

**CHIANGMAI FROZEN FOODS PUBLIC COMPANY LIMITED AND SUBSIDIARIES**  
**NOTE TO INTERIM FINANCIAL STATEMENTS**  
**MARCH 31, 2005 AND 2004 (REVIEWED) AND DECEMBER 31, 2004 (AUDITED)**

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**1. BASIS OF INTERIM FINANCIAL STATEMENT AND CONSOLIDATED INTERIM FINANCIAL STATEMENT PREPARATION**

These interim financial statements are 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 primary financial statements (i.e. balance sheets, statements of income, changes in shareholders' equity and cash flows) are prepared in the full format as required by the Securities and Exchange Commission. The notes to the financial statements are prepared in a condensed format according to Thai Accounting Standard 41, 'Interim Financial Reporting' and additional notes are presented as required by the Securities and Exchange Commission.

The accompanying interim financial statements and consolidated interim financial statements are prepared as additional information to financial statements for the year ended December 31, 2004 with the emphasis on the more current information about activities, events and situations, not a duplicate of information previously reported. These interim financial statements should therefore be read in conjunction with the financial statements for the year ended December 31, 2004.

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

	<u>PERCENTAGE OF HOLDING</u>		<u>NATURE OF BUSINESS</u>
	<u>2005</u>	<u>2004</u>	
C&W INTERFOODS CO.,LTD.	49.00	49.00	Frozen Dough and Bakery Products
AGRIFOOD PROCESSING CO., LTD.	100.00	100.00	Transmuted Sweet Corn Distribution

During the three month period ended March 31, 2005. C&W INTERFOODS CO.,LTD. increased the authorized share capital amounted to Baht 12.5 million. The Company purchased those increased share of Baht 6.1 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.

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**2. SIGNIFICANT ACCOUNTING POLICIES**

Significant accounting policies and the methods of computation used to prepare the interim financial statements and the interim consolidated financial statements for the three-month period ended March 31, 2005 are consistent with those used to prepared the financial statements for the year ended December 31, 2004.

**3. TRANSACTION WITH PERSON AND RELATED PARTIES**

The Company has certain transactions with their subsidiary, 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.

**3.1 Relationships and pricing policies**

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

	<u>Relationships</u>
<b><u>Subsidiary :</u></b>	
Agrifood Processing Co., Ltd.	Shareholding by the Company and common directors
C&W Interfoods Co.,Ltd.	Shareholding by the Company and common directors
<b><u>Related companies :</u></b>	
Itochu Corporation Co., Ltd.	Shareholders of the Company
P.P Foods Supply Co., Ltd.	Cross shareholdings
Ing shiang Co., Ltd.	Cross shareholdings
	<u>Pricing policy</u>
Sales	At normal business prices, as same as other entities.
Rental revenue	At normal business prices, based on utilized space
Loans	At market interest rates or approximates.

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**3.2 Balances of transactions with subsidiary, person and related companies**

Balances of transactions with subsidiary, person and related companies are as follows:

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	March 31, 2005	December 31, 2004	March 31, 2005	December 31, 2004
<b>Accounts receivable</b>				
<b>Subsidiary</b>				
Agrifood Processing Co., Ltd.	-	-	8,169,202	4,168,633
<b>Related companies</b>				
Itochu Corporation Co., Ltd.	5,276,188	10,796,896	4,351,034	9,892,790
P.P Foods Supply Co., Ltd.	8,011,815	9,004,349	8,011,815	9,004,348
Ing shiang Co., Ltd.	983,104	2,327,404	506,107	-
Total	14,271,107	22,128,649	12,868,956	18,897,138
Grand Total	14,271,107	22,128,649	21,038,158	23,065,771
<b>Loans and interest receivable</b>				
<b>(Interest rate 3.25%)</b>				
C&W Interfoods Co.,Ltd	-	-	10,006,233	-

**3.3 Revenue among the Company, Subsidiary and Related Companies**

Revenue between the Company, Subsidiary and related companies for the three-month periods ended March 31, 2005 and 2004 are as follows:

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2005	2004	2005	2004
<b>Sales</b>				
<b>Subsidiary</b>				
Agrifood Processing Co., Ltd.	-	-	16,550,131	21,989,362
<b>Related companies</b>				
Itochu Corporation Co., Ltd.	16,423,230	23,365,197	13,409,211	23,365,197
P.P Foods Supply Co., Ltd.	4,505,850	3,923,064	4,505,200	3,923,064
Ing shiang Co., Ltd.	987,797	-	496,168	-
River Kwai International Co.,Ltd.	1,285,336	16,508,503	1,285,336	-
Total	23,202,213	43,796,764	19,695,915	27,288,261
Grand Total	23,202,213	43,796,764	36,246,046	49,277,623
<b>Other income</b>				
Agrifood Processing Co., Ltd.	-	-	160,000	750,970

