**SIN HENG CHAN (MALAYA) BERHAD**
**AND ITS SUBSIDIARY COMPANIES**
(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS

### 1. PRINCIPAL ACTIVITIES

The Company is principally an investment holding company.

The principal activities of the subsidiary companies are as disclosed under Note 3.

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.

### 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and 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

During the financial year, the Group and the Company adopted the MASB 1, Presentation of Financial Statements which is effective for financial periods commencing on and after July 1, 1999. Accordingly, the presentation and disclosure of the financial information have been modified to conform with the requirements of MASB 1. Certain comparative figures have been reclassified to achieve a consistent presentation.

### 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 28.

**Basis of Consolidation**

The consolidated financial statements include the financial statements of the Company and all its subsidiary companies made up to the end of the financial year. The subsidiary companies (all incorporated in Malaysia) are as follows:

| Direct Subsidiary Companies | Effective Equity Interest 2000 | Effective Equity Interest 1999 | Principal Activities |
|---|---|---|---|
| Sin Heng Chan (East Coast) Sdn. Bhd. | 100% | 100% | Manufacturing and trading of formulated animal feeds. |
| Goldkist (Malaysia) Sdn. Bhd. | 100% | 100% | Trading of formulated mineral poultry products. |
| Universal Goldquest (M) Sdn. Bhd. | 100% | 100% | Dormant. |
| Excel Food Sdn. Bhd. | 51% | 51% | Dormant. |
| Southern Farms Sdn. Bhd. | 100% | 100% | Dormant. |
| Ayam Segar Sdn. Bhd. | 100% | 100% | Dormant. |
| **Sub-subsidiary Companies** | | | |
| Goldkist Breeding Farms Sdn. Bhd. | 94% | 94% | Broiler breeding. |
| Sin Heng Chan Feed Sdn. Bhd. | 100% | 100% | Trading of formulated animal feeds. |
| LKPP - Goldkist Sdn. Bhd. | 60% | 60% | Broiler breeding. |
| Kuala Lumpur Feedmill Sdn. Bhd. | 100% | 100% | Dormant. |
| Central Feedmill Sdn. Bhd. | 100% | 100% | Dormant. |
| Goldkist (NS) Sdn. Bhd. | 100% | 100% | Dormant. |

All significant intercompany balances and transactions are eliminated on consolidation.

Goodwill arising on consolidation, which represents the excess of the Company's cost of investment over the related net assets of the subsidiary company at the date of acquisition, is amortised over twenty five years and will be written-off when the directors consider that there is a permanent diminution in value of the investment.

**Revenue**

Revenue of the Company and of its subsidiary companies represents gross invoiced values of sales less trade discounts and returns and is recognised upon the delivery of goods.

Dividends from investment in subsidiary companies are included in the income statement of the Company in the accounting period in which dividend is proposed. Dividend from other investments is recognised as income in the accounting period when such dividends are declared.

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 statement.

**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.

**Investments**

Investments in unquoted shares of subsidiary companies, which are eliminated on consolidation, are stated at cost less provision for diminution in value in the Company's financial statements. Other investments in quoted and unquoted shares are stated at cost less provision for diminution in value.

Provision for diminution in value is made when in the opinion of the directors, the diminution in the value of the investments is considered permanent.

**Property, Plant and Equipment and Depreciation**

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

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 at the following annual rates based on the estimated useful lives of the various assets.

| | |
|---|---|
| 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.

**Assets Under Hire-Purchase**

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 statement to give a constant periodic rate of interest on the remaining hire-purchase liabilities.

**Inventories**

Inventories are valued at the lower of cost (determined generally on the first-in, first-out method) and net realisable value.

Costs of raw materials, spare parts and livestocks for sale comprise the original cost of purchase plus the cost of bringing the stocks to their present location or growing cost.

The cost of finished goods includes the cost of raw materials, direct labour and certain allocation of manufacturing overheads. The cost of parent livestocks consists of the original purchase price of breeder birds plus assigned growing costs and adjusted for amortization (calculated to write down the cost to net realisable value at the end of their economic egg-laying lives).

**Receivables**

Bad debts are written off while provision for doubtful debts is made based on estimates of possible losses that may arise from non-collection of certain receivable accounts.

**Expenditure Carried Forward**

In prior years, expenditure carried forward of subsidiary companies was deferred to be amortised evenly over a period of three to five years when they commence business operations.

