

SIN HENG CHAN (MALAYA) BERHAD
(Special Administrators Appointed)
(Incorporated in Malaysia)
AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company is principally an investment holding company.

The principal activities of the subsidiary companies are as disclosed under Note 14.

There have been no significant changes in the nature of the activities of the Company and of its subsidiary companies during the financial year other than the disposal of certain subsidiary companies as disclosed in Note 14.

The total number of employees of the Group and of the Company at year end were 284 (2002: 289) and 13 (2002: 13) respectively.

The registered office and principal place of business is located at Level 3, Wisma E & C, No. 2, Lorong Dungun Kiri, Damansara Heights, 50490 Kuala Lumpur.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and of the Company have been approved by the Board of Directors for issuance on April 29, 2004.

The financial statements of the Group and of the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards of the Malaysian Accounting Standards Board ("MASB"). The new approved MASB's adopted in the financial statements since the previous year and their impact to the financial statements are as follows:

- (i) MASB 25, Income Taxes; and
- (ii) MASB 29, Employee Benefits

The adoption of these MASB's and the effects of the change in the accounting policies are as disclosed in Note 28.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention with certain modifications arising from the revaluation of certain land and buildings and also on the basis of accounting principles applicable to a going-concern. The ability of the Group and of the Company to continue as a going-concern is dependent on the successful implementation of the Proposal as fully explained in Note 33.

Revenue

Revenue from sales of goods is recognised upon delivery of products and when the risks and rewards of ownership has passed. Revenue represents gross invoiced value of goods sold, net of sales tax, trade discounts and allowances.

Dividend income represents gross dividends from quoted and unquoted investments and is recognised when the shareholder's right to receive payment is established.

Rental income is accrued on a time basis, by reference to the agreements entered.

Foreign Currency Conversion

Transactions in foreign currencies are converted into Ringgit Malaysia at the exchange rates prevailing at the transaction dates or, where settlement has not yet taken place at the end of the financial year, at the approximate exchange rates prevailing at that date. All exchange gains or losses are taken up in the income statements.

Income Tax

In the previous financial year, the tax effects of transactions are recognised, using the "liability" method, in the year such transaction enter into the determination of net income, regardless of when they are recognised for tax purposes. Where timing differences would give rise to net deferred tax asset, the tax effects are generally recognised on actual realisation.

During the current financial year, the Group and the Company changed their accounting policy in accounting for deferred tax in accordance with MASB 25, Income Taxes which become mandatory effective on July 1, 2002. Under MASB 25, deferred tax is accounted for using the "balance sheet liability" method in respect of temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases used in the computation taxable profit.

Under MASB 25, deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised.

This accounting change has been accounted for retrospectively and the effects on prior years have been taken up as prior year adjustments in the financial statements.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses.

A gain or loss arising from the disposal of an asset is determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset, and is recognised in the income statements. On disposal of revalued assets, the amounts in revaluation reserve account relating to the assets disposed are transferred to accumulated loss account.

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an item of property, plant and equipment exceeds its recoverable amount. The impairment loss is charged to the income statements unless it reverses a previous revaluation in which case it is treated as a revaluation decrease.

Depreciation of property, plant and equipment, except for freehold land and machinery under installation which are not depreciated, is computed on the straight-line method to their residual values at rates based on the shorter of the estimated useful lives of the various assets or their lease periods.

Land under long leases	Over period of lease of 60 - 99 years
Land under short leases	Over period of lease of 25 years
Buildings	4 - 5%
Plant and machinery	7 1/2 - 33 1/3%
Renovation, furniture, fixtures and equipment	5 - 20%
Motor vehicles	20%

Plantation development expenditure consists of expenditure on land preparation and upkeep of trees prior to their maturity and is accounted for under the "capital maintenance method" which involves the capitalisation of only new planting costs which are not amortised.

Property, Plant and Equipment under Hire-Purchase Arrangements

Property, plant and equipment acquired under hire-purchase arrangements are capitalised as property, plant and equipment and the corresponding obligations treated as liabilities in the financial statements. These assets are depreciated according to the basis set out above. Finance costs are allocated to the income statements to give a constant periodic rate of interest on the remaining hire-purchase liabilities.

