

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 3.

During the financial year, a subsidiary company commenced the planting of fragrant coconut trees in order to maximise utilisation of breeding farm lands for future additional revenue.

Other than as stated above, there have been no significant changes in the nature of the activities of the Company and of its subsidiary companies during the financial year.

The total number of employees of the Group and of the Company at year end were 280 (2000: 248) and 13 (2000: 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 24, 2002.

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.

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 32.

Revenue

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

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

Management fees are recognised upon services rendered.

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

The tax effects of transactions are generally recognised, using the 'liability' method, when such transactions enter into the determination of net income regardless of when they are recognised for tax purposes. However, where timing differences would give rise to net future tax benefits, the tax effects are recognised generally on actual realisation.

Property, Plant and Equipment and Depreciation

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

An increase in the carrying amount arising from revaluation of property, plant and equipment is credited to the revaluation reserve account as revaluation surplus. Any deficit arising from revaluation is charged against the revaluation reserve account to the extent of a previous surplus held in the revaluation reserve account for the same asset. In all other cases, a decrease in carrying amount is charged to income statements. An increase in revaluation directly related to a previous decrease in carrying amount for that same asset that was recognised as an expense, is credited to income statements to the extent that it offsets the previously recorded decrease.

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 unappropriated profit 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.

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.

Depreciation of property, plant and equipment, except for freehold land and construction in progress which are not depreciated, is computed on the straight-line method to their residual values of 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 66 - 99 years
Land under short leases	Over period of lease of 21 - 60 years
Buildings	4 - 5%
Livestock farm	10 - 20%
Plant, machinery and crates	7 1/2 - 33 1/3%
Renovation, furniture, fixtures and equipment	5 - 20%
Motor vehicles	20%

No depreciation has been provided for the building on the freehold land of a subsidiary company as the directors are of the opinion that any depreciation that may be necessary can be adequately offset by the appreciation in value of the property concerned. This is not in compliance with the requirements of the MASB 15 which requires the allocation of the depreciable amount of an asset over its estimated useful life. However, the amount of depreciation charged computed using this policy has no material effect to the financial statements of the Group.

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.

Leased 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 leased 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, 2001.

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.

Goodwill arising on consolidation, which represents the excess of the Company's cost of investment over the fair values of the net assets of the subsidiary companies at the date of acquisition, is amortised over twenty five years. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

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 intercompany 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 amortization (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 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

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 risk of changes in value.

4. REVENUE

	The Group		The Company	
	2001	2000	2001	2000
Manufacturing and trading of formulated animal feeds	31,262,269	35,863,691	-	-
Poultry breeding	27,319,152	16,351,429	-	-
Dividend income:				
Unquoted shares in Malaysia	-	1,193,129	-	1,193,129
Shares quoted in Malaysia	21,306	52,438	21,306	52,438
Management fees	21,306	1,245,567	21,306	1,245,567
	-	-	-	240,000
	<u>58,602,727</u>	<u>53,460,687</u>	<u>21,306</u>	<u>1,485,567</u>

5. SEGMENT ANALYSIS

2001	Turnover RM	Profit/(Loss) Before tax RM	Assets Employed RM
By Group activity			
Feedmilling	52,565,120	132,515	24,167,997
Poultry breeding	26,101,563	2,639,276	25,065,871
Non segment	32,501	(9,103,976)	16,153,553
Consolidation adjustments	78,699,184 <u>(20,096,457)</u>	(6,332,185) <u>716,479</u>	65,387,421 <u>(18,062,792)</u>
	<u>58,602,727</u>	<u>(5,615,706)</u>	<u>47,324,629</u>

2000	Turnover RM	Profit/(Loss) Before tax RM	Assets Employed RM
By Group activity			
Feedmilling	48,151,556	(455,272)	27,639,085
Poultry breeding	17,225,130	124,114	24,485,798
Non segment	<u>1,521,785</u>	<u>(6,762,596)</u>	<u>19,557,973</u>
Consolidation adjustments	<u>66,898,471</u> <u>(13,437,784)</u>	<u>(7,093,754)</u> <u>404,189</u>	<u>71,682,856</u> <u>(18,905,753)</u>
	<u>53,460,687</u>	<u>(6,689,565)</u>	<u>52,777,103</u>

The non-segment activities comprise mainly of investment holding activities of the Company and 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. DIRECTORS' REMUNERATION

	The Group		The Company	
	2001 RM	2000 RM	2001 RM	2000 RM
Executive directors:				
Other emoluments	573,780	689,280	462,000	577,500
Non-executive directors:				
Fees	48,000	48,000	-	-
Other emoluments	<u>197,250</u>	<u>197,250</u>	<u>173,250</u>	<u>173,250</u>
	<u>819,030</u>	<u>934,530</u>	<u>635,250</u>	<u>750,750</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 RM144,000 (2000: RM152,800) during the financial year.

