

**CHIANGMAI FROZEN FOODS PUBLIC COMPANY LIMITED AND SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

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**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 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 CONSOLIDATED FINANCIAL STATEMENTS AND 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 under the Securities and Exchange Act B.E. 2535.

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>2006</u>	<u>2005</u>	
C&W INTERFOODS CO.,LTD.	-	49.00	Frozen Dough and Bakery Products
AGRIFOOD PROCESSING CO., LTD.	100.00	100.00	Transmuted Sweet Corn Distribution

At December 29, 2006, the Company disposed its investment in C&W Interfoods Co., Ltd. with the equity interest of 49% to the related company, Wonder Interfoods Co.,Ltd. As a result of disposal, C&W Interfoods Co., Ltd changed its status from subsidiary to related company.

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 subsidiaries 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.

Deposits at financial institutions that are restricted in use are presented as “Fixed deposits pledged as collateral” as part of non - current assets in the balance sheets.

#### **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. Bad debts are written off during the year in which they are identified.

#### **3.4 Inventories**

Inventories are stated at the lower of cost or net realisable value. Cost is determined by the weighted average method. The cost of purchase comprises both the purchase price and costs directly attributable to the acquisition of the inventory, such as import duties and transportation charges, less all attributable discounts, allowances or rebates. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads, the latter being allocated on the basis of normal operating activities. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses. Provision is made, where necessary, for obsolete, slow-moving and defective inventories.

#### **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.

Depreciation of plant 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	3-10
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 Interest Capitalization**

The Company capitalizes interest on loan for the construction of plant and machinery and equipment under construction and/or installation as part of the cost of assets. Capitalization of interest will cease when those assets are ready for use in the operations.

Interest capitalized as part of the cost of assets for the years 2005 amounted to approximately Baht 0.2 million

### **3.8 Intangible asset and amortization**

Intangible asset is computer software which is stated at historical cost and amortized using the straight line method over its useful live (3 – 5 years).

### **3.9 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.

### **3.10 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.

### **3.11 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.

### **3.12 Provisions**

Provisions are recognized when the Company and subsidiaries have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company and subsidiaries expect a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

### **3.13 Revenue Recognition**

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

### **3.14 Income Tax**

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

### **3.15 Basic Earnings per Share**

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

### **3.16 Financial instruments**

Financial assets carried on the balance sheet include cash and cash equivalents, trade accounts receivable, loan, fixed deposits and other receivable. Financial liabilities carried on the balance sheet include trade accounts payable, accrued expenses, Finance Lease, loan. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item

### 3.17 Related parties

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Company, including holding companies, subsidiaries and fellow subsidiaries are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals and companies associated with these individuals also constitute related parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

## 4. TRANSACTION WITH PERSON AND RELATED PARTIES

The Company has certain transactions with their subsidiaries, person and related companies. A portion of assets, liabilities, revenues and expenses arose from transactions with said Subsidiaries, person and related companies.

### 4.1 Relationships and pricing policies

The relationship and pricing policies among the Company, Subsidiaries, related person and companies are as follows:

	Relationship	
	2006	2005
<b><u>Subsidiaries :</u></b>		
Agrifood Processing Co., Ltd.	Shareholding and Directorship	Shareholding and Directorship
C&W Interfoods Co.,Ltd.	-	Shareholding and Directorship
<b><u>Related companies :</u></b>		
C&W Interfoods Co.,Ltd.	Directorship	-
Itochu Corporation Co., Ltd.	Shareholder	Shareholder
P.P Foods Supply Co., Ltd.	Cross shareholding	Cross shareholding
Ing Shiang Co., Ltd.	Cross shareholding	Cross shareholding
Agri World Co.,Ltd	Common Shareholders and directors	Common Shareholders and directors
C.T.Prosper Group Co.,Ltd	Common Shareholders and directors	Common Shareholders and directors
Wonder Interfoods Co.,Ltd	Share held by close relative of directors.	Shareholding in subsidiary

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
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**Pricing policy**

Sales	At normal business prices, as same as other entities.
Rental revenue	At contract price which had been agreed upon.
Service income	At price which had been agreed upon and normal business price.
Loan to, Loan from	At interest rate 3.25 – 8.00 % per annum.
Service expense	At price which had been agreed upon and normal business price.