Lease Assets

Assets under leases which in substance transfer the risks and benefits of ownership of the assets are capitalised under property, plant and equipment. The assets and the corresponding lease obligations are recorded at the fair value of the lease assets which approximates the present value of the minimum lease payments, at the beginning of the respective lease terms.

Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statements over the term of the relevant lease period so as to give a constant periodic rate of charge on the remaining balance of the obligations for each accounting period. All other leases which do not meet such criteria are classified as operating leases and the related rentals are charged to the income statements as incurred.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and of the subsidiary companies controlled by the Company made up to December 31, 2003.

Subsidiary companies are consolidated using the acquisition method of accounting. On acquisition, the assets and liabilities of the relevant subsidiary companies are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiary companies acquired or disposed of during the financial year are included in the consolidated financial statements from the effective date of acquisition or up to the effective date of disposal.

Reserve arising on consolidation represents the excess of the fair values of net assets over the consideration paid for investment in two subsidiary companies.

All significant inter-company transactions and balances are eliminated on consolidation.

Investments

Investments in unquoted shares of subsidiary companies, which are eliminated on consolidation, are stated at cost. Where there is an indication of impairment in the value of the assets, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

Other investments in unquoted shares are stated at cost less allowance for diminution in value. Allowance for diminution in value is made when in the opinion of the directors, the diminution in the value of the investments is considered permanent.

Inventories

Inventories are valued at the lower of cost (determined generally on the first-in, first-out method) and net realisable value. The costs of raw materials and spare parts comprise the original cost of purchase plus the cost of bringing the stocks to their present location and condition. The costs of finished goods and hatching eggs include the cost of raw materials, direct labour and certain allocation of manufacturing overheads. The cost of parent stocks consists of the original purchase price of breeder birds plus assigned growing costs and adjusted for amortisation (calculated based on their economic egg-laying lives). Net realisable value represents the estimated selling price in the ordinary course of business less selling and distribution costs and all other estimated costs to completion.

Receivables

Trade and other receivables are stated at nominal value as reduced by the appropriate allowances for estimated irrecoverable amounts. Allowance for doubtful debts is made based on estimates of possible losses that may arise from non-collection of certain receivable accounts.

Marketable Securities

Marketable securities held for short-term are stated at the lower of cost (determined using the first-in first-out method) and market value based on an aggregate portfolio basis. All increases or decreases in the carrying amount of marketable securities are taken up in the income statements.

- Retirement Benefits

The Group and the Company are required by law to make monthly contributions to Employees' Provident Fund ("EPF"), a statutory defined contribution plan for all their eligible employees. Both the Group and the Company and their employees are required to make monthly contribution to EPF calculated at certain prescribed rates of the employees' salaries. The Group's and the Company's contributions to EPF are disclosed separately while the employees' contributions to EPF are included in salaries and wages and shown under staff costs.

A subsidiary company has a non-contributory unfunded retirement benefits scheme for employees who are eligible under their respective employment contracts. Retirement benefits are estimated and provided for in the accounts taking into consideration their length of service and basic salary earnings of eligible employees.

Cash Flow Statements

The Group and the Company adopt the indirect method in the preparation of the cash flow statements.

Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risks of changes in value.

4. REVENUE

	The Group		The Company	
	2003 RM	2002 RM	2003 RM	2002 RM
Manufacturing and trading of formulated animal feeds	28,504,840	32,204,289	-	-
Poultry breeding	20,291,264	20,720,192	-	-
Dividend income (gross):				
Unquoted shares in Malaysia	994,274	497,137	994,274	497,137
Shares quoted in Malaysia	13,960	8,695	13,960	8,695
	<u>1,008,234</u>	<u>505,832</u>	<u>1,008,234</u>	<u>505,832</u>
	<u>49,804,338</u>	<u>53,430,313</u>	<u>1,008,234</u>	<u>505,832</u>

5. SEGMENT REPORTING

Business Segments

For management purposes, the Group is organised into the following operating divisions:

- Feedmilling
- Poultry breeding
- Investment holding
- Others (consist of subsidiary companies which are dormant and pre-operating)

Inter-segment sales are charged at cost plus a percentage profit mark-up.