7. OTHER OPERATING INCOME/(EXPENSES)

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

	The Group		The Company	
	2001 RM	2000 RM	2001 RM	2000 RM
Allowance for diminution in value of marketable securities no longer required - net	721,894	-	721,894	-
Gain on disposal of property, plant and equipment - net	128,990	50,397	-	-
Allowance for doubtful debts no longer required	47,543	-	64,200	167,942
Bad debts recovered	4,800	4,000	-	-
Realised gain on foreign exchange	46	810	-	-
Lease rental of land	(3,000)	(3,000)	-	-
Bad debts written off	(6,570)	(1,880)	-	-
Inventories written off	(29,821)	(230,140)	-	-
Allowance for inventories obsolescence	(40,387)	-	-	-
Unrealised loss on foreign exchange	(64,531)	-	-	-
Audit fee	(65,000)	(64,500)	(20,000)	(20,000)
Provision for retirement benefits	(80,232)	-	-	-
Restructuring expenses	(121,600)	(903,628)	(121,600)	(903,628)
Rental of premises	(745,954)	(750,559)	(557,256)	(559,626)
Loss on disposal of marketable securities	(805,398)	(309,281)	(805,398)	(309,281)
Deposits written off	-	7,000	-	7,000
Property, plant and equipment written off	-	(5,580)	-	-
Lease rental of plant and machinery	-	(153,863)	-	-
Expenditure carried forward written off	-	(155,785)	-	-
Allowance for doubtful debts:				
Third parties	-	(327,757)	-	-
Subsidiary companies	-	-	(94,111)	(375,937)
Retrenchment benefits paid	-	(439,821)	-	-
Allowance for diminution in value of marketable securities	-	(1,072,926)	-	(1,072,926)
Management fees from subsidiary companies	-	-	-	240,000

8. **PROFIT/(LOSS) FROM OPERATIONS**

	The Group		The Company	
	2001 RM	2000 RM	2001 RM	2000 RM
Existing continuing operations	211,895	(3,813,934)	4,142,218	4,771,080
Discontinued operations	<u>(1,184,776)</u>	<u>(793,763)</u>	<u>-</u>	<u>-</u>
	<u>(972,881)</u>	<u>(4,607,697)</u>	<u>4,142,218</u>	<u>4,771,080</u>

9. **FINANCE COSTS**

	The Group		The Company	
	2001 RM	2000 RM	2001 RM	2000 RM
Interest on:				
Bank overdrafts	2,875,638	984,917	1,306,455	418,896
Term loans	811,259	602,698	271,802	95,722
Bankers' acceptances	674,362	398,535	384,500	197,437
Hire-purchase	201,688	131,277	9,881	31,153
Finance lease	124,840	-	-	-
Other interest	<u>19,064</u>	<u>196</u>	<u>19,064</u>	<u>196</u>
	<u>4,706,851</u>	<u>2,117,623</u>	<u>1,991,702</u>	<u>743,404</u>

10. **INCOME FROM OTHER INVESTMENTS**

	The Group		The Company	
	2001 RM	2000 RM	2001 RM	2000 RM
Interest income from fixed Deposits	50,526	35,755	30,459	-
Rental of premises receivable from:				
- third parties	13,500	-	13,500	-
- subsidiary company	<u>-</u>	<u>-</u>	<u>-</u>	<u>144,000</u>
	<u>64,026</u>	<u>35,755</u>	<u>43,959</u>	<u>144,000</u>

11. INCOME TAX EXPENSE

	The Group		The Company	
	2001 RM	2000 RM	2001 RM	2000 RM
Estimated tax payable:				
Current	-	-	-	-
Under provision in prior years	1,763	-	-	-
Deferred tax (Note 26)	881,000	-	-	-
Total	<u>882,763</u>	<u>-</u>	<u>-</u>	<u>-</u>

There is no income tax expense for the Group and for the Company in 2001 and 2000 as the Group and the Company do not have any taxable income.

