

CHIANGMAI FROZEN FOODS PUBLIC COMPANY LIMITED AND SUBSIDIARIES
NOTE TO THE INTERIM FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003 (REVIEWED) AND DECEMBER 31, 2003 (AUDITED)

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

The accompanying interim financial statements and consolidated interim financial statements have been prepared in accordance with the Accounting Standard No. 41 "Interim Financial Reporting" and Regulations of Stock Exchange of Thailand (SET) relating to the accounting.

The accompanying interim financial statements and consolidated interim financial statements are prepared as additional information to financial statements for the year ended December 31, 2003 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, 2003.

On April 30, 2003, the Company had entered into the Joint Venture Agreement with River Kwai International to engage in manufacturing and distributing of frozen sweet corn and other sweet corn by establishing the registered company, Agrifood Processing Co.,Ltd. which authorized share capital, Baht 120 million and paid-up 25% amounted to Baht 30 million for distribution with the proportion 51%. Such subsidiary was incorporated as a limited company with Ministry of Commerces on June 6, 2003.

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:

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

Subsidiary 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 interim financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim financial statements and consolidated interim financial statements have been prepared using the significant accounting policies under the Accounting Standards issued by the Institute of Certified Accountants and Auditors of Thailand. Significant accounting policies and the methods of computation used to prepare the interim financial statements and the consolidated interim financial statements for the period ended June 30, 2004 are consistent with those used to prepare the financial statements for the year ended December 31, 2003.

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3. TRANSACTIONS WITH PERSON AND RELATED PARTIES

The Company have 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:

	Relation Ships	Pricing policy	
<u>Subsidiary :</u>			
Agrifood Processing Co., Ltd.	Shareholders	Sales	At normal business prices, as same as other entities.
		Rental	
		revenue	At normal business prices based on usage area.
<u>Related companies :</u>			
Itochu Corporation Co., Ltd.	Shareholders	Sales	At normal business prices, as same as other entities.
P.P Foods Supply Co., Ltd.	Shareholders	Sales	At normal business prices, as same as other entities.
Ing shiang Co., Ltd.	Shareholders	Sales	At normal business prices, as same as other entities.
River Kwai International 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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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	
	June 30, 2004	December 31, 2003	June 30, 2004	December 31, 2003
	“UNAUDITED” “REVIEWED”	“AUDITED”	“UNAUDITED” “REVIEWED”	“AUDITED”
Accounts receivable				
Subsidiary				
Agrifood Processing Co., Ltd.	-	-	1,081,421	7,442,841
Related companies				
Itochu Corporation Co., Ltd.	14,165,274	5,405,574	14,165,274	5,405,574
P.P Foods Supply Co., Ltd.	7,128,871	5,746,508	7,128,871	5,746,508
River Kwai International Co.,Ltd.	1,293,172	9,041,460	-	-
Total	22,587,317	20,193,542	21,294,145	11,152,082
Grand Total	22,587,317	20,193,542	22,375,566	18,594,923
Other receivable – related company				
Agrifood Processing Co., Ltd.	-	-	8,251,500	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	30,000
Other current liabilities				
Agrifood Processing Co., Ltd	-	-	3,276,765	9,770,439

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3.3 Revenue among the Company , Subsidiary and Related Companies

Revenue between the Company, Subsidiary and related companies for the three-month periods ended June 30, 2004 and 2003 are as follows:

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2004	2003	2004	2003
Sales				
Subsidiary				
Agrifood Processing Co., Ltd.	-	-	20,664,736	-
Related companies				
Itochu Corporation Co., Ltd.	53,841,263	69,742,693	53,841,263	69,742,693
P.P Foods Supply Co., Ltd.	3,769,308	3,020,391	3,769,308	3,020,391
River Kwai International Co.,Ltd.	1,208,571	-	-	-
Total	58,819,142	72,763,084	57,610,571	72,763,084
Grand Total	58,819,142	72,763,084	78,275,307	72,763,084
Surcharge income from defaulting condition in purchase and sale agreement				
Agrifood Processing Co., Ltd.	-	-	8,057,830	-
Other income				
Agrifood Processing Co., Ltd.	-	-	405,323	-

Revenue between the Company, Subsidiary and related companies for the six-month periods ended June 30, 2004 and 2003 are as follows:

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2004	2003	2004	2003
Sales				
Subsidiary				
Agrifood Processing Co., Ltd.	-	-	42,654,098	-
Related companies				
Itochu Corporation Co., Ltd.	77,206,460	109,551,374	77,206,460	109,551,374
P.P Foods Supply Co., Ltd.	7,692,372	5,853,667	7,692,372	5,853,667
River Kwai International Co.,Ltd.	17,717,074	-	-	-
Total	102,615,906	115,405,041	84,898,832	115,405,041
Grand Total	102,615,906	115,405,041	127,552,930	115,405,041
Surcharge income from defaulting condition in purchase and sale agreement				
Agrifood Processing Co., Ltd.	-	-	8,057,830	-
Other income				
Agrifood Processing Co., Ltd.	-	-	1,156,293	-

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4. ACCOUNTS RECEIVABLE - TRADE

The aging of outstanding balances as at June 30, 2004 and December 31, 2003 are as follows:

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	June 30, 2004	December 31, 2003	June 30, 2004	December 31, 2003
	“UNAUDITED” “REVIEWED”	“AUDITED”	“UNAUDITED” “REVIEWED”	“AUDITED”
Accounts receivable – Related Companies				
Past due not over than 3 months	19,227,753	18,543,594	19,016,002	16,944,975
Over 3 months	3,359,564	1,649,948	3,359,564	1,649,948
Total accounts receivable - Related Companies	22,587,317	20,193,542	22,375,566	18,594,923
Accounts receivable – Other Companies				
Past due not over than 3 months	81,238,647	47,204,701	51,456,253	31,137,031
Over 3 months	2,121,760	271,782	2,121,760	271,782
Total accounts receivable – Other Companies	83,360,407	47,476,483	53,578,013	31,408,813

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	
	June 30, 2004	December 31, 2003	June 30, 2004	December 31, 2003
	“UNAUDITED” “REVIEWED”	“AUDITED”	“UNAUDITED” “REVIEWED”	“AUDITED”
Year 2003	-	1,636,884	-	1,636,884
Year 2004	3,212,756	3,110,484	3,212,756	3,110,484
Year 2005	1,563,221	1,513,459	1,563,221	1,513,459
Total	4,775,977	6,260,827	4,775,977	6,260,827
Less current portion	(4,775,977)	(4,747,368)	(4,775,977)	(4,747,368)
Net	-	1,513,459	-	1,513,459

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6. INVESTMENTS IN SUBSIDIARIES

AS AT JUNE 30, 2004						
Activities	Paid up Capital (In Baht)	% Holdings	In Baht		Dividends	
			At Cost	At Equity		
C & W Interfoods Co., Ltd.	Frozen Dough , Bakery Products	250,000,000	49.0	122,500,000	64,246,421	-
Agrifood Processing Co.,Ltd.	Transmuted Sweet corn distribution	30,000,000	51.0	15,300,000	8,385,933	-
Total			137,800,000	72,632,354		

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 , 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			123,100,000	77,845,542		

7. PROPERTY , PLANT AND EQUIPMENT – NET

	IN BAHT	
	Consolidated	The Company Only
For the six-month period ended June 30, 2004		
Opening net book amount	600,191,821	420,834,361
Acquisition	41,857,972	28,031,922
Disposals	(332,688)	(9,013)
Depreciation	(41,379,391)	(31,369,264)
Closing net book amount	600,337,714	417,488,006

8. OVERDRAFT AND SHORT – TERM LOANS FROM FINANCIAL INSTITUTIONS

As at June 30, 2004 and December 31, 2003, 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.

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9. LONG -TERM LOANS – NET

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	June 30, 2004	December 31, 2003	June 30, 2004	December 31, 2003
	“UNAUDITED” “REVIEWED”	“AUDITED”	“UNAUDITED” “REVIEWED”	“AUDITED”
Long – term loans	44,500,000	50,000,000	-	-
<u>Less</u> Current portion	(13,200,000)	(12,100,000)	-	-
Net	31,300,000	37,900,000	-	-

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.

10. DIVIDENDS

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.