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**4. TRADE ACCOUNTS RECEIVABLE – NET**

The aging of outstanding balances as at March 31, 2005 and December 31, 2004 are as follows:

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	March 31,2005	December 31,2004	March 31,2005	December 31,2004
Accounts receivable - Related Companies				
Past due not over than 3 months	13,793,607	20,703,119	20,560,658	21,640,241
Over 3 months	477,500	1,425,530	477,500	1,425,530
Total accounts receivable - Related Companies	14,271,107	22,128,649	21,038,158	23,065,771
Accounts receivable - Other Companies				
Past due not over than 3 month	100,195,450	72,360,668	75,706,638	50,831,962
Over 3 months	2,452,067	3,685,319	35,000	-
Total accounts receivable – Other Companies	102,647,517	76,045,987	75,741,638	50,831,962
<u>Less</u> Allowance for doubtful account receivable	(1,870,726)	-	-	-
Net	100,776,791	76,045,987	75,741,638	50,831,962

**5. 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 of 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 sale price was payable in installments up to year 2005 are as follows:

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	March 31,2005	December 31,2004	March 31,2005	December 31,2004
Year 2004	2,498,084	2,498,084	2,498,084	2,498,084
Year 2005	1,498,543	1,493,364	1,498,543	1,493,364
Total	3,996,627	3,991,448	3,996,627	3,991,448
<u>Less</u> current portion	(3,996,627)	(3,991,448)	(3,996,627)	(3,991,448)
Net	-	-	-	-

**6. INVESTMENTS IN SUBSIDIARIES**

**AS AT MARCH 31, 2005**

	Activities	Paid up Capital (In Baht)	%	In Baht		Dividends
				At Cost	At Equity	
C & W Interfoods Co., Ltd.	Frozen Dough , Bakery Products	300,000,000	49.0	147,000,000	64,126,782	-
Agrifood Processing Co.,Ltd.	Transmuted Sweet corn distribution	30,000,000	100.0	23,353,658	22,184,246	-
Total				170,353,658	86,311,028	

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**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 , 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>	

**7. PROPERTY , PLANT AND EQUIPMENT – NET**

	IN BAHT	
	Consolidated	The Company Only
For the three-month period ended March 31, 2005		
Opening net book amount	674,219,145	491,886,431
Acquisition	103,420,588	101,396,309
Disposals	(1,281,030)	(967,121)
Depreciation	(17,251,132)	(11,613,271)
Closeting net book amount	<u>759,107,571</u>	<u>580,702,348</u>

**8. OVERDRAFTS AND SHORT TERM LOANS FROM FINANCIAL INSTITUTIONS**

As at March 31, 2005 and December 31, 2004, the Company and subsidiary have the overdraft line from financial institutions amounted to Baht 80 million, bank overdraft loan bears interest at the rate of MOR per annum. Such loans are guaranteed by mortgaged of loan and structures thereon and pledged portion of machinery of the Company and subsidiary.

**9. LONG -TERM LOANS – NET**

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	March 31,2005	December 31,2004	March 31,2005	December 31,2004
Long – term loans	34,600,000	37,900,000	-	-
<u>Less</u> Current portion	<u>(13,200,000)</u>	<u>(13,200,000)</u>	-	-
Net	<u>21,400,000</u>	<u>24,700,000</u>	-	-

In the first quarter of 2003, subsidiary obtained loan from a financial institution amounted to Baht 50 million, payable in installments through February 2008, interest payable monthly and 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.

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**10. 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 March 31, 2004 and the Company's legal reserve reaches 10 % of authorized share capital.

**11. SEGMENT INFORMATION**

The Company and subsidiaries are engage in exporting vegetables and frozen fruits, transmuted sweet corn distribution, Frozen Dough and Bakery. The Company segment information for the three- month period ended March 31, 2005 as follows:

CONSOLIDATED

	IN BAHT			
	Frozen Products	Transmuted Products	Bakery	Total
Net sales	194,118,776	3,205,875	39,867,333	237,191,984
Cost of sales	(179,075,938)	(5,926,602)	(38,070,018)	(223,072,558)
Gross profit (loss)	15,042,838	(2,720,727)	1,797,315	14,119,426
Selling expenses	(22,172,686)	(178,603)	(11,333,156)	(33,684,445)
Loss from operating	(7,129,848)	(2,899,330)	(9,535,841)	(19,565,019)
Interest and other income				6,675,611
Central expenses				(28,856,666)
Interest expenses				(1,189,387)
Income tax				(144,335)
Minority interest in net loss				8,855,122
Net loss				(34,224,674)
Property, plant and equipment-net as at March 31, 2005				759,107,571
Other assets				573,253,066
Total assets				<u>1,332,360,637</u>