**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, 2006 and 2005 are as follows:

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2006	2005	2006	2005
<b>Trade accounts receivable</b>				
<b>Subsidiary</b>				
Agrifood Processing Co., Ltd.	-	-	6,151,039	5,467,450
<b>Related companies</b>				
Itochu Corporation Co., Ltd.	5,521,738	7,238,206	3,764,952	5,134,949
P.P Foods Supply Co., Ltd.	11,171,350	10,960,040	11,164,550	10,960,040
Ing Shiang Co., Ltd.	-	2,174,684	-	423,162
Total	16,693,088	20,372,930	14,929,502	16,518,151
Grand Total	16,693,088	20,372,930	21,080,541	21,985,601
<b>Interest receivable</b>				
C&W Interfoods Co.,Ltd	67,627	-	67,627	67,627
<b>Long - term loans to</b>				
C&W Interfoods Co.,Ltd	24,500,000	-	24,500,000	24,500,000

In 2005 The Company entered into an agreement to lend to subsidiary (C&W Interfoods Co.,Ltd.), amount to Baht 24.5 million. The full principal repayment was due with in the year 2010. The interest is repayable on monthly basis under the interest rate of 3.25 per annum. Such loan was guaranteed by Wonder Interfoods Co.,Ltd., which is the major shareholders of C&W Interfoods Co.,Ltd.and Mr.Nirand Pholpipattanapong ,the director of C&W Interfoods Co.,Ltd.

**CHIANGMAI FROZEN FOODS PUBLIC COMPANY LIMITED AND SUBSIDIARIES**  
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	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2006	2005	2006	2005
<b>Accrued Commission Expenses</b>				
<b>Related persons</b>	339,651	385,998	339,651	385,998
<b>Related companies</b>				
Itochu Corporation Co., Ltd.	1,297,786	382,720	1,189,143	360,888
P.P Foods Supply Co., Ltd.	2,656,992	3,030,142	2,656,992	3,030,142
Ing shiang Co., Ltd.	575,760	98,839	575,560	98,839
Total	4,530,538	3,511,701	4,421,895	3,489,869
Grand Total	4,870,189	3,897,699	4,761,546	3,875,867
<b>Deposit</b>				
Agrifood Processing Co., Ltd.	-	-	30,000	30,000
<b>Long - term loan</b>				
Wonder Interfoods Co.,Ltd	-	25,500,000	-	-

**4.3 Revenue and expenses among the Company, subsidiaries, related persons and companies**

Revenue and expenses among the Company, subsidiaries and related persons and companies for the years then ended December 31, 2006 and 2005 are as follows:

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2006	2005	2006	2005
<b>Sales</b>				
<b>Subsidiary</b>				
Agrifood Processing Co., Ltd.	-	-	135,528,004	104,122,471
<b>Related companies</b>				
Itochu Corporation Co., Ltd.	137,459,901	131,383,133	116,289,811	113,926,616
P.P Foods Supply Co., Ltd.	18,105,055	21,093,215	18,098,255	21,087,855
Ing shiang Co., Ltd.	2,346,172	5,462,486	593,336	1,954,966
Total	157,911,128	157,938,834	134,981,402	136,969,437
Grand Total	157,911,128	157,938,834	270,509,406	241,091,908
<b>Disposal of investment in subsidiary</b>				
Wonder Interfoods Co.,Ltd	7,000,000	-	7,000,000	-
<b>Other income</b>				
Agrifood Processing Co., Ltd.	-	-	625,440	676,653
<b>Interest revenue</b>				
C&W Interfoods Co.,Ltd.	-	-	796,250	605,435
<b>Commission Expenses</b>				
<b>Related Persons</b>	-	-	-	466,660
<b>Related companies</b>				
Itochu Corporation Co., Ltd.	2,753,318	2,549,064	2,316,188	2,232,908
P.P Foods Supply Co., Ltd.	2,590,553	3,720,829	2,590,553	3,720,829
Ing shiang Co., Ltd.	1,115,013	1,246,115	1,115,013	1,246,115
Total	6,458,884	7,516,008	6,021,754	7,199,852
Grand Total	6,458,884	7,516,008	6,021,754	7,666,512

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**5. CASH AND CASH EQUIVALENTS**

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2006	2005	2006	2005
Cash on hand	113,265	196,165	103,264	100,873
Regular checking accounts	80,027	10,234,972	-	-
Saving accounts	72,818,884	113,457,049	60,903,759	91,528,660
Fixed deposits : Less than 3 months	135,446,789	50,000,000	120,000,000	50,000,000
Total	<u>208,458,965</u>	<u>173,888,186</u>	<u>181,007,023</u>	<u>141,629,533</u>

The weighted average effective interest rates of deposits at financial institutions were 0.50% – 4.90% per annum (2005: 0.25 % – 3.65 % per annum).