SEGMENT ANALYSIS

The Group

2003	Feedmilling RM	Poultry Breeding RM	Investment Holding RM	Others RM	Eliminations RM	Consolidated RM
Revenue						
External sales	28,504,840	20,291,264	1,008,234	-	-	49,804,338
Inter-segment sales	16,950,537	1,086,786	-	-	(18,037,323)	-
Total revenue	<u>45,455,377</u>	<u>21,378,050</u>	<u>1,008,234</u>	<u>-</u>	<u>(18,037,323)</u>	<u>49,804,338</u>
Results						
Segment result	<u>(46,101)</u>	<u>(219,381)</u>	<u>(1,299,860)</u>	<u>(103,427)</u>	<u>-</u>	<u>(1,668,769)</u>
Loss from operations						(1,668,769)
Finance costs						(5,028,904)
Income from other investments						247,048
Loss before tax						(6,450,625)
Tax income						219,881
Loss after tax						<u>(6,230,744)</u>

(Forward)

	Feedmilling RM	Poultry Breeding RM	Investment Holding RM	Others RM	Eliminations RM	Consolidated RM
Other information						
Capital additions	101,480	210,553	-	-	-	312,033
Depreciation of property, plant and equipment	(670,612)	(1,706,730)	(229,723)	(899)	-	(2,607,964)
Consolidated Balance Sheet						
Assets						
Segment assets	16,516,949	23,937,801	4,547,212	785,445	-	45,787,407
Consolidated total assets						<u>45,787,407</u>
Liabilities						
Segment liabilities	14,237,505	8,783,023	53,867,249	6,878,963	-	83,766,740
Consolidated total liabilities						<u>83,766,740</u>

The Group

2002

	Feedmilling RM	Poultry Breeding RM	Investment Holding RM	Others RM	Eliminations RM	Consolidated RM
Revenue						
External sales	32,204,289	20,720,192	505,832	-	-	53,430,313
Inter-segment sales	20,128,744	556,227	-	-	(20,684,971)	-
Total revenue	<u>52,333,033</u>	<u>21,276,419</u>	<u>505,832</u>	<u>-</u>	<u>(20,684,971)</u>	<u>53,430,313</u>
Results						
Segment result	<u>(184,553)</u>	<u>1,009,012</u>	<u>(3,148,774)</u>	<u>(877,583)</u>	<u>116,819</u>	<u>(3,085,079)</u>
Loss from operations						(3,085,079)
Finance costs						(4,640,862)
Income from other investments						101,843
Loss before tax						(7,624,098)
Tax expense						(144,305)
Loss after tax						<u>(7,768,403)</u>
(Forward)						

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	Feedmilling RM	Poultry Breeding RM	Investment Holding RM	Others RM	Eliminations RM	Consolidated RM
Other information						
Capital additions	1,075,160	3,220,404	10,510	-	-	4,306,074
Depreciation of property, plant and equipment	(715,666)	(1,528,525)	(244,690)	(2,116)	-	(2,490,997)
Impairment loss of property, plant and equipment	-	-	-	(807,807)	-	(807,807)
Consolidated Balance Sheet						
Assets						
Segment assets	14,344,687	25,066,767	6,452,779	310,613	-	46,174,846
Consolidated total assets						<u>46,174,846</u>
Liabilities						
Segment liabilities	10,883,822	10,708,181	34,299,040	22,032,392	-	77,923,435
Consolidated total liabilities						<u>77,923,435</u>

Other segment activities comprise mainly of expenses incurred by certain subsidiary companies which are not directly attributable to any significant segment.

Segmental information by geographical location has not been disclosed as the Group operates predominantly in Malaysia.

