

CHIANGMAI FROZEN FOODS PUBLIC COMPANY LIMITED AND SUBSIDIARIES
NOTE TO THE INTERIM FINANCIAL STATEMENTS
SEPTEMBER 30, 2003 AND 2002 (REVIEWED) AND DECEMBER 31, 2002 (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 interim financial statements and consolidated interim financial statements are prepared as additional information to financial statements for the year ended December 31, 2002 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, 2002.

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 transmuted 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 Commerce on June 6, 2003.

The consolidated interim 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</u>
	<u>2003</u>	<u>2002</u>	<u>BUSINESS</u>
C&W INTERFOODS CO.,LTD.	49.00	49.00	Frozen Dough and Bakery Products
AGRIFOOD PROCESSING CO., LTD.	51.00	-	Transmuted 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 by 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 September 30, 2003 are consistent with those used to prepare the financial statements for the year ended December 31, 2002.

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3. TRANSACTIONS WITH RELATED PARTIES

The Company has certain transactions with their related companies. A portion of assets, liabilities, revenues and expenses arose from transactions with said related companies. These related companies are related through common shareholding and/or directorships. The effects of these transactions are reflected in the accompanying interim 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 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.

3.2 Balances of transactions among the Company, Subsidiary and Related Companies

Balances of transactions among the Company, Subsidiary and Related companies are as follows:

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	September 30, 2003 “UNAUDITED” “REVIEWED”	December 31, 2002 “AUDITED”	September 30, 2003 “UNAUDITED” “REVIEWED”	December 31, 2002 “AUDITED”
Accounts receivable				
Subsidiary				
Agrifood Processing Co., Ltd.	-	-	404,801	-
Related companies				
Itochu Corporation Co., Ltd.	3,904,509	2,239,593	3,904,509	2,239,593
P.P Foods Supply Co., Ltd.	2,949,975	2,599,115	2,949,975	2,599,115
Ing shiang Co., Ltd.	-	494,492	-	494,492
Total	6,854,484	5,333,200	6,854,484	5,333,200
Grand Total	6,854,484	5,333,200	7,259,285	5,333,200

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	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	September 30, 2003 “UNAUDITED” “REVIEWED”	December 31, 2002 “AUDITED”	September 30, 2003 “UNAUDITED” “REVIEWED”	December 31, 2002 “AUDITED”
Other current assets				
Agrifood Processing Co., Ltd	-	-	5,905	-
Accrued expenses				
Agrifood Processing Co., Ltd	-	-	30,000	-
Other current liabilities				
Agrifood Processing Co., Ltd	-	-	13,988,070	-

3.3 Revenues and Expenses among the Company, Subsidiary and Related Companies

Revenues among the Company, Subsidiary and Related companies for the three-month periods ended September 30, 2003 and 2002 are as follows:

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2003	2002	2003	2002
Sales				
Subsidiary				
Agrifood Processing Co., Ltd.	-	-	7,137,035	-
Related companies				
Itochu Corporation Co., Ltd.	43,106,105	33,369,088	42,269,708	33,369,088
P.P Foods Supply Co., Ltd.	4,170,389	2,411,354	4,170,389	2,411,354
Total	47,276,494	35,780,442	46,440,097	35,780,442
Grand Total	47,276,494	35,780,442	53,577,132	35,780,442
Rental income				
Agrifood Processing Co., Ltd.	-	-	76,500	-
Administrative expenses				
Agrifood Processing Co., Ltd.	-	-	19,775	-

Revenues among the Company, Subsidiary and Related companies for the nine-month periods ended September 30, 2003 and 2002 are as follows:

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2003	2002	2003	2002
Sales				
Subsidiary				
Agrifood Processing Co., Ltd.	-	-	7,137,035	-
Related companies				
Itochu Corporation Co., Ltd.	152,657,479	99,933,974	151,821,082	99,933,974
P.P Foods Supply Co., Ltd.	10,024,056	8,351,312	10,024,056	8,351,312

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Total	<u>162,681,535</u>	<u>108,285,286</u>	<u>161,845,138</u>	<u>108,285,286</u>
Grand Total	<u>162,681,535</u>	<u>108,285,286</u>	<u>168,982,173</u>	<u>108,285,286</u>
IN BAHT				
	CONSOLIDATED		THE COMPANY ONLY	
	2003	2002	2003	2002
Rental income				
Agrifood Processing Co., Ltd.	-	-	102,000	-
administrative expenses				
Agrifood Processing Co., Ltd.	-	-	20,075	-

4. ACCOUNTS RECEIVABLE - TRADE

The aging of outstanding balances as at September 30, 2003 and December 31, 2002 are as follows:

IN BAHT				
	CONSOLIDATED		THE COMPANY ONLY	
	September 30, 2003 “UNAUDITED” “REVIEWED”	December 31, 2002 “AUDITED”	September 30, 2003 “UNAUDITED” “REVIEWED”	December 31, 2002 “AUDITED”
Accounts receivable-Related Companies				
Past due not over 3 months	6,854,484	4,838,708	7,259,285	4,838,708
Over 3 months	-	494,492	-	494,492
Total accounts receivable – Related Companies	<u>6,854,484</u>	<u>5,333,200</u>	<u>7,259,285</u>	<u>5,333,200</u>
Accounts receivable-Other Companies				
Past due not over 3 months	66,262,300	30,014,835	46,251,109	22,444,022
Over 3 months	-	3,532,140	-	3,442,524
Total accounts receivable – Other Companies	<u>66,262,300</u>	<u>33,546,975</u>	<u>46,251,109</u>	<u>25,886,546</u>

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 shareholders of Baht 15.3 million reflecting gain on sales of investments of Baht 3.0 million , which included in the calculation of income from operations for the year 2000. The sale price was payable in installments upto year 2005 are as follows:

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	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	September 30, 2003 “UNAUDITED” “REVIEWED”	December 31, 2002 “AUDITED”	September 30, 2003 “UNAUDITED” “REVIEWED”	December 31, 2002 “AUDITED”
Year 2002	-	1,801,727	-	1,801,727
Year 2003	2,681,772	3,512,356	2,681,772	3,512,356
Year 2004	3,138,604	3,390,891	3,138,604	3,390,891
Year 2005	1,527,142	1,649,896	1,527,142	1,649,896
Total	7,347,518	10,354,870	7,347,518	10,354,870
Less current portion	(4,265,128)	(5,314,083)	(4,265,128)	(5,314,083)
Net	3,082,390	5,040,787	3,082,390	5,040,787

6. INVESTMENTS IN SUBSIDIARIES

AS AT SEPTEMBER 30, 2003

	Activities	Paid up Capital (In Baht)	% Holdings	In Baht		Dividends
				At Cost	At Equity	
C & W Interfoods Co., Ltd.	Frozen Dough and	200,000,000	49.0	98,000,000	62,409,079	-
	Bakery Products					
Agrifood Processing Co ., Ltd.	Transmuted Sweet corn distribution	30,000,000	51.0	15,300,000	14,335,496	-
Total				113,300,000	76,744,575	

AS AT DECEMBER 31, 2002

	Activities	Paid up Capital (In Baht)	% Holdings	In Baht		Dividends
				At Cost	At Equity	
C & W Interfoods Co., Ltd.	Frozen Dough and Bakery Products	159,750,000	49.0	<u>78,277,500</u>	<u>65,887,517</u>	-

7. PROPERTY , PLANT AND EQUIPMENT – NET

	IN BAHT	
	Consolidated	The Company Only
For the nine-month period ended September 30, 2003		
Net book value, Beginning of period	581,910,922	404,286,795
Acquisition	83,171,751	64,063,171
Disposals	(332,605)	(4,031)

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Depreciation	(59,434,554)	(46,152,817)
Net book value, End of period	<u>605,315,514</u>	<u>422,193,118</u>

8. OVERDRAFT AND SHORT – TERM LOANS FROM FINANCIAL INSTITUTIONS

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	September 30, 2003 “UNAUDITED” “REVIEWED”	December 31, 2002 “AUDITED”	September 30, 2003 “UNAUDITED” “REVIEWED”	December 31, 2002 “AUDITED”
Bank overdraft	26,619,046	237,697	1,333,199	-
Import loans	-	680,604	-	-
Short-term loan	-	5,000,000	-	-
Total	<u>26,619,046</u>	<u>5,918,301</u>	<u>1,333,199</u>	<u>-</u>

As at September 30, 2003 and December 31, 2002, subsidiary had the overdraft line and short - term loans from a local financial institution amounted to Baht 30 million and Baht 45 million, respectively. Import loan bears interest at the rate of 6.25 % per annum and overdraft bears interest at the rate of MOR per annum. Such loans are guaranteed by mortgaged of land and structures thereon and pledged machinery of subsidiary.

9. LONG -TERM LOANS – NET

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	September 30, 2003 “UNAUDITED” “REVIEWED”	December 31, 2002 “AUDITED”	September 30, 2003 “UNAUDITED” “REVIEWED”	December 31, 2002 “AUDITED”
Loans denominated in Thai Baht	50,000,000	43,480,851	-	-
<u>Less</u> Current portion	<u>(8,800,000)</u>	<u>(2,550,000)</u>	<u>-</u>	<u>-</u>
Net	<u>41,200,000</u>	<u>40,930,851</u>	<u>-</u>	<u>-</u>

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

In 2002, loans denominated in Baht are from local financial institutions consist of :-

The first loan of Baht 29.8 million, last installments within April 2008, interest payable on monthly basis and bears interest at the rates ranging from MLR-1 to MLR per annum.

The second loan of Baht 13.7 million , last installments within February 2007, interest payable on monthly basis and bears interest at the rates ranging from MLR-1 to MLR per annum.

Subsidiary has already fully paid for loans which obtained in year 2002 during the first quarter of year 2003.

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The aforementioned loans were collateralized by mortgaged land and structures and pledged machinery of subsidiary.