**6. TRADE ACCOUNTS RECEIVABLE**

The aging of outstanding balances as at December 31, 2006 and 2005 are as follows:

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2006	2005	2006	2005
Accounts receivable - Related Companies				
Not yet due receivables	8,106,738	8,219,025	12,494,191	13,686,475
Over due with 1 month to 3 months	4,613,600	7,881,199	4,613,600	5,305,309
Over due with 4 months to 6 months	3,972,750	4,272,706	3,972,750	2,993,817
Total accounts receivable - Related Companies	<u>16,693,088</u>	<u>20,372,930</u>	<u>21,080,541</u>	<u>21,985,601</u>
Trade accounts receivable - Other Companies				
Not yet due receivables	35,613,489	48,175,153	30,805,373	32,990,135
Over due with 1 month to 3 months	23,000	23,897,646	23,000	7,438,889
Over due with 4 months to 6 months	-	1,095,619	-	1,765,014
Over due with 7 months to 12 months	1,654,216	1,874,248	1,654,216	1,758,881
Over due 12 months	786,315	1,161,164	786,315	30,000
Total accounts receivable - Other Companies	<u>38,077,020</u>	<u>76,203,830</u>	<u>33,268,904</u>	<u>43,982,919</u>
Less Allowance for doubtful accounts	-	(1,131,164)	-	-
Total accounts receivable - Other Companies- Net	<u>38,077,020</u>	<u>75,072,666</u>	<u>33,268,904</u>	<u>43,982,919</u>

**7. INVENTORIES - NET**

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2006	2005	2006	2005
Finished goods and semi – products	270,886,329	232,418,182	270,886,329	232,348,450
Seeds, insecticide, fertilizer	18,773,874	24,693,847	18,773,874	20,460,693
Raw material and supplies	26,104,652	30,661,854	26,104,652	27,565,832
Total	315,764,855	287,773,883	315,764,855	280,374,975
Less Provision for obsolescence	<u>(12,872,087)</u>	<u>(12,804,129)</u>	<u>(12,872,087)</u>	<u>(12,804,129)</u>
Net	<u>302,892,768</u>	<u>274,969,754</u>	<u>302,892,768</u>	<u>267,570,846</u>

**CHIANGMAI FROZEN FOODS PUBLIC COMPANY LIMITED AND SUBSIDIARIES**  
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**8. ACCOUNTS RECEIVABLE – PLANTERS – NET**

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2006	2005	2006	2005
Accounts receivable-planters	26,097,667	29,086,544	26,097,667	29,086,544
<u>Less Allowance for doubtful accounts</u>	<u>(3,259,495)</u>	<u>(2,908,654)</u>	<u>(3,259,495)</u>	<u>(2,908,654)</u>
Net	<u>22,838,172</u>	<u>26,177,890</u>	<u>22,838,172</u>	<u>26,177,890</u>

**9. INVESTMENTS IN SUBSIDIARIES**

**AS AT DECEMBER 31, 2006**

	Activities	Paid up Capital (In Baht)	% Holdings	In Baht		
				At Cost	At Equity	Dividends
Agrifood Processing Co.,Ltd.	Transmuted Sweet - corn distribution	30,000,000	100.0	<u>23,353,658</u>	<u>30,899,068</u>	-

**AS AT DECEMBER 31, 2005**

	Activities	Paid up Capital (In Baht)	% Holdings	In Baht		
				At Cost	At Equity	Dividends
C & W Interfoods Co., Ltd.	Frozen Dough and Bakery Products	300,000,000	49.0	147,000,000	45,226,433	-
Agrifood Processing Co.,Ltd.	Transmuted Sweet - corn distribution	30,000,000	100.0	<u>23,353,658</u>	<u>31,552,232</u>	-
Total				<u>170,353,658</u>	<u>76,778,665</u>	