6. **OTHER OPERATING INCOME/(EXPENSES)**

Included in other operating income/(expenses) are the following:

	The Group		The Company	
	2003 RM	2002 RM	2003 RM	2002 RM
Management fees from subsidiary companies	-	-	720,000	-
Allowance for doubtful debts no longer required	-	101,647	37,846	50,589
Gain on disposal of property, plant and equipment - net	-	185,750	-	-
Rental of premises	(579,676)	(663,826)	(448,206)	(554,886)
Restructuring expenses	(406,780)	(110,546)	(406,780)	(110,546)
Allowance for doubtful debts -net	(213,734)	-	-	-
Gain/(Loss) on disposal of marketable securities	127,307	(168,159)	127,307	(168,159)
Audit fee:				
- current	(62,800)	(65,800)	(20,000)	(20,000)
- under provision	-	(500)	-	-
Unrealised loss on foreign exchange	(3,693)	(23,391)	-	-
Bad debts written off	(3,166)	-	-	-
Lease rental of land	-	(1,630)	-	-
Realised loss on foreign exchange	(307)	(1,306)	-	-
Allowance for doubtful recovery of amount owing by subsidiary company	-	-	-	(114,299)
- Exceptional items :				
Loss arising from assignment of assets and liabilities of subsidiary companies disposed	-	-	(9,644,795)	-
Gain on disposal of subsidiary companies	374,152	-	-	-

7. **DIRECTORS' REMUNERATION**

	The Group		The Company	
	2003	2002	2003	2002
	RM	RM	RM	RM
Executive directors:				
Fees	-	-	-	-
Other emoluments	594,440	705,977	594,440	594,440
Non-executive directors:				
Fees	37,000	80,750	-	-
Other emoluments	194,130	218,130	194,130	194,130
	<u>825,570</u>	<u>1,004,857</u>	<u>788,570</u>	<u>788,570</u>

The estimated monetary value of benefits-in-kind received and receivable by the directors otherwise than in cash from the Group and the Company amounted to RM152,800 (2002: RM152,800) during the financial year.

Included in directors' remunerations are contributions to the Employees' Provident Fund made by the Group and the Company for the current year amounting to RM85,560 (2002: RM85,560) respectively.

The number of directors of the Company whose total remuneration fall within the following bands is as follows:

	2003	2002
Number of Executive Directors:		
Below RM300,000	-	-
>RM300,000	1	1
Number of Non-Executive Directors:		
RM50,001 to RM100,000	<u>2</u>	<u>2</u>

8. **STAFF COSTS**

Staff costs include salaries, contributions to Employees' Provident Fund, bonuses and all other staff related expenses.

Included in staff costs are contributions to the Employees' Provident Fund made by the Group and the Company for the current year amounting to RM485,925 and RM64,915 (2002: RM498,987 and RM64,834) respectively.

9. **FINANCE COSTS**

	The Group		The Company	
	2003	2002	2003	2002
	RM	RM	RM	RM
Interest on:				
Bank overdrafts	3,305,279	3,048,572	2,047,533	1,405,664
Term loans	766,616	705,034	352,790	332,275
Bankers' acceptances	639,366	610,786	433,810	410,389
Hire-purchase	166,329	132,667	7,480	3,294
Finance lease	151,156	141,049	-	-
Other interest	158	2,754	74	2,754
	<u>5,028,904</u>	<u>4,640,862</u>	<u>2,841,687</u>	<u>2,154,376</u>

10. **INCOME FROM OTHER INVESTMENTS**

	The Group		The Company	
	2003	2002	2003	2002
	RM	RM	RM	RM
Interest income from fixed deposits	13,048	47,843	6,448	42,708
Rental of premises	234,000	54,000	234,000	54,000
	<u>247,048</u>	<u>101,843</u>	<u>240,448</u>	<u>96,708</u>

11. **TAX EXPENSE/ (INCOME)**

	The Group		The Company	
	2003	2002	2003	2002
	RM	RM	RM	RM
Estimated tax payable:				
Current	-	(47,000)	-	-
Underprovision in prior years	119	305	-	-
Deferred tax (Note 26)	(220,000)	191,000	-	-
Total	<u>(219,881)</u>	<u>144,305</u>	<u>-</u>	<u>-</u>