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The Company segment information for the three - month period ended March 31, 2004 as follows:

**CONSOLIDATED**

	IN BAHT			
	Frozen Products	Transmuted Products	Bakery	Total
Net sales	188,194,525	16,508,503	26,715,827	231,418,855
Cost of sales	(168,308,868)	(21,698,601)	(27,581,261)	(217,588,730)
Gross profit (loss)	19,885,657	(5,190,098)	(865,434)	13,830,125
Selling expenses	(16,577,398)	(890,499)	(8,006,943)	(25,474,840)
Income (loss) from operating	3,308,259	(6,080,597)	(8,872,377)	(11,644,715)
Interest and other income				4,423,356
Central expenses				(26,195,606)
Interest expenses				(1,055,253)
Income tax				(356,191)
Minority interest in net loss				9,045,731
Net loss				(25,782,678)
Property, plant and equipment-net as at March 31, 2004				592,349,625
Other assets				665,000,651
Total assets				1,257,350,276

## **12. FINANCIAL INSTRUMENTS**

As at March 31, 2005, the Company and subsidiaries have no policy to perform speculate or trade the financial instrument transaction (derivatives).

### **12.1 Liquidity risk**

Liquidity risk, or funding risk, is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

### **12.2 Credit risk**

The risk arises from the counterparties defaulting which results in a financial loss to the Company and subsidiary. To manage this risk, the Company generally requests its customers to open letters of credit. The Company and subsidiary do not expect any counterparties to fail to meet their obligations.

### **12.3 Foreign Currency Risk and Risk Management**

The Company's exposure to foreign currency risk almost relates to selling in U.S. Dollars. The Company primarily utilizes forward exchange contracts to hedge exchange rate risk occasionally if its necessary.

As at March 31, 2005, assets and liabilities of the Company and subsidiary which are not hedged as follows :

	<u><b>Currencies</b></u>	<u><b>The Company only</b></u>
Receivables from sales of investment	U.S. Dollars	102,555
Accrued commission	U.S. Dollars	74,467

#### **12.4 Interest rate risk**

The interest rate risk is the risk that future movements in market interest rates will affect the results of the subsidiary's operations and its cash flows. The subsidiary's exposure to interest rate risk relates primarily to short - term loans from financial institutions and long-term loans (the details in Notes 8 and 9 to the interim financial statements)

#### **12.5 Fair value of financial instruments**

The Company and subsidiaries used the following methods and assumptions in estimating the fair values of financial instruments. Because these financial instruments are in short-term maturity:

Cash and cash equivalents and accounts receivable; the carrying values approximate their fair values.

Accounts payable; the fair value based on the carrying value in the balance sheets.

Loans; the carrying values approximate their fair values

### **13. COMMITMENTS AND CONTINGENT LIABILITY**

As at March 31, 2005

13.1 The Company and subsidiary have contingent liable for banks guarantee issued in favor of government agency amounting to approximately Baht 12.5 million which are pledged by subsidiary's fixed deposit amounting to Baht 5.0 million.

13.2 The Company has commitment to pay the uncalled investments in a subsidiary amounting to approximately Baht 90 million.

13.3 Capital expenditure in respect of the contract for plant construction at the balance sheet date but not recognized in the financial statements amounted to Baht 26.1 million.

13.4 The Company and subsidiaries had forward contracts for exchange rate with local financial institution to protect against the risks amounting approximately U.S. Dollars 4.1 million equivalent to Thai Baht approximately Baht 160.4 million. Such contracts will effective within 2005.



#### **14. SUBSEQUENT EVENTS**

According to the resolution of the shareholders' meeting for the year 2005 held on April 28, 2005 the shareholders had the resolution to approve as follows :

- To approved the payment of cash dividends and stock dividends. The cash dividend from operational results of fiscal year 2004 under the Board of Investment Promotional Certificate No.1465/2542, is paid to the shareholders of 21.0 million shares at Baht 2.5 per share totaling Baht 52.5 million. The stock dividends from operating results of fiscal years between 2002 - 2004 under the Board of Investment Promotional Certificate No.1465/2542 is paid to the existing shareholders at the ratio of 2 old shares to 1 new shares, totaling 10.5 million shares at the par value of Baht 10 per share. The dividends will be paid on May 27, 2005
- To approved the capital increasing of the Company's authorized share capital from Baht 210 million (21,000,000 of common shares with a par value of Baht 10 per share) to Baht 315 million (31,500,000 of common shares with a par value of Baht 10 per share).
- To approved the devalue of authorized share capital from Baht 10 per share to Baht 1 per share (31,500,000 of common shares with a par value of Baht 10 per share to 315,000,000 of common shares with a par value of Baht 1 per share)