According to the resolution of the extra - ordinary Shareholders Meeting no. 1 / 2006 held on November 6, 2006, the shareholders approved the disposal of 14,700,000 shares of C&W Interfoods Co., Ltd to the related company, Wonder Interfoods Co.,Ltd, at the selling price of Baht 0.4762 per share totaling amounting of Baht 7,000,000 in the condition that transferee (Wonder Interfoods Co.,Ltd. and Mr. Nirand Pholpipattanapong) must sign as guarantor on long-term loan to C&W Interfoods Co., Ltd. amounting of Baht 24.5 million effective from the date of transferring share to the date of loan repayment ( June 21, 2010).

At December 29, 2006, The Company disposed the investment in C&W Interfoods Co., Ltd. to Wonder Interfoods Co.,Ltd. resulting in the loss on disposal of investment on equity method amounting of Baht 21.38 million recorded as “Loss on disposal of investment”.

**CHIANGMAI FROZEN FOODS PUBLIC COMPANY, LIMITED AND SUBSIDIARIES**  
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**10. PROPERTY, PLANT AND EQUIPMENT - NET**

**CONSOLIDATED**

	IN BAHT						
	Land	Building	Machineries and equipment	Vehicle	Office equipment and fixtures	Building in progress and machinery under installation	Total
As at December 31, 2005							
Cost	115,720,860	442,579,385	761,467,150	47,521,224	27,850,715	6,810,675	1,401,950,009
Less Accumulated Depreciation	-	(147,075,235)	(447,819,480)	(32,578,876)	(21,376,979)	-	(648,850,570)
Impairment of assets	-	-	(5,528,835)	-	-	-	(5,528,835)
Net book amount	115,720,860	295,504,150	308,118,835	14,942,348	6,473,736	6,810,675	747,570,604
For the year ended							
December 31,2006							
Opening net book amount	115,720,860	295,504,150	308,118,835	14,942,348	6,473,736	6,810,675	747,570,604
Add Acquisition	470,857	1,650,590	13,229,099	7,111,813	1,545,727	56,748,567	80,756,653
Transfer in (out)	-	10,033,794	21,753,553	-	-	(31,787,347)	-
Less Disposals	-	(5,937,618)	(300,797)	(304,876)	(5,478)	-	(6,548,769)
Fixed assets transferred to buyer as a result from sale of business	(19,808,512)	(39,844,608)	(86,627,605)	(2,510,080)	(2,059,026)	(799,949)	(151,649,780)
Depreciation charge	-	(24,281,090)	(58,797,717)	(5,817,409)	(2,929,416)	-	(91,825,632)
Closing net book amount	96,383,205	237,125,218	197,375,368	13,421,796	3,025,543	30,971,946	578,303,076
As at December 31, 2006							
Cost	96,383,205	390,143,568	631,217,112	39,679,904	21,425,719	30,971,946	1,209,821,454
Less Accumulated Depreciation	-	(153,018,350)	(428,312,909)	(26,258,108)	(18,400,176)	-	(625,989,543)
Impairment of assets	-	-	(5,528,835)	-	-	-	(5,528,835)
Net book amount	96,383,205	237,125,218	197,375,368	13,421,796	3,025,543	30,971,946	578,303,076

Net book value of land and structures thereon and portion of equipment amounted to Baht 148.8 million (2005: Baht 261.5 million) were mortgaged and pledged as collateral against bank overdrafts, short-term loans from financial institutions and long - term loans as discussed in Notes 12 and 14 to the financial statements.

As at December 31, 2006 and 2005, the Company has fully depreciated equipment which are still in use to approximately Baht 326.5 million and Baht 298.7 million, respectively.

**THE COMPANY ONLY**

Net book value of land and structures thereon and portion of equipment amounted to Baht 148.8 million (2005: Baht 161.8 million) were mortgaged and pledged as collateral against bank overdrafts, short-term loans from financial institutions in Notes 12 to the financial statements.

As at December 31, 2006 and 2005, the Company has fully depreciated equipment which are still in use to approximately Baht 326.5 million and Baht 298.7 million, respectively.

