



Apartado Postal 333  
Panamá 1, Panamá

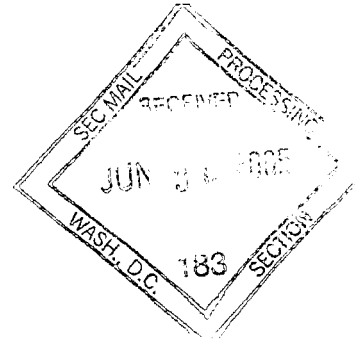
Vía España 2313 - Río Abajo  
Teléfono 221-0033 / 323-6900  
Fax: 224-2311  
grupomelo.com



05009388

June 28, 2005

Securities and Exchange Commission  
Division of Corporation Finance  
Office of international Corporate Finance  
Room 3099 (stop 3-9),  
450 Fifth Street, NW  
Washington, D.C. 20549



Re: Grupo Melo S.A.  
File No. 82-4893  
Periodic reporting under Rule 12g3-2 (b)

SUPPL

Ladies and Gentlemen:

Pursuant to Rule 12g3-2 (b) promulgated under the Securities Exchange Act of 1934, Grupo Melo, S.A. (the "company") hereby furnishes to the Securities and Exchange Commission the following information which was made public as described in Rule 12g3-2 (b) (1) (i):

1. Quarter Update Report for the three months ended on March 31st, 2005.
2. Unaudited Consolidated Financial Statements of Grupo Melo and Subsidiaries for the three months ended March 31st, 2005.
3. Annual Update Report ended on December 31st, 2004.
4. Unaudited Consolidated Financial Statements of Grupo Melo and Subsidiaries ended December 31st, 2004.

Should you have any questions concerning the above, please do not hesitate to contact the undersigned at (507) 323-6978, 323-6983 or 221-0033.

Sincerely yours,

Eduardo Jaspe L.  
Vicepresident of Finance and Planning

PROCESSED

JUL 05 2005

THOMSON  
FINANCIAL

Enclosures

c.c.: Ann Bailen Fisher  
(Sullivan & Cromwell)

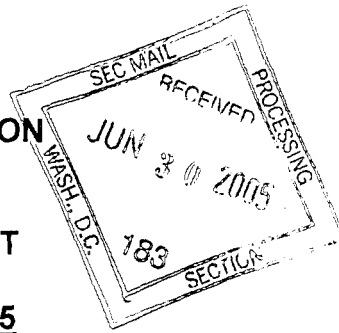
Michael Vexler  
(The Bank of New York)

*Handwritten signature and date: Dew 7/5*

**REPUBLIC OF PANAMA  
NATIONAL SECURITIES COMMISSION**

**FORMULARY IN-T  
QUARTERLY UP DATING REPORT**

**Quarterly ended on March 31, 2005**



**GRUPO MELO, S.A.**

**REGISTERED SECURITIES: COMMON STOCKS**

**ADDRESS: VIA ESPAÑA 2313, RIO ABAJO**

**TELEPHONE: 221-0033 FAX 224-2311**

**EMAIL: [dirfinanzas@grupomelo.com](mailto:dirfinanzas@grupomelo.com)**

**I PART**

Grupo Melo, S.A. is a corporation exclusively dedicated to the stock holding of the societies that conform the corporations named Grupo Melo, S.A. Within the Grupo Melo, S.A. exists a pyramidal stock holding on which the corporation Grupo Melo, S.A. is the proprietary of the 100% of the shares issued and circulating of the operative companies.

Grupo Melo, S.A. and its subsidiaries (from now on will be called "Grupo Melo"), is a conglomerate of companies actually conformed by 6 corporations (subsidiaries) Empresas Melo, S.A., Altos de Vistamares, S.A., Comercial Avicola, S.A., Bolmesa, S.A., Inmobiliaria Los Libertadores, S.A., Inversiones Chicho, S.A.; which activities are diversified in several areas of trade and the industry.

Internally the Group is divided in 7 divisions: Food (has farms for reproduction and raising of chicken, a chicken slaughter house, and a plant for the processing of aggregated value products based on chicken meat), Stores, Machinery, Woods, Restaurants, Real State and Services.

**ANALYSIS OF THE PROFIT AND LOSS FINANTIAL AND OPERATIVE  
STATEMENTS**

**A. Liquidity.**

For the period that ended at March 31, 2005, the current rate is at 1.10, liquidity slightly lower to 1.12 on which ended on December 2004. This is principally caused by the increase of the short term financial debt in the order of \$3.9 millions, which was used principally to cover the working capital needs. It can be observed that even though the increase in the sales is in the order of 11.3%, the current assets are maintained relatively similar versus the close of December 2004.

## **B. Capital Resources**

Grupo Melo, S.A. does not show any substantial variations for the first quarterly of 2005 versus December 2004 related to the total assets. Nevertheless, when comparing it against the first quarterly of the year 2004, we observe an increase in the order of \$2.3 millions or 1.8%, due to the increase of the inventory rubric in the line of machinery (automobiles), stores and poultry (laying eggs hens, growing chicken, and others). Besides presents an increase in the long term collectable documents of \$1.5 millions since the increase in the sales, specially the Division of Real State. Nevertheless, is opposed by the decrease in the line of plows of land, securities, machinery and improvements that decrease on \$3.9 due principally to the sales of the Protein Recuperation Plant in July 2004.

The total liabilities show significative variations for the period of march 2005 and December 2004. Nevertheless, in relation to march 2004 the total liabilities increased in \$3.0 millions or 3.5% product of the payable accounts to suppliers and by the emission of commercial negotiable valuables in December 2004.

The Patrimony increased in \$728 millions product of the profits withhold versus December 2004, making that the relation debt / Capital of the period that ended March 31, 2005 be 2.19 lower than the December 2004 that fixed in 2.23.

## **C. Results of the Operations.**

At the closing of April 30, 2005 Grupo Melo, S.A. presents an increment on its incomes versus the month of March 2004 of \$ 3.6 millions which represents a 11.3%. This increment on the sales is principally due to that the Division of Real State overpass significative the projected sales. Also to that the Division of Poultry and the Division of Stores overpass its sales projections.

Even though the costs of the sales for this first quarterly of 2005 increased in \$ 2.4 millions or 14.7% versus last year and its gross margin decrease on 50.3% to 48.3 respectively, the gross profits increased to 1.2 millions or 7.8% for the same period evaluated which indicates that these increment in the sales prices is proportional to the sales increase budgeted.

The operative margin at March 31 2005 was fixed in 6.9% with a difference to March 2004 that finished in 6.5% this increase is the product of the implementation of the control on the general expenses, administrative and others policies, as this expenses had a proportionally decrease versus last year net sales.

As a result of the operations of this quarterly was obtained a net profit in the order of \$828 millions resulting a net profit margin of 2.3% higher to march 2004 that settle down in 2.1%. This performance over the capital was registered in 2.0% versus 1.7% of the previous period.

#### **D. Analysis of Perspectives.**

The Division of Restaurants continues to consolidate the position of the chain of restaurants Pio Pio in the Country. Within its short term strategic expansion plans is foreseen to open new restaurants in the country and in the capital city. Besides, we continue the efforts to initiate a franchise of the chain Pio Pio at national as well as international level.

We hired a consulter who made a study on the value increase of the trade mark Pio Pio. Its results indicates that the acceptance of the trademark is climbing to the more wealthy class of persons and for this reason we are strongly working to raise its level.

We continually review the menus in the restaurants Pio Pio and that is why we study the possibility to implement new popular combinations. Besides soon we will launch a promotions campaign were we will raffle an FIAT Automobile, within the great diversity of prices that will be offered in this activity.

In reference to the Division of Stores we wait that for these second quarterly of 2005 the situation of the rice producers will be stabilized and that is why is already approved a sales plan of inputs to these sector.

The international markets of corn and soybean, principal ingredients for the poultry rations and that represents the 60% of the production costs, continue with increments in the prices. Additionally in this period of the year, the climatologic factors are not the more e favorable for the growth and reproduction of the fowl and that is why is important to take control of the growing conditions. We wait the prices for the fresh chicken meat maintains fair and stabilized during the rest of the year.

Related to the business of exporting the Embutidos and Conservas, S.A. (aggregated Value Food Products, chicken Sausages and Frankfurters) we continue our efforts to open markets and integrate new customers. Actually two companies in Tawiwan has accessed the quota of import of Panamanian poultry products so we foresee that finally this transactions will be done at short term period.

Actually is taking place a general administrative restructuring process in ECOSA, S.A. (aggregated value division) and the General Manager has been replaced by Lic. Roberto Tribaldos who has an excellent performance and eleven years of experience in diverse areas of the Group and the Administrative Manager by the Lic. Miguel Guzman who have been nine year with the Group and a fairly experience in processes and controls. Also it has been received external counsel in order to improve the operation and achieve the awaited results.