As of December 31, 2001, two subsidiary companies have tax exempt income arising from reinvestment allowances claimed and utilised under schedule 7A of the Income Tax Act 1967 and chargeable income on which income tax has been waived in 1999 under Income Tax (Amended) Act 1999 amounting to approximately RM2,625,000 and RM164,500 (2000: RM1,495,000 and RM164,500) respectively.

12. LOSS PER ORDINARY SHARE

The basic loss per ordinary share for the Group has been calculated based on the Group's loss after tax and minority interest of RM6,945,185 (2000: RM6,653,825) and on the weighted average number of ordinary shares in issue during the financial year of 18,994,375 (2000: 18,994,375).

The fully diluted gross and net earnings per share are not presented as the Group has a negative gross and net basic earnings per share.

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Cost				
	Beginning of Year RM	Additions RM	Disposals RM	Reclassification RM	End of Year RM
Freehold land					
At 1978 valuation	293,000	-	-	-	293,000
At cost	487,170	-	-	-	487,170
Land under long leases					
At 1978 valuation	714,000	-	-	-	714,000
At cost	502,357	-	-	-	502,357
Land under short leases					
At 1978 valuation	68,000	-	-	-	68,000
At cost	530,997	-	-	-	530,997
Buildings					
At 1978 valuation	3,320,000	-	-	-	3,320,000
At cost	19,994,755	145,529	(207,159)	26,250	19,959,375
Building under finance lease	-	211,786	-	-	211,786
Plant and machinery	21,321,812	422,707	-	(49,163)	21,695,356
Plant and machinery under finance lease	-	1,050,460	-	-	1,050,460
Renovation, furniture, fixtures and equipment	5,605,502	203,356	-	(26,250)	5,782,608
Motor vehicles	4,308,924	29,490	(424,702)	556,951	4,470,663
Motor vehicles under hire-purchase	921,458	306,607	-	(507,788)	720,277
Machinery under installation	1,024,809	-	-	-	1,024,809
Plantation development expenditure	29,911	113,792	-	-	143,703
Consolidated Total	<u>59,122,695</u>	<u>2,483,727</u>	<u>(631,861)</u>	<u>-</u>	<u>60,974,561</u>

(Forward)

The Group

	Accumulated Depreciation				
	Beginning of Year RM	Charge For The Year RM	Disposals RM	Reclassification RM	End of Year RM
Land under long leases					
At 1978 valuation	206,934	9,407	-	-	216,341
At cost	140,358	7,462	-	-	147,820
Land under short leases					
At 1978 valuation	30,532	1,386	-	-	31,918
At cost	165,976	21,240	-	(111,106)	76,110
Buildings					
At 1978 valuation	2,998,410	154,324	-	-	3,152,734
At cost	5,843,549	768,906	-	111,106	6,723,561
Building under lease	-	14,119	-	-	14,119
Plant and machinery	17,324,824	845,333	-	(32,739)	18,137,418
Plant and machinery under finance lease	-	305,251	-	-	305,251
Renovation, furniture, fixtures and equipment	3,240,198	537,663	-	-	3,777,861
Motor vehicles	4,206,672	165,802	(424,692)	384,451	4,332,233
Motor vehicles under hire-purchase	510,326	125,567	-	(351,712)	284,181
Consolidated Total	34,667,779	2,956,460	(424,692)	-	37,199,547

The Group

	← Accumulated Impairment Loss →		← Net Book Value →		
	Beginning of Year RM	Charge For The Year RM	End of Year RM	2001 RM	2000 RM
Freehold land	-	-	-	293,000	293,000
At 1978 valuation	-	-	-	487,170	487,170
At cost	-	-	-	497,659	507,066
Land under long leases	-	-	-	354,537	361,999
At 1978 valuation	-	-	-	36,082	37,468
At cost	-	-	-	454,887	365,021
Buildings	-	-	-	-	-
At 1978 valuation	-	167,266	167,266	-	321,590
At cost	-	241,630	241,630	12,994,184	14,151,206
Building under lease	-	-	-	197,667	-
Plant and machinery	-	65,949	65,949	3,491,989	3,996,988
Plant and machinery under finance lease	-	-	-	745,209	-
Renovation, furniture, fixtures and equipment	-	199,562	199,562	1,805,185	2,365,304
Motor vehicles	-	-	-	138,430	102,252
Motor vehicles under hire-purchase	-	-	-	436,096	411,132
Machinery under installation	-	512,404	512,404	512,405	1,024,809
Plantation development expenditure	-	-	-	143,703	29,911
Total	-	<u>1,186,811</u>	<u>1,186,811</u>	<u>22,588,203</u>	<u>24,454,916</u>