10. DIVIDENDS

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.

At the Ordinary Shareholders' Meeting for the year 2002 held on April 30, 2002, 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 4 per share totalling Baht 84 million. Such dividends paid on May 30, 2002.

11. BUSINESS SEGMENT INFORMATION

The Company and subsidiaries are engaged in exporting vegetables and frozen fruits, transmuted sweet corn distribution, Frozen Dough and Bakery. The Company segment information for the three - month period ended September 30, 2003 as follows:

CONSOLIDATED

	IN BAHT			
	Frozen Products	Transmuted Products	Bakery	Total
Net sales	272,747,298	6,067,653	21,632,873	300,447,824
Cost of sales	(183,797,201)	(10,132,113)	(27,567,686)	(221,497,000)
Gross profit (loss)	88,950,097	(4,064,460)	(5,934,813)	78,950,824
Selling expenses	(26,803,825)	(320,909)	(10,400,375)	(37,525,109)
Income (loss) from operating	62,146,272	(4,385,369)	(16,335,188)	41,425,715
Interest and other income				5,650,332
Central expenses				(24,873,323)
Interest expenses				(1,133,413)
Income tax				(181,190)
Minority interest in net loss				11,362,351
Net income				32,250,472
Property, plant and equipment-net as at September 30, 2003				605,315,514
Other assets				703,870,439
Total assets				1,309,185,953

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The Company segment information for the nine - month period ended September 30, 2003 as follows:

CONSOLIDATED

	IN BAHT			
	Frozen Products	TransmutedP roducts	Bakery	Total
Net sales	806,615,760	6,067,653	50,620,123	863,303,536
Cost of sales	(542,481,084)	(10,132,113)	(60,022,946)	(612,636,143)
Gross profit (loss)	264,134,676	(4,064,460)	(9,402,823)	250,667,393
Selling expenses	(76,935,438)	(320,909)	(22,770,342)	(100,026,689)
Income (loss) from operating	187,199,238	(4,385,369)	(32,173,165)	150,640,704
Interest and other income				10,818,785
Central expenses				(69,957,902)
Interest expenses				(3,089,835)
Income tax				(593,832)
Minority interest in net loss				25,074,598
Net income				112,892,518
Property , plant and equipment-net as at September 30, 2003				605,315,514
Other assets				703,870,439
Total assets				1,309,185,953

The Company segment information for the three-month period ended September 30, 2002 as follows:

CONSOLIDATED

	IN BAHT		
	Frozen Products	Bakery	Total
Net sales	288,966,388	14,458,447	303,424,835
Cost of sales	(177,320,723)	15,661,197	192,981,920
Gross profit (loss)	111,645,665	(1,202,750)	110,442,915
Selling expenses	(25,672,999)	(3,165,092)	(28,838,091)
Income (loss) from operating	85,972,666	(4,367,842)	81,604,824
Interest and other income			2,748,707
Central expenses			(20,520,967)
Interest expenses			(772,224)
Income tax			(216,269)
Minority interest in net loss			4,396,473
Net income			67,240,544
Property , plant and equipment-net as at September 30, 2002			577,383,709
Other assets			673,731,781

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Total assets	<u><u>1,251,115,490</u></u>
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The Company segment information for the nine-month period ended September 30, 2002 as follows:

CONSOLIDATED

	IN BAHT		
	Frozen		
	Products	Bakery	Total
Net sales	691,881,408	20,350,391	712,231,799
Cost of sales	(445,206,630)	(22,601,462)	(467,808,092)
Gross profit (loss)	246,674,778	(2,251,071)	244,423,707
Selling expenses	(61,477,916)	(4,134,129)	(65,612,045)
Income (loss) from operating	185,196,862	(6,385,200)	178,811,662
Interest and other income			6,183,096
Central expenses			(66,242,254)
Interest expenses			(787,209)
Income tax			(925,319)
Minority interest in net loss			7,729,638
Net income			<u>124,769,614</u>
Property ,plant and equipment-net as at September 30,2002			577,383,709
Other assets			<u>673,731,781</u>
Total assets			<u><u>1,251,115,490</u></u>

12. FINANCIAL INSTRUMENTS

As at September 30, 2003, 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 subsidiaries. To manage this risk, the Company generally requests its customers to open letters of credit. The Company and subsidiaries do not expect any counterparties to fail to meet their obligations.

12.3 Foreign Currency Risk and Risk Management

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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 September 30, 2003, assets and liabilities of the Company which are not hedged as follows :

	Currencies	The Company only
Receivables from sales of investment	U.S. Dollars	184,611
Accrued commission expenses	U.S. Dollars	73,558

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 September 30, 2003

13.1 The Company and subsidiary have contingent liable for banks guarantee issued in favor of government agency amounting to approximately Baht 6.3 million which are pledged by subsidiary's fixed deposit amounting to Baht 0.8 million.

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

14. RECLASSIFICATION OF ACCOUNTS

Certain accounts in the 2002 financial statements have been reclassified to conform with the 2003 interim financial statement presentation.

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