In 2004 the line of automobiles FIAT of the Division of Machinery positioned as the line number 16 in a period of less that a year. To be in this position is an important achievement that shows the efficiency and the potential that this line of automobiles have. We are making efforts so the line FIAT be within the first ten places at the end of 2005.

The Division of Woods that operates a factory of doors continues its leadership in the market at national level and is foreseen an increase in the sales as is estimated, that to the end of the year will continue the improvement in construction and industry matters. Related to the international market, is projected and increase of the exports as we are making great efforts in the markets of United States of America, Puerto Rico and Dominican Republic.

The Division of Real State at the end of march 31, 2005 registered and increase in its sales of "homesitas" of 89.1% versus the same period of the years 2004; this results were achieved greatly by the growing demand of plot of ground by the foreign customers, which concentrated its preferences in the project Altos de Maria. We wait that this tendency is kept for what is foreseen for the year 2005 a increase of sales from the 40% to 45%.

In Altos de Maria is being build a park, a commercial area and a location for a church which generates an aggregate value to those projects.

Related to the marketing strategies of the Division of Real State, we will keep and aggressive policy of positioning, specially in the international market, and that is why we have hired a consultant in marketing strategy and we continue our job to increase the marketing of the project through the new web pages.

**II PART  
FINANCIALSUMMARY  
GRUPO MELO AND SUBSIDIARIES**

**A. Presentation applicable to issuers of the commercial and industrial sector:**

FINANCIAL STATEMENTS	Quarterly At 31/03/05	Quarterly at 31/12/04	Quarterly at 30/09/04	Quarterly a 30/06/04
Total Sales or Incomes	36.455	158.351	106.472	67.204
Operation Margin	6,89%	3,73%	4,43%	4,58%
General and Administrative Expenses.	13.863	54.975	40.990	27.078
Net Utility or Loss	828	162	511	247
Shares issued and circulating	2.324.314	2.324.314	2.328.314	2.324.314
Profit or Loss per share	\$0,356	\$0,070	\$0,220	\$0,106
Depreciation and Amortization	1.230	4.995	3.682	2.448
Non recurrent Profit or loss	0	0	0	0
<hr/>				
GENERAL BALANCE	Quarterly 31/03/05	Quarterly at 31/12/04	Quarterly at 30/09/04	Quarterly 30/06/04
Current Assets	59.043	59.055	61.949	59.219
Total Assets	130.885	129.992	132.103	132.819
Current Liabilities	53.632	52.652	58.099	55.595
Long Term Debt	36.131	36.959	33.183	36.024
Preferential Stocks	0	0	0	0
Paid Capital	21.268	21.268	21.267	21.267
Retained earnings	19.831	19.104	19.533	19.919
Total Stockholders equity	41.018	40.290	40.719	41.105
<hr/>				
FINANCIAL RATIOS				
Dividend / Share	\$0.05	\$0,38	\$0.35	\$0,12
Total Debt/ Patrimony	2,19	2,23	2,24	2,23
Working Capital	5.411	6.403	3.850	3.624
Up-to-date Rate	1,10	1,12	1,07	1,07
Operative earnings / Financial Expenses	1,91	1,06	1,12	1,09

**III PART  
FINANCIAL STATEMENTS**

Are attached to this report the Financial Statements of Grupo Melo, S.A.

Consolidated Financial Statements

**Grupo Melo, S. A.**

*Months ended March 31, 2005 and 2004  
with Internal Auditor Report*

**CONTENTS**

	<b>Page</b>
General Information .....	1
Internal Auditors' Report .....	2
Consolidated Balance Sheet .....	3
Consolidated Statement of Income .....	5
Consolidated Statement of Change in Equity.....	6
Consolidated Statement of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	9
1: Corporate Information.....	9
2: Summary of Significant Accounting Policies .....	15
3: Cash.....	20
4: Notes and Trade Receivable, Net.....	21
5: Loans Receivable, Net.....	21
6: Inventories.....	21
7: Inventory of Layer Hens .....	22
8: Investment, at Equity.....	22
9: Properties, Equipment and Improvements, Net .....	23
10: Forestal Investment .....	24
11: Accrued Expenses and Other Liabilities .....	25
12: Credit Agreements.....	25
13: Interest-Bearing Loans and Borrowings .....	26
14: Comercial negotiable securities .....	27
15: Bonds payables.....	27
16: Industrial incentives .....	30
17: Income Tax.....	31
18: Dividends Paid .....	32
19: Segment Information.....	33
20: Basic Earning per Share .....	34
21: Directors Fees.....	34
22: General and Administrative Expenses .....	35
23: Commitments and Contingency .....	36
24: Subsequent Event .....	39



## GENERAL INFORMATION

### Directors

Arturo D. Melo S. (President)  
Arturo D. Melo K. (Vicepresident – Secretary)  
Eduardo Jaspe (Vicepresident – Treasurer)

### Company Secretary

Arturo D. Melo K.

### Registered Office

Via España 2313, Rio Abajo

### Lawyers

Rivera, Bolivar y Castañeda  
Mendoza, Arias, Valle & Castillo  
Mejia & Asociados  
Encobros.com  
Vergara, Anguizola y Asociados  
Suarez, Castellero, Holmes & Richa  
Jennifer Jacinto Fuentes  
Santamaria, Barrios & Ordoñez

### Banks and Financial Institutions

Banco Continental de Panama, S. A.  
Banco Atlantico Panama  
Primer Banco del Istmo, S. A.  
Banco Aliado, S. A.  
Citibank, N.A.  
Banco General, S. A.  
Banco Internacional de Costa Rica  
BNP Paribas  
HSBC Bank  
BAC International Bank  
Universal Trade and Finance  
Corporacion Interamericana de Inversiones

### Trustee Bond Holders

Banistmo Capital Markets Group Inc.  
B.G. Investment Co. Inc.

### Auditors

Ernst & Young

## AUDITORS' REPORT

The Board of Directors and Shareholders  
Grupo Melo, S. A.

We have reviewed the general balance sheet consolidated and the consolidated states of capital of Grupo Melo, S. A. to the 31 of March of 2005 and 31 of December of 2004, the connected states consolidated of results and cash flow, for the three finished months the 31 of March of 2005 and 2004 in accordance with International Financial Reporting Standards. All information including the financial statements is representation of the management of Grupo Melo, S. A.

A revision mainly consists of investigations to the personel of the company and application of analytical procedures to the financial information. Its reach is substantially smaller than the used one in an examination done in accordance with accepted International Standard Audit, whose objective is the expression of an opinion on the taken financial statements altogether. Therefore, we did not express express such opinion.

Based in our revisions, we have not had knowledge of any relatively important modifications that they were due to do to the financial statements that are accompanied in accordance with the International Financial Reporting Standards.



Ráfael De Gracia  
CPA 573

April 31, 2005

**CONSOLIDATED BALANCE SHEET**  
**March 31, 2005**

	<i>Notes</i>	<i>March 2005</i>	<i>December 2004</i>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	3	B/. 3,810	B/. 2,626
Notes and trade receivable, net	4	18,949	19,188
Loans receivable, net	5	18	24
Inventories	6	29,339	30,163
Inventories of layer hens	7	606	558
Parcel lot for sale		3,291	3,562
Prepaid income tax		298	634
Severance fund		1,934	1,874
Prepaid expenses		798	426
		<u>59,043</u>	<u>59,055</u>
<b>Non-Current Assets</b>			
Notes receivable, net of current portion	4	5,059	4,520
Deferred income tax	17	610	610
Parceled lot for sale		5,986	5,353
Investment, at equity	8	1,755	1,755
Properties, equipment and improvements, net	9	51,004	51,656
Forestral investment	10	3,282	3,241
Other assets		4,146	3,802
		<u>71,842</u>	<u>70,937</u>
<b>TOTAL ASSETS</b>		<u>B/. 130,885</u>	<u>B/. 129,992</u>

**CONSOLIDATED BALANCE SHEET continued**  
**March 31, 2005**

	<i>Notes</i>	<i>March 2005</i>	<i>December 2004</i>
<b>LIABILITIES AND SHAREHOLDERS'</b>			
<b>EQUITY</b>			
<b>Current Liabilities</b>			
Interest-bearing loans and borrowings	12, 13	B/. 27,735	B/. 23,808
Negotiable commercial values	14	3,000	4,000
Bonds payables	15	2,245	2,245
Notes and accounts payable - trade		16,143	18,148
Reserve for seniority premium		2,628	2,656
Accrued expenses and other liabilities	11	<u>1,881</u>	<u>1,795</u>
		<u>53,632</u>	<u>52,652</u>
<b>Non-Current Liabilities</b>			
Interest-bearing loans and borrowings	13	3,566	4,100
Bonds Payables	15	32,565	32,859
Minority interest		<u>104</u>	<u>90</u>
		<u>36,235</u>	<u>37,049</u>
<b>Commitments and contingency</b>	21		
<b>Shareholders' Equity</b>			
Issued capital (common stock, non par value; authorized shares: 2,500,000; issued and outstanding shares: 2,328,314)		21,391	21,391
Retained earnings		19,831	19,104
Treasury stocks		(123)	(123)
Deemed dividend tax		<u>(81)</u>	<u>(81)</u>
<b>Total Shareholders' Equity</b>		<u>41,018</u>	<u>40,291</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS'</b>			
<b>EQUITY</b>		<u>B/. 130,885</u>	<u>B/. 129,992</u>

