtue of the provisions of Industrial Investment Promotion Act. B.E. 2520, the Company was granted certain privileges as follows :

21.1 Under the Board of Investment Promotional Certificate No. 1727/2531, exemption from payment of income tax for 7 years starting from the commencement date of the promoted business on February 1, 1990. to February 1, 1997.

21.2 Under the Board of Investment Promotional Certificate No. 1727/2531, exemption from payment of income tax for 7 years starting from the commencement date of the promoted business on February 1, 1990. to February 1, 1997.

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