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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 June 30, 2004 as follows:

CONSOLIDATED

	IN BAHT			
	Frozen	Transmuted		
	Products	Products	Bakery	Total
Net sales and service income	386,382,119	1,571,241	30,610,074	418,563,434
Costs of sales and service	(252,101,121)	(1,874,306)	(30,514,836)	(284,490,263)
Gross profit (loss)	134,280,998	(303,065)	95,238	134,073,171
Selling expenses	(34,471,059)	(828,110)	(28,001,015)	(63,300,184)
Income (loss) from operating	99,809,939	(1,131,175)	(27,905,777)	70,772,987
Interest and other income				5,749,837
Central expenses				(9,820,189)
Interest expenses				(1,183,826)
Income tax				(567,939)
Minority interest in net loss				11,294,828
Net income				76,245,698
Property, plant and equipment-net as at June 30, 2004				600,337,714
Other assets				685,822,802
Total assets				1,286,160,516

The Company segment information for the six - month period ended June 30, 2004 as follows:

CONSOLIDATED

	IN BAHT			
	Frozen	Transmuted		
	Products	Products	Bakery	Total
Net sales and service income	574,576,644	18,079,744	57,325,901	649,982,289
Costs of sales and service	(420,409,989)	(23,572,907)	(58,096,097)	(502,078,993)
Gross profit (loss)	154,166,655	(5,493,163)	(770,196)	147,903,296
Selling expenses	(51,048,457)	(1,718,609)	(36,007,958)	(88,775,024)
Income (loss) from operating	103,118,198	(7,211,772)	(36,778,154)	59,128,272
Interest and other income				8,018,967
Central expenses				(33,861,569)
Interest expenses				(2,239,079)
Income tax				(924,130)
Minority interest in net loss				20,340,559
Net income				50,463,020
Property, plant and equipment-net as at June 30, 2004				600,337,714
Other assets				685,822,802

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Total assets	<u>1,286,160,516</u>
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The Company segment information for the three - month period ended June 30, 2003 are as follows:

CONSOLIDATED

	IN BAHT		
	Frozen Products	Bakery	Total
Net sales and service income	347,867,955	13,891,007	361,758,962
Costs of sales and service	(210,924,472)	(16,156,201)	(227,080,673)
Gross profit (loss)	136,943,483	(2,265,194)	134,678,289
Selling expenses	(32,381,475)	(8,088,899)	(40,470,374)
Income (loss) from operating	104,562,008	(10,354,093)	94,207,915
Interest and other income			2,401,699
Central expenses			(20,309,854)
Interest expenses			(1,079,386)
Income tax			(175,972)
Minority interest in net loss			8,094,020
Net income			<u>83,138,422</u>
Property , plant and equipment-net as at June 30, 2003			597,839,168
Other assets			703,320,887
Total assets			<u>1,301,160,055</u>

The Company segment information for the six-month period ended June 30, 2003 are as follows:

CONSOLIDATED

	IN BAHT		
	Frozen Products	Bakery	Total
Net sales and service income	533,868,462	28,987,250	562,855,712
Costs of sales and service	(358,683,883)	(32,455,260)	(391,139,143)
Gross profit (loss)	175,184,579	(3,468,010)	171,716,569
Selling expenses	(50,131,613)	(12,369,967)	(62,501,580)
Income (loss) from operating	125,052,966	(15,837,977)	109,214,989
Interest and other income			5,168,453
Central expenses			(45,084,579)
Interest expenses			(1,956,422)
Income tax			(412,642)
Minority interest in net loss			13,712,247
Net income			<u>80,642,046</u>
Property , plant and equipment-net as at June 30, 2003			597,839,168
Other assets			703,320,887
Total assets			<u>1,301,160,055</u>

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12. FINANCIAL INSTRUMENTS

As at June 30, 2004, 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 June 30, 2004, assets and liabilities of the Company which are not hedged as follows :

	<u>Currencies</u>	<u>The Company only</u>
Receivables from sales of investment	U.S. Dollars	117,230
Accrued commission	U.S. Dollars	45,871

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)

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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 June 30, 2004

13.1 The Company and subsidiary have contingent liability for banks guarantee issued in favour of government agency amounting to approximately Baht 7.5 million which are pledged by subsidiary's fixed deposit amounting to Baht 2.4 million.

13.2 The Company has commitment to pay the uncalled investments in a subsidiary amounting to approximately Baht 45.9 million.

13.3 The Company had forward exchange contracts to protect the effect with local financial institutions amounting approximately U.S. Dollars 6.8 million equivalent to Thai Baht approximately Baht 275.8 million. Such contracts will effective within 2004.

13.4 The Company has unused letter of credits amounting to approximately Baht 0.9 million.

14. RECLASSIFICATION OF ACCOUNTS

Certain accounts in 2003 financial statements have been reclassified to conform with the 2004 interim financial statement presentation with no effect on previously reported net earnings or shareholder's equity.