**CONSOLIDATED STATEMENT OF INCOME**

	<i>Notes</i>	<i>Three months ended March 31</i>	
		<i>2005</i>	<i>2004</i>
<b>Revenue</b>			
Net sales		B/. 36,091	B/. 32,762
Cost of sales		<u>18,852</u>	<u>16,429</u>
<b>Gross income</b>		<b>17,239</b>	<b>16,333</b>
Other income		247	156
General and administrative expenses	22	(13,863)	(13,261)
Depreciation and amortization	9	<u>(1,230)</u>	<u>(1,222)</u>
<b>Income from operative activities</b>		<b>2,393</b>	<b>2,006</b>
Interest income		117	153
Interest and financial charges		<u>(1,314)</u>	<u>(1,368)</u>
<b>Income from operative activities before income tax</b>		<b>1,196</b>	<b>791</b>
Income tax	17	<u>(354)</u>	<u>(94)</u>
<b>Income before participation in investment loss and minority interest</b>		<b>842</b>	<b>697</b>
Minority interest		<u>(14)</u>	<u>(2)</u>
<b>Net income</b>		<b><u>B/. 828</u></b>	<b><u>B/. 695</u></b>
<b>Earnings per basic share</b>	20	<b><u>B/. 0.36</u></b>	<b><u>B/. 0.29</u></b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**Three months ended March 31, 2005**

	<i>Note</i>	<i>Issued Capital</i>	<i>Treasury Stocks</i>	<i>Retained Earnings</i>	<i>Deemed Tax</i>	<i>Total</i>		
<b>At January 1, 2004</b>	B/.	21,391	B/.	-	19,837	B/.	(81)	B/.41,147
Net income		-	-	161	-	161		
Dividends paid	16	-	-	(894)	-	(894)		
Deemed dividend tax		-	(123)	-	-	(123)		
<b>At December 31, 2004</b>		<b><u>B/. 21,391</u></b>	<b><u>B/. (123)</u></b>	<b><u>B/19,104</u></b>	<b><u>B/. (81)</u></b>	<b><u>B/.40,291</u></b>		
Net income		-	-	828	-	828		
Dividends paid		-	-	(101)	-	(101)		
<b>At March 31, 2005</b>		<b><u>B/. 21,391</u></b>	<b><u>B/. (123)</u></b>	<b><u>B/.19,831</u></b>	<b><u>B/. (81)</u></b>	<b><u>B/. 41,018</u></b>		

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	<i>Notes</i>	<i>Three months ended March 31</i>	
		<i>2005</i>	<i>2004</i>
<b>Cash flows from operating activities</b>			
Income before income tax		B/. 1,196	B/. 791
Adjustments for:			
Depreciation and amortization	9	1,230	1,222
Allowance for doubtful accounts and loans	5	124	101
Reserve for seniority premium		188	100
Interest paid		1,314	1,368
Interest earned		<u>(117)</u>	<u>(153)</u>
Operating results before changes in working capital		3,935	3,429
Notes and trade receivable		115	2,419
Loans receivable		6	(5)
Inventories		824	(382)
Layer hens inventory		(48)	(41)
Parceled land for sale		271	-
Prepaid expenses		(372)	(740)
Notes and accounts payable - trade		(2,005)	(3,271)
Accrued expenses and other liabilities		80	701
Seniority premium paid		(216)	(93)
Dividends payable		-	2
Clients deposits		<u>6</u>	<u>-</u>
Cash proceeds from operations		2,596	2,019
Interest paid		(1,314)	(1,368)
Interest earned		117	153
Income tax paid		<u>(18)</u>	<u>(39)</u>
<b>Net cash flows from operating activities</b>		<u><b>1,381</b></u>	<u><b>765</b></u>
<b>Cash flows from investing activities</b>			
Severance fund		(60)	(22)
Purchase of properties, equipment and improvements, net of disposals	9	(578)	(1,500)
Parceled land for sale	8	(633)	19
Forestry investmnet		<u>(41)</u>	<u>-</u>
<b>Net cash flows used in investing activities</b>		<u><b>(1,312)</b></u>	<u><b>(1,503)</b></u>

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**continued**

	<i>Note</i>	<i>Three months ended March 31</i>	
		<i>2005</i>	<i>2004</i>
<b>Cash flows from financing activities</b>			
Notes receivable, net of current portion	B/.	(539)	B/. (1,271)
Other assets		(344)	683
Loans payments and leasing obligations		(14,878)	(11,902)
Proceeds from loans and leasing obligations		18,271	13,887
Negotiable commercial values		(1000)	-
Redemption of bonds		(294)	-
Dividends paid		(101)	(100)
<b>Net cash flows used in financing activities</b>		<u>1,115</u>	<u>1,297</u>
Net increase (decrease) in cash		<u>1,184</u>	<u>559</u>
Cash at January 1		<u>2,626</u>	<u>2,599</u>
<b>Cash at March 31</b>		<u>B/. 3,810</u>	<u>B/. 3,158</u>



---

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. Corporate Information**

Grupo Melo, S. A. is the holding company of a conglomerate grouped in divisions with various economic activities such as: wholesale and retail sale of dry goods; breeding, fattening and sale of poultry; sale of agriculture and industrial machinery, vehicles and related equipment; processing and sale of timber and construction material; fast food restaurant chain, processing of chicken and preparation of food, real estate and reforestation. Its sales are mainly to local consumers. Among its main suppliers are: Isuzu Motor Corporation, John Deere Intercontinental, Syngenta, S. A., Bremer Pharma, Pfizer, S. A., Monsanto, S. A., and Pioneer Seed Co.

At March 31, 2005 and 2004 the Group had 3,029 permanent employees and 320 temporary employees and 2,932 permanent employees and 298 temporary employees, respectively.

**Corporate Governance***Corporate Governance policies review*

The general policies and procedures of the Board of Directors of Grupo Melo incorporate norms and standards pertaining to Corporate Governance as further described. These norms and standards as applied to Grupo Melo has been established voluntarily.

The operation of the Corporate Governance is made through the comision of members of the Board of Directors while existing an Audit Committee.

Grupo Melo's Corporate Governance objectives, which were adopted since its creation, have the following general purposes:

- To establish specific guidelines for the functioning of the Board of Directors and the Executive Committee.
- To promote sound management practices
- To establish clear rulings for management's chain of command and delegation of authority, responsibility and accountability.
- To create a management process to identify, verify and control moral and operative risks.
- To establish executive composition policies and Senior Management performance appraisal criteria.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. Corporate Information (continued)**

The Board of Directors functioning guidelines set the following parameters:

- Policies pertaining to information and communication with shareholders and third parties.
- Procedures for decision making and resolution of conflict of interest among Directors and Key Executives.
- Verification of compliance of accounting policies and risks control procedures.
- Approval of the following corporate strategic objectives.
- Permanent monitoring and evaluation of administrative and financial management.

*Executive Committee*

Grupo Melo's Executive Committee meets weekly and its decision are ratified by Grupo Melo S.A.'s Board of Directors at their monthly regular meetings. Clause 9<sup>th</sup> of the Corporate By-Laws constituted by Grupo Melo S.A., establishes the functions of the Executive Committee which are taking decisions on the administration, objectives and policies applicable to the business concern that cannot wait for the calling of a meeting of the Board of Directors. However, the decisions adopted by the Executive Committee will be subject to the confirmation or modification of the Board of Directors.

The Executive Committee of the Board of Directors always will act by delegation of the Board of Directors, will be comprised by three (3) Principal Members and three (3) Substitute Members.

The Executive Committee's Principal Members will be persons occupying the position of Board Director-Dignitary whom at the same time are senior operating executive at Grupo Melo and/or its affiliates, and the Substituted Members will be three executives of Grupo Melo and/or its affiliates, designated by the Principal Members.

*Board of Directors Permanent Committees*

The Auditing Committee, Executive Compensation, and Corporate Governance and Strategic Planning are the three standing committees of Grupo Melo S. A. Board of Directors. These Committees were established by Grupo Melo, S. A. at its regular monthly meeting on June 24<sup>th</sup>, 2000.