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**11. INTANGIBLE ASSETS – NET**

	IN BAHT	
	Consolidated	The Company Only
For the year ended December 31, 2006		
Opening net book value	1,774,298	1,534,907
<u>Less</u> Fixed assets transferred to buyer as a result from sale of business	(134,125)	-
Amortisation during the year	(443,428)	(338,162)
Ending net book value	1,196,745	1,196,745
As at December 31, 2006		
Cost	1,690,810	1,690,810
<u>Less</u> Accumulative amortization	(494,065)	(494,065)
Net book value	1,196,745	1,196,745

**12. BANK OVERDRAFTS**

Consolidated

As at December 31, 2006 and 2005, the Company and a subsidiary have the bank overdraft and short-term loan lines amounted to Baht 350.0 million and Baht 421.1 million, respectively which bears interest at the rate of MOR per annum. Such overdrafts and short-term loan lines are guaranteed by mortgaging land and structures thereon and pledging machineries of the Company and a subsidiary. (Note 10)

The Company Only

As at December 31, 2006 and 2005, the Company has the bank overdraft and short-term loan lines amounted to Baht 350.0 million and Baht 391.1 million, respectively which bears interest at the rate of MOR per annum. Such overdrafts and short-term loan lines are guaranteed by mortgaging land and structures thereon and pledging of machineries of the Company. (Note 10)

**13. LIABILITIES UNDER FINANCE LEASE CONTRACTS – NET**

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2006	2005	2006	2005
Liabilities under finance lease contracts	-	2,431,867	-	-
<u>Less</u> :Current portion of liabilities under finance lease contracts	-	(1,634,679)	-	-
Net	-	797,188	-	-

In 2005, subsidiary acquired its assets under financial lease contracts with a leasing term of 3 to 4 years. The leases will due within February 2008. The subsidiary has a purchase option based on the prices indicated in the contracts when the period of leases are expired.

**14. LONG -TERM LOANS – NET**

	IN BAHT			
	CONSOLIDATED		THE COMPANY ONLY	
	2006	2005	2006	2005
Loans denominated in Thai Baht	-	25,800,000	-	-
<u>Less</u> Current portion	-	(13,200,000)	-	-
Net	-	12,600,000	-	-

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 10)

**15. SHARE CAPITAL**

- According to the resolution of the shareholders' meeting held on April 28, 2005 the shareholders had the resolution to approve as follows :
  - 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) and
  - 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). The Company registered with the Ministry of Commerce on May 13, 2005.
- On May 27, 2005, the Company paid stock dividends to the existing shareholders at the ratio of 2 existing common shares to 1 common share totaling 10,499,736 shares at the rate Baht 5.0 per share with a par value of Baht 10 per share amount to Baht 104,997,360. The Company registered such changing in paid up share of authorized capital with the Ministry of Commerce on May 13, 2005.

**CHIANGMAI FROZEN FOODS PUBLIC COMPANY LIMITED AND SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2006 AND 2005**

**16. DIVIDENDS PAID**

At the Ordinary Shareholders' Meeting for the year 2006 held on April 26, 2006, the shareholders were unanimously approved the payment of Dividends from net income for the year 2005 under the Board of Investment Promotional Certificate No. 1465/2542 to the shareholders for 315 million shares, at Baht 0.25 per share totaling Baht 78.75 million. Such dividends paid on May 25, 2006.

At shareholders' meeting for the year 2005 held on April 28, 2005 the shareholders had the resolution to approve the payment of cash dividends and stock dividends. To pay cash dividend from net income for the year 2004 under the Board of Investment Promotional Certificate No.1465/2542 to the shareholders for 21.0 million shares, at Baht 2.50 per share totaling Baht 52.5 million and to pay stock dividends from net income for the year 2002 – 2004 under the Board of Investment Promotional Certificate No.1465/2542 to the existing shareholders at the ratio of 2 existing common shares to 1 common shares. Totaling 10.5 million shares at the rate Baht 5.0 per share with a par value of Baht 10 per share amount to Baht 105 million. The Company paid such dividends on May 27, 2005