The Company

	← Cost	← Accumulated Depreciation →		
	Beginning and End of Year RM	Beginning of Year RM	Charge For The Year RM	End of Year RM
Freehold land				
At 1978 valuation	293,000	-	-	-
At cost	184,170	-	-	-
Land under long leases				
At 1978 valuation	714,000	206,934	9,407	216,341
At cost	144,501	44,876	1,879	46,755
Land under short leases				
At 1978 valuation	68,000	30,532	1,386	31,918
Buildings				
At 1978 valuation	3,320,000	2,998,410	154,324	3,152,734
At cost	2,384,846	1,396,070	71,854	1,467,924
Plant and machinery	80	43	16	59
Renovation, furniture, fixtures and equipment	515,515	311,916	64,939	376,855
Motor vehicles	1,291,424	1,269,171	22,253	1,291,424
Motor vehicles under hire-purchase	184,588	138,443	36,918	175,361
Total	<u>9,100,124</u>	<u>6,396,395</u>	<u>362,976</u>	<u>6,759,371</u>

The Company

	Beginning of Year RM	Accumulated Impairment Loss Charge for the Year RM	End of Year RM	2001 RM	2000 RM
	Net Book Value				
Freehold land	-	-	-	293,000	293,000
At 1978 valuation	-	-	-	184,170	184,170
At cost	-	-	-	497,659	507,066
Land under long leases	-	-	-	97,746	99,625
At 1978 valuation	-	-	-	36,082	37,468
At cost	-	-	-	-	-
Land under short leases	-	-	-	-	-
At 1978 valuation	-	-	-	-	-
Buildings	-	167,266	167,266	-	321,590
At 1978 valuation	-	241,630	241,630	675,292	988,776
At cost	-	21	21	-	37
Plant and machinery	-	-	-	138,660	203,599
Renovation, furniture, fixtures and equipment	-	-	-	-	22,253
Motor vehicles	-	-	-	9,227	46,145
Motor vehicles under hire-purchase	-	-	-	-	-
Total	-	<u>408,917</u>	<u>408,917</u>	<u>1,931,836</u>	<u>2,703,729</u>

During the financial year, the directors of the Group and of the Company assessed the economic conditions and concluded that there were adverse external factors which led to the recognition of impairment losses on the property, plant and equipment of the Group and of the Company of RM1,186,811 and RM408,917 respectively as disclosed in the income statements. The recoverable amount of the property, plant and equipment is determined based on net selling price.

Land and buildings of the Company were last revalued by directors in 1978 based on valuation made by independent firms of professional valuers using as bases, the fair market value and highest present utility of the Company's land and buildings. These land and buildings have continued to be stated at 1978 valuation as allowed under the transitional provisions for the application of International Accounting Standards No. 16 (Revised), Property, Plant and Equipment as adopted by the Malaysian Accounting Standards Board. The directors are of the opinion that the fair values of the land and buildings at the end of the financial year are equal to or higher than their book carrying value.

The carrying values of the revalued property, plant and equipment of the Group and of the Company based on historical costs are as follows:

The Group and The Company

	Cost	Accumulated	Accumulated	Net Book
	RM	Depreciation	Impairment	Value.
		RM	Loss	RM
			RM	
Freehold land	114,644	-	-	114,644
Land under long leases	500,928	163,133	-	337,795
Land under short leases	47,707	23,504	-	24,203
Buildings	<u>2,482,489</u>	<u>2,379,740</u>	<u>102,749</u>	<u>-</u>

Land and buildings of the Group with carrying amounts of RM8,949,355 (2000: RM9,794,000) are pledged to certain licensed banks granted to the Group as disclosed in Note 22 and Note 25.

Property, plant and equipment, other than land and buildings of a subsidiary company with carrying amounts of RM2,907,757 (RM2000: RM3,271,186) are pledged to certain licensed banks granted to the subsidiary company as disclosed in Note 25.

Included in property, plant and equipment of the Group are fully depreciated property, plant and equipment which are still in use, with a cost of approximately RM13,204,000 (2000: RM12,100,000).

As of December 31, 2001, included in property, plant and equipment of the Group are idle plant and machineries with a carrying book value of RM859,033 (2000: RM1,493,585)