On Grupo Melo's Board of Directors extraordinary session celebrated on July 1<sup>st</sup>, 2000 it was resolved that the Auditing Committee, Executive Compensation and Corporate Governance and Strategic Planning will be composed as follows:

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2003****1. Corporate Information (continued)****Auditing Committee**

Miguel De Janón - Principal  
Manuel D. Cabarcos - Principal  
Eduardo Jaspe - Principal  
Federico F. Melo K. - Substitute

**Executive Compensation and Corporate Governance**

Alfonso De La Espriella - Principal  
Juan Carlos Fabrega - Principal  
Ricardo Delvalle - Principal  
Felix B. Maduro - Principal  
Laury Melo de Alfaro - Substitute

**Corporate Governance and Strategic Planning**

Arturo D. Melo S. - Principal  
Nicolas A. Barletta - Principal  
Arturo D. Melo K.- Principal  
Juan C. Fabrega - Principal  
Virgilio Sosa - Principal

In the absence of some of the Principal Members on such committees, the Substitute Members will be habilitated to act with the right to vote. The participation of Grupo Melo employees as members of any committee does not represent the payment of allowance.

Grupo Melo's Board of Directors also is accustomed to constitute special committees charged with responsibility to analyze specific issues and to present recommendations to the Board.

**Auditing Committee**

The functions of the Auditing Committee are:

- Evaluate and approve the audited financial statements of the Group and recommend their ratification by the Board of Directors.
- To study, analyze, review and control selected financial operations for each of the companies composing Grupo Melo and to present recommendations to the Board of Directors resulting from such studies and analysis

---

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. Corporate Information (continued)****Auditing Committee (continued)**

- To recommend to the Board of Directors any necessary action of administrative nature resulting from such studies and analysis.
- To review the Group's annual internal audit program and recommend appropriate actions.
- To recommend to the Board of Directors the contracting of external auditors and be informed about their annual work program.
- To analyze the audited and non-audited financial statements of the Group's affiliates as well as the management letters issued by the external auditors, giving adequate follow-up to the auditors' recommendations contained therein.
- To request management letters and any other internal audit reports on the Group's affiliates, informing the Board of Directors about those findings considered relevant. To verify the implementation of adopted corrective measures resulting from exceptions reported by the auditors.
- To request those graphs, descriptions or narratives showing instituted internal control measures, including programmed controls, and to inform the Board of Directors about the results of the examinations realized with pertinent suggestions.
- To initiate/recommend studies related to the possible application of fiscal incentives.
- To analyze the semi-annual economic results of the Group's affiliates in order to accomplish their appropriate fiscal planning projections and evaluate proposal for the same purpose from the Controller and Internal Auditors.
- To help in the searching for solutions to reduce the Group's short term debt and seek reduction of the debt-to-capital ratio.
- In the process to comply with its functions, the committee could:
  - a) Undertake "in situ" visits/inspections to any of the Group's affiliates and administrative units under previous advise to Grupo Melo's Chief Executive Officer.
  - b) Require the presence before the Committee of the Controller as well as the Chief Internal Auditor, vice-presidents, managers or principal executives of the various subsidiaries, asking their presence with at least a minimum of 2 weeks advance notice and advising them about of the issues to be discussed.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. Corporate Information (continued)****Executive Compensation Committee**

*Mission:* To define an effective and consistent policy address to the recruiting and retention of the best executives in the market. For such purpose the Committee will provide philosophical basis and the adequate procedures to the Director of Human Resources so as to offer a positive labor environment, competitive salaries and benefits, as well as opportunities allowing personal and professional growth within Grupo Melo.

*Objective:* To achieve a low personnel turnover rate among Grupo Melo's executives.

**Permanent Work Plan**

- Insist in the compliance of the executive work performance evaluation program.
- Undertake anonymous survey among the executive personnel with the intention to establish a level of satisfaction of such group on its working environment,
- Ascertain how the executive personnel is compensated as compared to the industry. Gather information which permit making comparisons of the Group with the industry.
- Review level of rotation among executive personnel every five years.
- Analyze executives compensations in accordance to hierarchical levels.
- Define the level of executive whom must participate in earnings pool. Revise existing criteria.

**Corporate Governance and Strategic Planning Committee**

The functions of the Corporate Governance and Strategic Planning Committee are:

- To ascertain for full compliance of the norms of corporate government that govern the operations of Grupo Melo and its subsidiaries
- To recommend amendments or expansion of norms for corporate government to keep them update to changes and new requirements and new demands to the Governance framework.
- To ensure compliance of the institutional Code of Ethic.
- To act as a consulting organism for the elaboration of business strategic projects for consideration of the Board of Directors.
- To monitor compliance to the Group and affiliates' strategic plans.

---

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. Corporate Information (continued)***Principles of Corporate Ethic*

The following Declaration of Principles of Corporate Ethic of the conglomerate of businesses known as Grupo Melo was approved on its Board of Directors regular monthly meeting held on December 29, 2001.

- To assume a responsible and honest attitude toward those we are accountable and to those whom we maintain relations (shareholders, consumers, suppliers, customers, competitors, employees, financial institutions, public entities, general public, among others) maintaining respect to their rights and legitimate interests, avoiding deceive and disinformation.
- To maintain the highest level of respect among all members of the corporation, regardless of hierarchy within the Group and see that there is no harassment, nor discrimination at any level of the organization.
- To carry out our duties with integrity, honesty and responsibility; respond truthfully about our activities within the Group, offer cooperation and work as a team in search of the best profit results for the corporation; be conscious that we belong to a Group and it is our duty to work in the search for its best interest; and utilize the organization assets exclusively for the Group's benefit.
- To make known to the corporation all information relevant to the Group's best interest. No information should be omitted or falsified to nobody, least of all the Shareholders, Board of Directors or Executives at peer or higher levels.
- Maintain confidentiality of those corporate matters which by their very nature we find in the implicit duty of not revealing them. This commitment must be maintain even after leaving the Group since we had acquired such knowledge because at the moment, it was revealed to us due to our consideration as a privileged member with the tacit obligation of not reveling it.
- Respect private life and recognize that as individuals all have rights, responsibilities and social and family requirements that transcend the corporation environment.
- Act with justice in the granting of opportunities within the Group, as well as in front of those groups or persons with direct or indirect relations with the organization.

---

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****2. Summary of Significant Accounting Policies****Basis of preparation**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and applicable requirements of the Republic of Panama laws.

The consolidated financial statements have been prepared on a historical cost basis and are stated in balboas (B/), monetary unit of the Republic of Panama, which is at par and freely exchangeable with the dollar (\$) of the United States of North America.

**Basis of consolidation**

The consolidated financial statements comprise the accounts of Grupo Melo, S. A. and its controlled subsidiaries: Melo y Compañía, S. A., Inmobiliaria Los Libertadores, S. A., Maderas Sterling, S. A., Inversiones Chicho, S. A., Estrategias y Restaurantes, S. A., Altos de Vistamares, S. A., Desarrollo Urania, S. A., Desarrollo Oria, S. A., Desarrollo Ana Luz, S. A., Desarrollo Nuario, S. A., Desarrollo Amaya, S. A., after the elimination of all material intercompany transactions.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Minority interest principally represents the interest in Estrategias y Restaurantes, S. A., not held by the Group.

**Use of estimates**

The preparation of the consolidated financial statements in accordance with International Financial Reporting Standards requires management to record several estimates and assumptions related with the presentation of assets, liabilities and contingent liabilities. The final balances might differ from these estimates. The estimates particularly susceptible to significant changes are those related with the allowance for uncollectible accounts and the allowance for slow moving inventory and reserve for seniority premium.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****2. Summary of Significant Accounting Policies (continued)****Cash**

Cash on hand and in banks, which are held to maturity, are carried at cost.

**Notes and trade receivables**

Notes and trade receivables, which generally have 30-90 day terms, are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

**Inventories**

The inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Finished goods and work-in-progress	Average cost
Machinery and automobiles inventory	Specific costs according to suppliers invoices.
Parceled land for sale	Land purchased for development and sale are carried at the lower of cost and net realizable value.

**Allowance for slow moving inventory or obsolete**

Management keeps an established policy for the determination of the provision for slow moving inventory or obsolete based on the type of product, and the inventory rotation. Slow movement or obsolete inventory is reduced from the allowance. In order to determine the slow moving or obsolete inventory allowance the following criteria is used:

*Machinery Division*

Agriculture and industrial parts	- 50% as of the 61 month
Agro-industrial tires	- 50% as of the 61 month
Truck tires	- 50% as of the 49 month
Car tires	- 50% as of the 37 month



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****2. Summary of Significant Accounting Policies (continued)****Allowance for slow moving inventory or obsolete (continued)**

At the subsequent 12 months, the remaining 50% of the monthly cost, is provisioned.

*Stores Division*

Inventory of merchandise	P1 6 -12 months with no sales
	P2 12 - 24 months with no sales
	P3 24 or more months with no sales
	10% - 25 months
	15% - 26 to 36 months
	20% - 37 to 48 months
	55% - 48 or more months

**Severance fund / seniority premium and accrued indemnity**

Labor laws establish that employers must have a dismissal fund to pay the worker upon cessation of the labor relationship, regardless of the cause, a seniority premium and indemnity in cases of unjustified dismissals. The Group contributes to the fund on the basis on 2.25% of total salaries paid.