**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.

**18. MINORITY INTEREST**

	IN BAHT	
	CONSOLIDATED	
	2006	2005
Beginning balance	47,072,410	69,224,325
Increase in share capital	-	6,375,000
Shares of losses from subsidiaries	(17,537,063)	(28,526,915)
Disposal of investment in subsidiary	(29,535,347)	-
Ending balance	-	47,072,410

**19. NUMBER OF EMPLOYEE AND STAFF COSTS**

	CONSOLIDATED		THE COMPANY ONLY	
	2006	2005	2006	2005
Staff costs (Baht)	233,365,587	232,062,444	176,979,590	179,171,128
Number of employees as at December 31, (persons)	2,253	2,442	1,819	2,039

The staff costs in the Consolidated financial statements was included the staff costs of C&W Interfoods CO., Ltd. amount to Baht 52,599,847 and 428 employees

**CHIANGMAI FROZEN FOODS PUBLIC COMPANY LIMITED AND SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2006 AND 2005**

**20. PROMOTIONAL PRIVILEGES**

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

- 20.1 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.
- 20.2 Under the Board of Investment Promotional Certificate No.1063/2536, exemption from payment of income tax for 6 years starting from the commencement date of the promoted business on November 1, 1994 to November 1, 2000.
- 20.3 Under the Board of Investment Promotional Certificate No.1397/2537, exemption from payment of income tax for 8 years starting from the commencement date of the promoted business on March 3,1996 to March 3,2004.
- 20.4 Under the Board of Investment Promotional Certificate No.1465/2542 , exception from payment of income tax for 8 years starting from the commencement date of the promoted business on November 1, 2001 to November 1,2009.
- 20.5 Under the Board of Investment Promotional Certificate No.1545(3)/2547, exception from payment of income tax for 8 years starting from the commencement date of the promoted business

As a promoted industry, the company must comply with certain conditions and restrictions provided for the promotional certificate Results of the company's operations classified under promoted and non-promoted businesses for the year ended December 31, 2006 follow:

	IN BAHT		
	Promoted Business	Non-Promoted Business	Total
<b>REVENUES</b>			
Sales and service income	1,038,868,538	8,942,349	1,047,810,887
Other income	24,018,430	129,055	24,147,485
Total revenues	1,062,886,968	9,071,404	1,071,958,372
<b>EXPENSES</b>			
Cost of sales and service	735,995,719	13,044,401	749,040,120
Selling and administrative expenses	172,314,398	1,185,137	173,499,535
Share of loss of investments in subsidiaries at equity method	-	17,502,499	17,502,499
Loss on sale of investment	21,218,291	158,807	21,377,098
Directors' remuneration	4,759,370	40,630	4,800,000
Total expenses	934,287,778	31,931,474	966,219,252
Income(Loss) before interest expenses	128,599,190	(22,860,070)	105,739,120
Interest expenses	(2,050)	(11)	(2,061)
Net Income (Loss)	128,597,140	(22,860,081)	105,737,059

**CHIANGMAI FROZEN FOODS PUBLIC COMPANY LIMITED AND SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2006 AND 2005**

Results of the company's operations classified under promoted and non-promoted businesses for the year ended December 31, 2005 follow:

	IN BAHT		
	Promoted Business	Non-Promoted Business	Total
<b>REVENUES</b>			
Sales and service income	1,069,177,612	14,739,621	1,083,917,233
Share of profit of investments in subsidiary at equity method	-	9,700,021	9,700,021
Other income	13,733,762	227,458	13,961,220
Total revenues	1,082,911,374	24,667,100	1,107,578,474
<b>EXPENSES</b>			
Cost of sales and service	791,964,399	17,555,794	809,520,193
Share of loss of investments in subsidiaries at equity method	-	27,408,212	27,408,212
Selling and administrative expenses	180,332,990	1,741,009	182,073,999
Total expenses	972,297,389	46,705,015	1,019,002,404
Income(Loss) before interest expenses	110,613,985	(22,037,915)	88,576,070
Interest expenses	(184,326)	(5,703)	(190,029)
Net Income (Loss)	110,429,659	(22,043,618)	88,386,041

Definable direct cost and other income are allocated between promoted business and non-promoted business. Undefinable indirect cost and other income are allocated based on the proportion of revenues of each segment to the total revenues.