As prescribed by Interpretation Buletin IB-1 issued by the Malaysian Accounting Standards Board, effective from December, 2000, preliminary and pre-operating expenses that do not meet the criteria of an asset should be written off or recognised as an expense when they are incurred. Accordingly, expenditure carried forward was fully written off during the financial year.

**Cash Flow Statements**

The Group and the Company adopts 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

An analysis of revenue is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Manufacturing and trading of formulated animal feeds | 35.859.991 | 50.089.587 | - | - |
| Poultry breeding | 16.351.429 | 12.261.323 | - | - |
| Dividend income | 1.245.567 | 1.280.309 | 1.245.567 | 1.280.309 |
| General trading and commission | 3.700 | 563.158 | - | - |
| Management fees | - | - | 240.000 | - |
| | 53.460.687 | 64.194.377 | 1.485.567 | 1.280.309 |

## 5. LOSS BEFORE TAX

Loss before tax is arrived at:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2000 RM | 1999 RM | 2000 RM | 1999 RM |
| **After charging:** | | | | |
| Provision for diminution in value of: | | | | |
| Marketable securities | 1,072,926 | - | 1.072.926 | - |
| Investment in subsidiary companies | - | - | - | 86.198 |
| Provision for doubtful debts: | | | | |
| Third parties | 1.067.326 | 1.132.832 | - | 487,003 |
| Subsidiary companies | - | - | 375,937 | - |
| Finance costs comprise interest on: | | | | |
| Bank overdrafts | 984.917 | 1.095,061 | 418.896 | 420,015 |
| Term loans | 602.698 | 334.376 | 95.722 | 307.956 |
| Bankers' acceptances | 398.535 | 2.274.234 | 197.437 | 1,196.694 |
| Hire-purchase | 131.473 | 261.066 | 31.349 | 58.759 |
| Advances from subsidiary companies | - | - | - | 188.985 |
| Restructuring expenses | 903.628 | - | 903.628 | - |
| Directors' remuneration: | | | | |
| Fees | 48.000 | 48.000 | - | - |
| Other emoluments | 886.530 | 606.202 | 750.750 | 470.422 |
| Rental of premises | 750.559 | 764.891 | 559.626 | 461.932 |
| Retrenchment benefits paid | 439.821 | 374.849 | - | - |

(Forward)

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| | RM | RM | RM | RM |
| Loss on disposal of marketable securities | 309.281 | - | 309.281 | - |
| Expenditure carried forward written off | 155.785 | - | - | - |
| Lease rental of plant and machinery | 153.863 | - | | - |
| Audit fee: | | | | |
| - current year | 64.500 | 68.079 | 20.000 | 20.000 |
| - under provision in prior years | 2.500 | - | - | - |
| Inventories written off | 230.140 | 50.000 | - | - |
| Property, plant and equipment written off | 5.580 | 82.816 | - | - |
| Lease rental of land | 3.000 | 3.000 | - | - |
| Bad debts written off | 1.880 | 9.138 | - | 9.138 |
| Loss on disposal of property, plant and equipment | 103 | 116.250 | - | 5.288 |
| Deposit written off | - | 122.185 | - | 122.185 |
| Provision for inventories obsolescence | - | 216.448 | - | - |
| **And crediting:** | | | | |
| Gross dividends received from: | | | | |
| Unquoted shares | 1.193.129 | 1.242.842 | 1.193.129 | 1.242.842 |
| Shares quoted in Malaysia | 52.438 | 37.467 | 52.438 | 37.467 |
| Provision for doubtful debts no longer required | 739.569 | 376.402 | 167,942 | 158,733 |
| Rental of premises payable by: | | | | |
| Subsidiary company | - | - | 144,000 | - |
| Third parties | - | 55.871 | - | - |
| Gain on disposal of property, plant and equipment | 50.500 | - | - | - |
| Interest income on: | | | | |
| Short-term deposits | 35.755 | 149.192 | - | 105,364 |
| Deposits receivable written off | 7.000 | - | 7,000 | - |
| Bad debts recovered | 4.000 | 4.000 | - | - |
| Gain on foreign exchange | 810 | 18.272 | - | - |
| Gain on disposal of marketable securities | - | 97.098 | - | 97,098 |
| Provision for diminution in value of marketable securities no longer required | - | 500.656 | - | 500,656 |
| Management fees from subsidiary companies | - | - | 240,000 | - |