**Investment in associates**

Investment in associates over which the Group has significant influence (typically those that are 20-50% owned) is accounted for under the equity method of accounting, and is carried in the balance sheet at the lower of the equity-accounted amount and the recoverable amount, and the pro-rata share of income (loss) of associates is included in income. The Group's investment in associates consist of a 50% ownership interest in Procesadora Moderna, S. A., 50% ownership interest in Compañía Ulises, S. A., 25% ownership interest in Panama Grain Terminal, S.A., 50% ownership interest in Bulk Cargo, S. A. and a 16% ownership interest in Comercializadora Regional Centroamericana, Inc.

**Properties, equipment and improvements**

Properties, equipment and improvements are stated at cost less accumulated depreciation and any impairment in value. Depreciation and amortization are computed on a straight-line basis over the estimated useful life of the asset as follows:

Building and improvements	- 30 to 40 years
Machinery and equipment	- 3 to 16 years

---

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****2. Summary of Significant Accounting Policies (continued)****Properties, equipment and improvements (continued)**

The values are reviewed as of the date of the balance to review if they are registered over their recoverable value and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The registered value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. Loss from impairment is recognized in operations.

**Forest investment**

Payments made by the Group for the execution of the forest development plan are recorded as reforestation costs, as well as handling and current and administrative expenses incurred in the operation and maintenance of reforestation. Revenue resulting of the physical growth of the trees is recognized in operations.

**Accounts payable trade and accrued expenses**

Liabilities for trade and accrued expenses which are normally settled on 30-90 day terms, are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

**Interest bearing-loans and borrowings**

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received and including acquisition charges associated with the loans.

After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement. Liabilities, which are held for trading, are subsequently measured at fair value.

**Deferred income tax**

Deferred income tax arises because of time differences resulting from income and expenses recorded in financial accounting and those reported for the purposes of income tax calculation.

---

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****2. Summary of Significant Accounting Policies (continued)****Deferred income tax (continued)**

The determination of deferred income tax must be based on the certainty of the utilization of carry-forward tax losses before recognizing any asset by deferred income tax on the consolidated financial statements. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The Group records deferred income tax from carry-forward losses based on the amount considered to be recoverable in subsequent years and not on total accumulated losses, due to the uncertainty of using this asset in the future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

**Leases**

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the present value of the minimum lease payments at the inception of the lease term and disclosed as leased properties, equipment and improvements. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

**Share capital**

Ordinary share capital is recognized at the fair value of the consideration received by the Group. As equity is repurchased, the amount of consideration paid is recognized as a charge to equity and reported in the balance sheet as treasury shares.

**Income recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****2. Summary of Significant Accounting Policies (continued)****Income recognition (continued)***Sale of goods*

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

*Rendering of services*

Revenue is recognized to the extent of the expenses recognized which are recoverable.

*Interest*

Revenue is recognized as the interest accrues (taking into account the effective yield on the asset) unless collectibility is in doubt.

*Commission*

Commission income is recognized over a proportional base during loan existence.

**3. Cash**

Cash was as follows as of March 31:

	<i>March</i> <i>2005</i>	<i>December</i> <i>2004</i>
Cash on hand	B/. 71	B/. 73
Cash in banks:		
Checking accounts	<u>3,739</u>	<u>2,553</u>
	<u>B/. 3,810</u>	<u>B/. 2,626</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****4. Notes and Trade Receivable, Net**

Notes and trade receivable were comprised of the following, as of March 31:

	<i>2005</i>	<i>2004</i>
Current portion of notes receivable	B/. 8,963	B/. 8,118
Trade receivables	14,162	14,915
Allowance for doubtful accounts	<u>(642)</u>	<u>(527)</u>
	22,483	22,506
Accounts receivable - other:		
Employees	179	220
Other	<u>1,346</u>	<u>982</u>
	24,008	23,708
Less: current portion	<u>18,949</u>	<u>19,188</u>
	<u>B/. 5,059</u>	<u>B/. 4,520</u>

**5. Loans Receivable, Net**

A detail of loans receivable at March 31, is as follows:

	<i>2005</i>	<i>2004</i>
Automobile financing	B/. 222	B/. 224
Personal loans	3	3
Commercial loans	<u>39</u>	<u>46</u>
	264	273
Allowance for doubtful loans	<u>(174)</u>	<u>(174)</u>
	90	99
Deferred interest	(62)	(65)
Insurance	<u>(10)</u>	<u>(10)</u>
	<u>B/. 18</u>	<u>B/. 24</u>

**6. Inventories**

At March 31 inventories are detailed as follows:

	<i>2005</i>	<i>2004</i>
Goods and materials	B/. 14,916	B/. 16,488
Machinery and equipment	2,014	2,046
Automobiles and spare parts	3,941	3,104
Poultry, eggs and food	5,996	4,789
Other (tires and batteries)	<u>441</u>	<u>1,182</u>
	27,308	27,609
Allowance for slow moving inventory or obsolete	<u>(46)</u>	<u>(46)</u>
	27,262	27,563
Inventory in transit	<u>2,077</u>	<u>2,600</u>
	<u>B/. 29,339</u>	<u>B/. 30,163</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****7. Inventory of Layer Hens**

	<i>2005</i>	<i>2004</i>
Reconciliation of book value of layer hens as of January 1, 2003	B/. 558	B/. 386
Decrease due to sale, fatality and accumulated depreciation of layer hens	<u>48</u>	<u>172</u>
	<u>B/. 606</u>	<u>B/. 558</u>

IFRS 41 establishes the presentation of the financial statements and information to be revealed related to the agricultural activity, and the biological transformation of life animals or biological assets.

**8. Investment, at Equity**

At March 31, investments were as follows:

	<i>% of Participation</i>	<i>March 2005</i>	<i>December 2004</i>
Procesadora Moderna, S. A.	50%	B/. 1,849	B/. 1,849
Compañía Ulises, S. A.	50%	135	135
Panama Grain Terminal, S. A.	25%	100	100
Bulk Cargo, S. A.	50%	37	37
Comercializadora Regional Centroamericana, S. A.	16%	50	50
Recuperación de Prteinas	50%	<u>570</u>	<u>570</u>
		2,741	2,741
Participation on inicial accumulated losses		(1,058)	(1,061)
Participation on yearly (losses) income		-	(113)
Withdrawal of investment		-	<u>116</u>
Participation on losses at end of year		<u>(1,058)</u>	<u>(1,058)</u>
		1,683	1,683
Other investments		<u>72</u>	<u>72</u>
		<u>B/. 1,755</u>	<u>B/. 1,755</u>

The investment in Panama Grain Terminal, S. A. is presented at cost, because the Company did not have operations at march 31, 2005.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2004

## 9. Properties, Equipment and Improvements, Net

	<i>Properties</i>	<i>Machinery and Equipment</i>	<i>Leased Equipment</i>	<i>Construction in Progress</i>	<i>Total</i>
At January 1, 2005, net of accumulated depreciation and amortization	B/. 31,539	B/. 19,114	B/. 530	B/. 473	B/. 51,656
Additions	49	343	-	186	578
Reclassifications	50	-	-	(50)	-
Disposals	(230)	(102)	(529)	-	(861)
Disposals depreciation	230	102	529	-	861
Depreciation and amortization	(408)	(742)	(80)	-	(1,230)
At March 31, 2005, net of accumulated depreciation and amortization	B/. 31,230	B/. 18,715	B/. 450	B/. 609	B/. 51,004
At January 1, 2004					
At cost	B/. 46,438	B/. 56,739	B/. 6,288	B/. 473	B/. 109,938
Accumulated depreciation and amortization	(14,899)	(37,625)	(5,758)	-	(58,282)
Net carrying amount	B/. 31,539	B/. 19,114	B/. 530	B/. 473	B/. 51,656
At March 31, 2005					
At cost	B/. 46,306	B/. 56,983	B/. 5,759	B/. 609	B/. 109,657
Accumulated depreciation and amortization	(15,076)	38,268	5,309	-	58,653
Net carrying amount	B/. 31,230	B/. 18,715	B/. 450	B/. 609	B/. 51,004

Several properties guarantee credit agreements of the Group's companies. (Notes 12 and 13)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2005**

**10. Forestal Investment**

The reforestation investment is regulated by the Executive Law No.89 (from November 8, 1993) which regulates Law No.24 from November 23, 1992 and is as follows:

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2005	<i>Total</i>	
Reforestadora Los Miradores, S. A.	B/. 527	B/.	B/. 101	B/. 28	B/. 20	B/. 22	B/. 30	B/. 22	B/.	41	B/. 15	<b>B/.806</b>	791
Reforestadora El Zapallal, S. A.	-	258	269	250	135	95	118	150	203	26	1,504	1,478	
Profits from changes on the reasonable value less estimated costs of sales	<u>B/. 527</u>	<u>B/. 258</u>	<u>B/. 370</u>	<u>B/. 278</u>	<u>B/. 155</u>	<u>B/.117</u>	<u>B/.148</u>	<u>B/.265</u>	<u>B/.1,123</u>	<u>B/.41</u>	<u>B/.3,282</u>	<u>B/.3,241</u>	972

The disbursements made during the 2005 period are due to the costs of treatment and maintenance of the equipment, transportation and freight, cut and cleaning which are performed in the reforestation activity. The forestal investment in Reforestadora Los Miradores, S. A. is composed of species such as: teca, pino, cedro espino, laurel, roble, eucalipto, terminalia in a total landscape of 280 hectares. The forestal investment in Reforestadora El Zapallal is composed of species as: cedro espino and teca in a total landscape of 597.3 hectares of which 38.3 hectares represents access road, hunting and security areas.