**21. SEGMENT INFORMATION**

The Company and subsidiaries are engaged in business of manufacturing and exporting of frozen fruits and vegetables, transmuted sweet corn distribution and frozen dough and bakery products and operate in one geographical area in Thailand. Therefore, these financial statements do not present the geographical segment.

**CHIANGMAI FROZEN FOODS PUBLIC COMPANY LIMITED AND SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2006 AND 2005**

The details of business segment information for the year ended December 31, 2006 are as follows:

CONSOLIDATED

	IN BAHT			
	Frozen Products	Transmuted Products	Bakery	Total
Sales and service income	1,057,129,057	9,050,972	254,188,059	1,320,368,088
Cost of sales and service	(736,242,192)	(12,797,928)	(218,838,120)	(967,878,240)
Gross profit (loss)	320,886,865	(3,746,956)	35,349,939	352,489,848
Selling expenses	(102,723,095)	(840,459)	(44,807,500)	(148,371,054)
Income (loss) from operating	218,163,770	(4,587,415)	(9,457,561)	204,118,794
Interest and other income				27,859,197
Central expenses				(139,009,210)
Interest expenses				(4,768,785)
Minority interest in net loss				17,537,063
Net income				105,737,059
Property, plant and equipment by segment as at December 31, 2006	500,575,651	35,487,650	-	536,063,301
Property, plant and equipment which cannot be classified by segment				42,239,775
Fixed assets transferred to buyer as A result from sale of business			151,649,780	-
Other assets				626,059,209
Total assets				1,204,362,285

The details of segment information for the year ended December 31, 2005 are as follows:

CONSOLIDATED

	IN BAHT			
	Frozen Products	Transmuted Products	Bakery	Total
Sales and service income	1,099,536,248	12,991,505	194,070,173	1,306,597,926
Cost of sales and service	(793,362,178)	(16,158,015)	(170,926,651)	(980,446,844)
Gross profit (loss)	306,174,070	(3,166,510)	23,143,522	326,151,082
Selling expenses	(110,647,402)	(1,299,072)	(50,025,444)	(161,971,918)
Income (loss) from operating	195,526,668	(4,465,582)	(26,881,922)	164,179,164
Interest and other income				17,005,135
Central expenses				(116,198,903)
Interest expenses				(4,183,406)
Income tax				(942,864)
Minority interest in net loss				28,526,915
Net income				88,386,041
Property, plant and equipment by segment as at December 31, 2005	524,468,988	15,834,438	166,791,908	707,095,334
Property, plant and equipment which cannot be classified by segment				40,535,270
Other assets				588,001,630
Total assets				1,335,632,234

**CHIANGMAI FROZEN FOODS PUBLIC COMPANY LIMITED AND SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2006 AND 2005**

The Company is engaged in business of manufacturing and exporting of frozen fruits and vegetables and transmuted sweet corn distribution and operate in one geographical area in Thailand. Therefore, these financial statements do not present the geographical segment.

The details of business segment information for the year ended December 31, 2006 are as follows:

THE COMPANY ONLY

	IN BAHT		
	Frozen Products	Transmuted Products	Total
Sales and service income	1,039,151,464	8,659,423	1,047,810,887
Cost of sales and service	(736,242,192)	(12,797,928)	(749,040,120)
Gross profit (loss)	302,909,272	(4,138,505)	298,770,767
Selling expenses	(90,655,452)	(385,007)	(91,040,459)
Income (loss) from operating	212,253,820	(4,523,512)	207,730,308
Interest and other income			24,147,485
Share of loss of investments in subsidiaries at equity method			(17,502,499)
Central expenses			(108,636,174)
Interest expenses			(2,061)
Net income			105,737,059
Property , plant and equipment by segment as at December 31, 2006	500,575,651	35,487,650	536,063,301
Property , plant and equipment which cannot be classified by segment			41,299,637
Other assets			601,214,640
Total assets			1,178,577,578

**CHIANGMAI FROZEN FOODS PUBLIC COMPANY LIMITED AND SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2006 AND 2005**

The details of segment information for the year ended December 31, 2005 are as follows:

**THE COMPANY ONLY**

	IN BAHT		
	Frozen Products	Transmuted Products	Total
Sales and service income	1,072,075,383	11,841,850	1,083,917,233
Cost of sales and service	(793,362,178)	(16,158,015)	(809,520,193)
Gross profit (loss)	278,713,205	(4,316,165)	274,397,040
Selling expenses	(99,475,005)	(419,229)	(99,894,234)
Income (loss) from operating	179,238,200	(4,735,394)	174,502,806
Share of profit of investments in subsidiaries at equity method			9,700,021
Interest and other income			13,961,220
Share of loss of investments in subsidiaries at equity method			(27,408,212)
Central expenses			(82,179,765)
Interest expenses			(190,029)
Net income			88,386,041
Property , plant and equipment by segment as at December 31,2005	524,468,988	15,834,438	540,303,426
Property , plant and equipment which cannot be classified by segment			39,203,003
Other assets			610,850,747
Total assets			1,190,357,176

**22. PROVIDENT FUND**

The Company established a contributory registered provident fund in accordance with the Provident fund Act.B.E.2530 Under the provident fund, the Company contributes an amount equivalent to the employees' contribution, which is 3% of their basic salaries. The company appointed The Siam Commercial Bank Public Co., Ltd. as a fund manager to manage the fund in accordance with the Provident Fund Act (B.E. 2530), which was amended by the Provident Fund Act (No.2) (B.E. 2542), under supervision of the Office of the Securities and Exchange Commission.

The Company's contribution net of the refund amount for the year ended December 31, 2006 amounted to Baht 1.4 million (2004: Baht 1.3 million).

**23. FINANCIAL INSTRUMENTS**

As at December 31, 2006 the Company and subsidiaries have no policy to perform speculate or trade the financial instrument transaction derivatives.

### **23.1 Credit risk**

Credit risk is the exposure to the risk that the counterparties might discharge their obligations which could cause the Company to incur financial loss. The main financial assets that potentially subject to the Company to credit risk are trade accounts receivable and long-term loan to related company.

- Trade accounts receivable, The Company and subsidiary therefore does not anticipate material losses from its debt collection in excess of the allowance for doubtful accounts already set up in the accounts.
- Long-term loan to related company, the Company has managed credit risk by setting up appropriate credit limit and term which are granted, including personal and corporate guarantees as a means of mitigating the risk of financial loss from defaults. As at December 31, 2006 the Company has long-term loan to related company amounting of Baht. 24.5 million which is paid in all installments within the year 2010 and is paid interest at the rate of 3.25 per annum by monthly. Such loan is guaranteed by Wonder Interfoods Co., Ltd., which is the major shareholders of such related company and Mr. Nirand Pholpipattanapong as the director of such related company. The Company's management believes that the Company can get all loan repayment from the above related company.

### **23.2 Foreign Currency Risk and Risk Management**

The Company and subsidiary exposure to foreign currency risk relates primarily to their business transactions which are denominated in foreign currencies. The Company and subsidiary have policies to hedge such risks by using derivative financial instruments. As at December 31, 2006, the Company and subsidiary have outstanding forward foreign exchange selling contracts and option contracts of a total of U.S. Dollars 4.90 million in exchange of Baht 177.5 million with 3 commercial banks. The contract will be due in June 2007.

As at December 31, 2006, liabilities of the Company and subsidiary which are not hedged as follows :

	<u>Currency</u>	<u>The Company only</u>
Accrued commission	U.S. Dollars	62,405

### **23.3 Interest rate risk**

The interest rate risk is the risk that future movements in market interest rates will affect the results of subsidiary's operations and its cash flows. The subsidiary's exposure to interest rate risk relates primarily to its bank overdrafts and long-term loans. The subsidiary believed that the future fluctuation on market interest rate would not provided significant effect to its operation and cash flow; therefore, no financial derivative was adopted to manage interest rate risk.

**23.4 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

**24. COMMITMENT AND CONTINGENT LIABILITIES**

As at December 31, 2006

24.1 The Company and subsidiaries have contingent liable for bank guarantees issued in favor of government agency amounting to approximately Baht 11.1 million which are pledged by subsidiary's fixed deposit amounting to Baht 3.1 million.

24.2 The Company has commitment to pay the uncalled investments in Agrifood Processing Co.,Ltd. amounting to approximately Baht 90 million.

24.3 The Company has the capital commitments in respect of the acquisitions of software license from a local company amounting of Baht 2.7 million.

**25. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements have been approved by the Board of directors of the company.