At the present time the Company has recognized profits resulting from changes in the reasonable value less estimated costs of sales of the reforestation investment attributed to physical changes.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****11. Accrued Expenses and Other Liabilities**

The following is a detail of accrued expenses and other liabilities at March 31:

	<i>2005</i>	<i>2004</i>
Reserve for vacations	<b>B/. 460</b>	B/. 558
Income tax and social security	<b>371</b>	418
XIII month	<b>425</b>	67
Managers' participation	<b>101</b>	99
Interests payable	<b>166</b>	153
Payroll deductions and others	<b>358</b>	500
	<b><u>B/. 1,881</u></b>	<b><u>B/. 1,795</u></b>

**12. Credit Agreements**

The Group has agreements for short-term credit lines with nine banks up to B/.37,700 as per agreed upon contractual clauses. Those agreements do not have maturity dates and may be reviewed and renewed on a yearly basis. As of March 31, 2005, the used portion of the credit lines was B/.23,937

The credit agreements entail the following covenants and guarantees:

- Mortgage and anticresis over properties 61996, 65686, 65159, 57169, 20465, 34053, 28356, 49380, 39728, 33382, 33151, 52515, 44216, 36616, 2853, 3088, 388, 123035, 44226, 47734, 34302, 54843, 106489, 152041, 50016, 7576, 6955, 34840, 38740, 37038, 99848 and 2733
- Dividends to shareholders are allowed up to 50% of yearly net earnings as long as the debt to capital ratio is not greater than two and one half (2 ½) to one (1).
- The debt to capital ratio should not exceed two and one half (2 ½) to one (1).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****13. Interest - Bearing Loans and Borrowings**

At March 31, short and long-term interest-bearing loans and borrowings were as follows:

	<i>Interest</i>	<i>Maturities</i>	<i>2005</i>	<i>2004</i>
<b>Short - term</b>				
Overdraft and bank loans	5-7.5%	2005	B/. 23,937	B/. 20,626
Mortgages	5-7.5%	2005	3,495	2,734
Capital lease agreements	7-9%	2005	<u>303</u>	<u>448</u>
			<u>B/. 27,735</u>	<u>B/. 23,808</u>

	<i>Interest</i>	<i>Maturities</i>	<i>2005</i>	<i>2004</i>
<b>Long - term</b>				
Mortgages	5-7.5%	2009	B/. 3,419	B/. 3,989
Capital lease agreements	7-9%	2007	<u>147</u>	<u>111</u>
			<u>B/. 3,566</u>	<u>B/. 4,100</u>

**Mortgages loans**

Mortgages have the following guarantees:

- Mortgage and anticresis over properties 1897, 11259, 11415, 11962, 3314, 3381, 3382, 105310, 45897, 111084, 123987, 143675, 11261, 11569, 13266, 13419, 13718, 34733, 34739, 34799 and 34811
- Requirements on maintenance of the mortgaged properties, insurance policies endorsed to banks and cross guarantees of Grupo Melo, S. A. and subsidiaries.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****14. Comercial Negotiable Securities**

The Panama National Securities Commission authorized, to float to the general public an issue of Comercial Negotiable Securities (V.C.N.) up to a maximum of Five Million Balboas (B/.5,000.00). As March 31, 2005 the company had placed B/.3,000.00 on the Securities Market. This V.C.N. bears renewable maturity of 180 days from the date of issuance in 2004. The maturity dates are February to June 2005, and the bonds generate an interest based in a referenced annual rate of 5 – 5.5%, payables on maturity to the holder.

This issue is backed up with the general credit of Sarasqueta y Cia, S.A. and several bonds of Grupo Melo, S.A.

**15. Bonds Payables**

The issues are secured by the general credit of the issuing corporations, plus a trust covering negotiable instruments, and the joint guarantee of Grupo Melo, S.A.

The indentures are secured by the following:

Mortgages and antichreses on parcels 15005,22166,53454, 18229, 27279, 32498, 34986, 37133, 43360, 1749, 10984 y 48510, 11253, 203937, 203939, 205937, 186599, 187985, 196306,205878,209982,206320,213724, 211403, 23047, 29513, 11986, 16857, 39570, 41088, 54049, 123985, 23394, 27399, 27665, 33786, 49008, 55655, in addition to parcels 39226, 40371, 40381, 40391, plus others on which on which the Manuel E. Melo factory is located.

The details of bonds payables are as follow

Altos de Vistamares, S.A.

2005

2004

Bonds issue with a face value of B/.3,000 floated  
Serially, bearing interest payables quarterly, at an  
Adjustable rate based on prime + 2.25% p.a. which  
Shall never be less than 7.25% p.a., nor greater than  
10% p.a., maturing in December 2008

B/.3,000B/.3,000Empresas Melo, S.A.

Bond issue with a face value of B/.15,000,000  
Floated serially bearing fixed interest of 8.25%  
p.a. payables quarterly, maturing in December 2012.

B/. 12,310B/.12,604

Bonds issue with a face value of B/.5,000,000 floated  
Serially, bearing interest payable quarterly at 8% p.a.  
Maturing in December 2006.

B/. 5,000

5,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**15. Bonds Payable (continued)**

	2005	2004
Bonds issue with a face value of B/.1,500, floated As Series A, bearing interest rate based on Prime Rate Plus 2.50 %. In no event shall the interest rate be less Than 6% nor more than 10% p.a., maturing in December 2006	1,500	1,500
Bond issue with a face value of B/.1,500 floated as Serie B, bearing an interest rate based on Prime Rate Plus 2.50% p.a. In no event shall the interest rate be less Than 6.5% nor more than 10.5% maturing in December 2007.	1,500	1,500
Bonds issue with a face value of B/.1,500 floated as Series C, bearing an interest rate based on Prime Rate plus 2.75% p.a. In no event shall the interest Rate be less than 7% nor more than 11%, maturing In December 2008	1,500	1,500
Bond issue with a face value of B/.1,500 floated as Serie D, bearing an interest rate based on Primer Rate Plus 2.75 % p.a. In no event shall the interest rate be Less than 7.5% nor more than 11.5%, maturing in December 2009.	1,500	1,500
	<u>B/. 11,000</u>	<u>B/. 11,000</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**15. Bonds Payable (continued)**

<u>Empresas Melo, S.A.</u>	<b>2005</b>	2004
A. <b>Series B:</b> Series B bonds shall mature from December 2005. The interest rate is fixed at 9.75 % p.a.	<b>1,000</b>	1,000
B. <b>Series C:</b> Series C bonds shall mature from December 2006. The interest rate is fixed at 10% p.a.	<b>1,500</b>	1,500
C. <b>Series D:</b> Series D bonds shall mature from December 2007. The interest rate is fixed at 10.25% p.a.	<b>1,500</b>	1,500
D. <b>Series E:</b> Series E bonds shall mature from December 2008. The interest rate is fixed at 10.5% p.a.	<b>1,500</b>	1,500
E. <b>Series F:</b> Series F bonds shall mature from December 2009. The interest rate is fixed at 10.75 % p.a.	<b>1,500</b>	1,500
F. <b>Series G:</b> Series G bonds shall mature from December 2010. The interest rate is fixed at 11% p.a.	<b><u>1,500</u></b>	<u>1,500</u>
	B/. <u><b>8,500</b></u>	B/. <u>8,500</u>
Total	<b>34,810</b>	35,104
Less: Current portion	<b><u>2,245</u></b>	<u>2,245</u>
	<b><u>B/. 32,565</u></b>	<u>B/. 32,859</u>

---

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****16. Industrial Incentives**

Empresas Melo S.A., . were granted by means of its registration in the Official Register of the Industry, the industrial incentive for the advancement and development of the local industries and exports, foreseed in Law No.3 of March 20, 1986. For Empresas Melo this incentive was extended until 2010.

The companies has been granted, among others, the following tax incentives:

- a) Payment of 3% import duties on machinery, equipment, spare parts, accessories and raw material to be used in the manufacturing of their products.
- b) Exemption of income taxes on earnings reinvested in the expansion of the factory's production capacity and for the development of new products.
- c) Loss-carryforward to be applied from taxable income for three years following the period in they were incurred.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****17. Income Tax**

Major components of tax expense for the three months ended March 31 were:

	<i>March</i> <i>2005</i>	<i>March</i> <i>2004</i>
Current:		
Income tax	<u>B/. 355</u>	<u>B/. 94</u>

**Deferred tax assets**

Deferred taxes at March 31 relates to the following:

	<i>Computation Basis</i>	<i>March</i> <i>2005</i>	<i>December</i> <i>2004</i>
Seniority premium	B/. 1,062	B/. 319	B/. 319
Carryforward losses	<u>972</u>	<u>291</u>	<u>291</u>
	<u>B/. 2,043</u>	<u>B/. 610</u>	<u>B/. 610</u>

**Deferred income tax**

The Group recognizes income tax according to International Accounting Standard 12 (IAS 12) "Income Taxes".

---

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****17. Income Tax (continued)**

The Group computed deferred tax asset for the amount of B/.613. at March 31, 2004. These balances are mainly the result of reserve for seniority premium prior to 1993 and current period's loss of Maderas y Materiales de Construccion, S. A. which will be available to apply against future income taxes. This provision is estimated on the basis mentioned above of B/.2,043 at March 31, 2004. According to tax regulations, in the case of seniority premium, future use of the provision must be applied at the time the benefit is paid or the contribution is made to the severance fund.

According to the International Financial Reporting Standards No.12, the future use of carryforward losses must be certain before recognizing any deferred tax asset on the consolidated financial statements. The carrying amount of deferred tax assets or liabilities is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset or liability to be utilized. The Group recorded deferred income tax from carryforward losses based on the amount considered to be recoverable in subsequent years and not on total accumulated losses, due to the uncertainty of using this asset in the future.

According to current tax regulations, income tax returns of entities established in the Republic of Panama are subject to review by tax authorities for the last three (3) years, including the year ended December 31, 2004.

**18. Dividends Paid**

During year 2005, dividends of B/.05 per ordinary share (totaling B/.101) were declared and paid.

During year 2004, dividends of B/.05 per ordinary share (totaling B/.100) were declared and paid.



---

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****19. Segment Information**

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The stores segment is a wholesale company dedicated to represent and distribute agricultural products and hardware store products, construction, home appliances, pets and gardeners.

The poultry segment is conformed by production, animal feeds, marketing and added value products areas. The segment of foods – animal feeds is where the breeders are raised to maturity to begin their reproductive cycle when hens will produce fertile eggs to supply our incubation facilities. The segment of animal foods is specialized in the production of balanced foods for animals, particularly for poultry. The segment is responsible for selling and distributing processed chicken meats, eggs and poultry derivative products. The segment added value products is the factory Manuel E. Melo responsible for processing and marketing food products made from chicken.

The machinery segment specializes in the distribution of commercial vehicles, equipment and machinery for the agriculture and construction sectors, and spare parts and tires for passenger and commercial vehicles. Additionally, provide shop and garage repairs services for vehicles and equipment.

The lumber segment is dedicated to the manufacturing of solid wood and panel doors.

The restaurant segment is the fast food chain with an extensive menu of fried and baked chicken, salads, fried food, sandwiches, sodas and natural fruit beverages.

The real estate segment is the development of mountain projects with cool climate.

The reforestation segment is where the reforestation projects are made.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****20. Basic Earning per Share**

Basic earnings per share must be calculated by dividing the year's net income, per the number of shareholders or common shares or the number of shares issued and in circulation.

	<i>March</i> <b>2005</b>	<i>March</i> <b>2004</b>
Net income to be granted to shareholders		
Common shares for basic earnings	<b><u>B/. 828</u></b>	<b><u>B/. 695</u></b>
Number of common shares issued		
Applicable for basic net income per share	<b>2,324,314</b>	2,324,314
Basic earnings per share	<b><u>B/. 0.36</u></b>	<b><u>B/. 0.29</u></b>

There are no other transactions referred to common shares since the date of the report and before the finishing of these financial statements.

**21. Directors Fees**

The executive members of the Board of Directors received fees for B/.110 (2004 – B/.117). Of these amounts, Directors of Grupo Melo with management functions received B/.100 (2004 – B/.105) , and external Directors without functions within the Group received B/. 10 (2004 – B/.12).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****22. General and Administrative Expenses**

The following is a detail of general and administrative expenses for the three months ended March 31:

	<i>2005</i>		<i>2004</i>
Salaries, commissions and premiums	B/. 4,214	B/.	4,139
Labor lease	1,635		1,489
Travel, allowance and transportation	209		236
Legal and professional fees	524		447
Insurance costs	98		113
Rent	488		444
Electricity, telephone and water	1,125		1,036
Repair and maintenance	315		384
Machinery repair and maintenance	311		252
Cleaning	293		262
Inventory	24		35
Packaging, bags and paper	498		519
Office expenses	199		165
Stamps and sealed paper	68		44
Taxes	165		176
Bad debts	132		100
Delivery, freight and transport	457		580
Fumigation and medical expenses	211		205
Advertising	453		430
Bank charges	122		108
Gas and lubricants	703		557
Vehicle	82		61
Vehicle maintenance and spare parts	232		260
Supply and materials	182		174
Breeds	66		70
Governmental and municipal taxes	125		135
Selling expenses	322		281
Employee benefits	308		280
Equipment rent	7		8
Expenses transferable to cost	(7)		(11)
Miscellaneous	302		282
	<u>B/. 13,863</u>		<u>B/. 13,261</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****23. Commitments and Contingency**

Commitments and contingency are detailed as follows:

*Capital lease obligations*

Future minimum lease payments under finance leases include the present value the net minimum lease payments and are as follows:

	<i>March</i> <b>2005</b>	<i>December</i> <b>2004</b>
Within one year	B/. 303	B/. 448
After one year but not more than three years	<u>147</u>	<u>110</u>
	<u>B/. 450</u>	<u>B/. 558</u>

*Technology license and technical assistance agreement*

Grupo Melo, S. A. signed a Technology License and Technical Assistance Agreement with Tyson Foods, Inc. with the following contract obligations:

1. Effective for a ten-year period starting on October 1, 1998 can be renewed automatically, unless one of the parties notifies the intention to negotiate thirty days prior to the end of the initial term or any subsequent renewal term.

*Technology license and technical assistance agreement (continued)*

2. Payment of a percentage of net sales of licensed products with an annual minimum payment of B/.200.

*Contingency**Civil Proceedings*

There is a civil proceeding filed by Pavensa Overseas, S. A. against Grupo Melo, S. A., Cultivos Tecnicos de Panama, S. A., Construcciones Campestres, S. A., Edificaciones y Materiales, S. A. and Altos de Vistamares, S. A. where the plaintiff claim damages, including lost profits, pain and suffering, social and comercial, with respect on the constructions defects of a house of the plaintiff located in el Valle de Antón, Coclé province. The quantity of the claim is B/.500. The process is located in the Superior Court in appeal because both parties appeal against the lower Court Judgement No.24 of July 8, 2003.

---

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****23. Commitments and Contingency (continued)***Contingency (continued)**Civil Proceedings (continued)*

The appeal judgement sentenced jointly and severally Altos de Vistamares, S. A. and Construcciones Campestres, S. A. to pay Pavensa Overseas, S. A. the amount of B/.19 for damages, labor and materials destined for the construction of improvements by the plaintiff and pending works.

*Complaints**Civil Proceedings*

There is a civil proceeding filed by Olmedo Acevedo Sevillano, Eduardo Bustamante Domingo Gonzalez, G., Armando Paredes y Rolando Morales against Melo y Cia., S. A. and others. This complaint is pending of admission and evidence practice.

There is a civil proceeding filed by Import Export Company Limited (Amex Ltd.) against Arias & Arias Consulting, Cambria Mystic Corp., and Maderas y Materiales de Construccion, S. A., This complaint is pending of transfer.

*Criminal and Administrative actions*

Criminal process for felonious homicide (Car accident) against Reinaldo Vargas, where a motion of damages was filed against Melo y Cia., S. A. (Penonome & Chorrera), actually Melo y Cia. for the amount of B/.2,377. The hearing took place on December 29, 2003 and is located in the first Criminal Court of Penonome, pending for a verdict.

The administration explain to us that the Group has a Insurance policy for Civil Responsibility which will cover all the damages caused during the accident, if it was found responsible of the incident.

---

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****23. Commitments and Contingencies (continued)***Criminal and Administrative actions (continued)*

There are eight administrative actions in the appeal stage in their respective courts and criminal processes for crimes against life and personal integrity (Personnal Lesions or Felonious Homicide) which were also the result of car accidents in which there are involved personnel and vehicles property of Grupo Melo, S. A. y Subsidiarias.

In both administrative and criminal processes the lawyers are defending energetically all the interests of Grupo Melo, S. A. y Subsidiarias. However, if the outcome of all these processes goes against Grupo Melo, S. A. y Subsidiarias, the Company may be subject to lawsuits for damages and injuries caused by car accidents, which originate these processes.

*Labor Processes**Poultry Division*

Labor process for the annulation of the termination of labor relation filed by Juan Manuel Peña against Grupo Melo, S. A. and/or Empacadora Avicola, S. A. The economic risk of declaring void the mutual agreement would cause to accept that the labor relation is not over, plus hence owed salaries, the lawyer fees.

*Lumber Division*

Labor process for unjustified laid off filed by Jose Gomez against Comercial Madedera, S. A.(previously Comercial de Materiales, S. A.) in which the suit party claims reintegration to his position, owed salaries, and the return of an amount of money that was supously illegally discounted to the employee. The economic risk is of approximately B/.7,833 The process is on the Conciliation and Decision Board who will notify the parties the date of the hearing.

At the date of the Balance Sheet, no provision was made in order to cover any of these complaints

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

### 24. Subsequent Event

#### Merger

Public Deed Number 1980 of February 10, 2005 materialized the merger by absorption of Empolladora Panamá, S. A. and Alimentos Melo, S. A., Franquicias Multinacionales, S. A., Corporación Pio Pio, S. A., Restaurantes Melo, S. A., Edificaciones y Materiales, S. A. Financiera Mercantil, S. A., A vicola Consolidada, S. A., Embutidos y Conservas de Pollo, S. A., Empacadora Avicola, S. A., Sarasqueta y Cia., S. A., Comercial Melo, S. A., Comercial de Materiales, S. A., Reforestadora Los Miradores, S. A., El Zapallal, S. A., Melo y Cia., S. A., Materiales y Maderas de Construccion, S. A., Compañía Panameña de Maquinarias, S. A., Copama Azuero, S. A., Copama David, S. A., and Turin Motors, S. A. Simultaneously, the parties agreed to change the corporate name from Empolladora Panama, S. A. to Compañía Melo, S. A., as the new firm will be styled.

Also through public scripture registers N° 2745 of February 23rd 2005, Melo Company firm changed its name for Empresas Melo S.A.

**IV PART**  
**FINANCIAL STATEMENTS OF GUARANTORS OR BONDSMEN**

Grupo Melo, S.A. own the 100% of the shares issued and circulating. The shares do not have guarantors so does not apply.

**V PART**  
**TO CERTIFICATE THE TRUSTEE**

Two of the companies that belong to Grupo Melo, S.A. have valuables registered in the Comision Nacional de Valores (National Commission of Valuables), guaranteed by a trustee system as it is detailed further on and which certificates where surrendered to the Comision Nacional de Valores:

<b>TRUSTEE</b>	<b>ISSUER</b>	<b>AMOUNT</b>
Banco General, S.A.	Embutidos y Conservas Nacionales	9,500,000.00
Banistmo, S.A.	Compañía de Finanzas y Servicios, S.A.	15,000,000.00
Banistmo, S.A.	Sarasqueta y Compañía, S.A.	6,000,000.00
Banistmo, S.A.	Altos de Vistamares, S.A.	3,000,000.00

**DISCLOSURE**

The way of disclosing by which the Grupo Melo, S.A. will disclose the Quarterly up-dating Report is by the Grupo Melo Internet Page [www.grupomelo.com.pa](http://www.grupomelo.com.pa) from May 31, 2005.

Legal Authorized Representative

Illegible signature

\_\_\_\_\_  
Eduardo Jaspe  
Vicepresident



**Coat-of-Arms**

**REPUBLIC OF PANAMA  
Province of Panama**

**FOURTH NOTARY OF THE CIRCUIT**

**LAWER EMETERIO MILLILER R.  
NOTARY FOURTH**

**Telephone: 229-1062  
229-1296**

**Calle 90 Lourdes  
Via España  
Edificio Plaza Camelia  
(By the Public Registry)**

**COPY:**

**Public Document \_\_\_\_\_ of March 29, 2005**

**By which is performed a:**

**Notarial Sworn Declaration**

Republic of Panama  
17-3-05 \$4.00 Revenue Stamp  
Notary 4, Panama

Round Seal: Fourth  
Notary of the Circuit

REPUBLIC OF PANAMA  
NOTARIAL PAPER  
Coat-of-Arms  
NOTARY FOURTH OF THE CIRCUIT OF PANAMA

NOTARIAL SWORN DECLARATION

In the city of Panama, Capital of the Republic of Panama and capital of the Notarial Circuit of the name, at the twenty nine (29)

Days of the month of March of year two thousand five (2005), before me JULIO CESAR DE LEON, Public Notary Four of the Circuit of Panama, First Assistant, with personal identity card number eight-one hundred sixty-four hundred seventy nine (8-160-469), personally appear: Arturo Donaldto Melo Sarasqueta, male, Panamanian, of full age, married, resident of this city, with personal identity card eight-sixty eight-four hundred twenty six (8-68-426), Principal Director, Chief Executive President and General Manager of the Corporation GRUPO MELO, S.A.; and Eduardo Jaspe, male, Panamanian, of full age, unmarried, resident of this city, with personal identity card number eight – two hundred eight – three (8-288-3); Principal Director, Executive Vice President of Finance and Planning and Treasurer of the corporation GRUPO MELO, S.A. corporation constituted in accordance with the Panamanian legislation and duly registered in the Microjacket twenty one thousand two hundred twenty three (21223), Film one thousand twenty (1020) and frame five hundred twenty four (524) of the Section of Microjacket (Mercantile) of the Public Registry of Panama, all located in Via España, Rio Abajo, Edificio 2313, District of Panama, Province of Panama, Republic of Panama, persons whom I know, with the purpose to fulfill the dispositions contained in the Agreement Seven – zero two ( 7-02) of October fourteenth (14) of the year two thousand two (2002) in the Comision Nacional de Valores de la Republica de Panama (National Commission of Securities of the Republic of Panama), know all men by these presents, under the seriousness of an Oath, the following:-----

- a) That each one of the signers have examined the Consolidated Financial Statements GRUPO MELO, S.A., corresponding to the fiscal year the finished on December 31, 2004.-----
- b) That at their judgments, the Consolidated Financial Statements do not contain false information or declarations on important facts, nor omit information on the important facts that must be disclosed in virtue of the Law Decree one (1) on nineteen ninety nine and its regulations, or that must be disclosed so that the declarations made in such statement do not be trendy or fraudulent under the circumstance on which were performed. -----
- c) That at their judgments the Yearly Consolidated Financial Statements and any other financial information contained in same, reasonable represent in all its aspects the financial condition and the operations results of GRUPO MELO, S.A. for the corresponding period of January one (1) of the year two thousand four (2004), at December thirty one (31) of the year two thousand three (2004).-----  
-----
- d) That the signers-----  
d.1 are responsible of the establishing and maintenance of the corporation internal controls—

d.2 Have designed the internal control mechanism that guarantee that all the information of importance of GRUPO MELO, S.A. and its consolidated subsidiaries, be of their knowledge, particularly during the period on which the reports are prepared.-----

d.3 Have evaluated the effectiveness of the internal controls of GRUPO MELO, S.A. within the ninety (90) days previous to the emission of the Consolidated Financial Statements.—

d.4 Have presented in the Consolidated Financial Statements its conclusions on the effectiveness of the internal controls based on the evaluations performed in that date.--

e) That each one of the signers has revealed to the auditors of GRUPO MELO, S.A. the following:-----

e.1 That all the significant deficient that emerge in the frame of the design and operation of the internal controls, that may affect negatively the capacity of GRUPO MELO, S.A. to register, process and report financial information, and show to the auditors any weakness existing in the internal controls.-

e.2 Any fraud, important or not, that involves the administration or other employees that have a significant roll in the performance of the internal control of GRUPO MELO, S.A.

f) That each one of the signers has revealed to the external auditors the existence or not of the significant changes in the GRUPO MELO, S.A., or any other factors that could affect on an important form as controls with posteriori to the evaluation date, including the formulation of corrective actions with respect to important deficiency or weakness within the corporation.-----

We make this present declaration to be presented before the Comision Nacional de Valores (National Securities Commission).-----

Read as it was this declaration to those who appear in the presence of the Attesting Witnesses MIRNA GUEVARA DE BUENDIA, with personal identity card number eight – one hundred fifty seven – six hundred twenty one (8-157-621) and BELKIS DE IVALDI, with personal identity card number eight – one hundred sixty two – one thousand eight hundred and seven (8-162-1807), both of full age, Panamanians and residents of this city, whom I know, and are competent to perform the position, the found it in accordance, and impart their approval and in constancy of which they sign it all together with the before mentioned witnesses before me, the Notary that certifies---

-----

Illegible signature  
ARTURO DONALDO MELO SARASQUETA

Illegible signature  
EDUARDO JASPE

Illegible signature  
MIRTA GUEVARA DE BUENDIA

Illegible signature  
BELKIS DE IVALDI

JULIO CESAR DE LEON  
First assistant Fourth Public Notary