

SIN HENG CHAN (MALAYA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors of **SIN HENG CHAN (MALAYA) BERHAD** hereby submit their report and the audited accounts of the Group and of the Company for the financial year ended 31st December, 1999.

PRINCIPAL ACTIVITIES

The Company is principally an investment holding company.

During the financial year, Universal Goldquest (M) Sdn. Bhd., a subsidiary company, ceased its operations in general trading and commission agent.

Also, Excel Food Sdn. Bhd., a subsidiary company, ceased its operations in manufacturing and retailing of cakes and confectioneries during the financial year.

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

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.

RESULTS OF OPERATIONS

The results of operations of the Group and of the Company for the financial year are as follows:

| | The Group RM | The Company RM |
|--|----------------------------|----------------------------|
| Loss before taxation | (5,295,479) | (3,920,610) |
| Taxation | <u>401,484</u> | <u>-</u> |
| Net loss | (4,893,995) | (3,920,610) |
| Minority shareholders' interest in results of subsidiary companies | <u>(22,220)</u> | <u>-</u> |
| Net loss attributable to the Group/Company | (4,916,215) | (3,920,610) |
| Accumulated loss at beginning of year | <u>(27,632,060)</u> | <u>(25,909,803)</u> |
| Accumulated loss at end of year | <u><u>(32,548,275)</u></u> | <u><u>(29,830,413)</u></u> |

In the opinion of the directors, the results of operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year. The Company does not have distributable reserve for dividend payment in respect of the current financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the accounts.

ISSUE OF SHARES AND DEBENTURES

The issued share capital of the Company was increased from RM18,961,375 to RM18,994,375 during the financial year by the issuance of 33,000 ordinary shares of RM1 each at the price of RM1.74 per share pursuant to the exercise of options granted under the Sin Heng Chan (Malaya) Berhad Employees' Share Option Scheme. The new ordinary shares issued rank pari passu with the then existing ordinary shares of the Company.

The Company has not issued any new debentures during the financial year.

SHARE OPTIONS

Under the Sin Heng Chan (Malaya) Berhad Employees' Share Option Scheme ('ESOS'), which has been approved by the shareholders and relevant authorities, options to subscribe new ordinary shares of RM1 each in the Company were granted to eligible directors and employees of the Sin Heng Chan (Malaya) Berhad Group of companies ('SHC Group').

The salient features of the ESOS are as follows:

- (a) The total number of shares available under the ESOS shall not exceed 10% of the issued share capital of the Company;
- (b) Eligible persons are executive directors and confirmed employees of the SHC Group with at least 12 months of continuous service;
- (c) The option price for each ordinary share of RM1 shall be the average of the middle market quotation of the Company's shares as shown in the daily official list issued by the Kuala Lumpur Stock Exchange for the 5 trading days preceding the offer date or at nominal value of the share, whichever is higher;
- (d) The option period commences from 4th February, 1997 and ends on 21st January, 2002;
- (e) The offer is personal to the eligible employees and directors to whom the offer is made and cannot be assigned, transferred or disposed of under any circumstances; and
- (f) The persons to whom the options are granted have no right to participate by virtue of the options in any share issue of any other company.

As of 31st December, 1999, the following options granted by the Company under ESOS to eligible directors and employees of SHC Group were outstanding:

| Option Date | Expiry Date | Offer Price Per Share RM | Number of Unissued Ordinary Shares of RM1 Each |
|--------------------|--------------------|-------------------------------------|---|
| 4.2.1997 | 21.1.2002 | 19.51 | 1,138,000 |
| 7.9.1998 | 21.1.2002 | 1.74 | <u>19,000</u> |
| | | | <u>1,157,000</u> |

SIGNIFICANT EVENT

On 11th August, 1999, Pengurusan Danaharta Nasional Berhad (“Danaharta”) appointed Special Administrators to assume control of the assets and affairs of the Company.

The Company has a twelve (12) months moratorium period, commencing from the date of appointment of the Special Administrators, during which creditors are prohibited from taking any legal action against the companies without prior consent of Danaharta. The Special Administrators shall as soon as reasonably practicable prepare a workout proposal. Such a workout proposal will be reviewed by an Independent Advisor and is subject to approval of secured lenders and regulatory authorities.

At the date of the report, the details of the workout proposal are being developed.

OTHER FINANCIAL INFORMATION

Before the profit and loss accounts and the balance sheets of the Group and of the Company were made out, the directors took reasonable steps:

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts, and have satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
- (b) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business have been written down to their estimated realisable values.

As of 31st December, 1999, the Group and the Company have capital deficiency of RM12,643,714 and RM9,939,658 as a result of operational losses incurred in the current and prior years and, current liabilities exceeding current assets by RM26,104,821 and RM23,782,341 respectively. The accounts of the Group and of the Company have been drawn up on the basis of accounting principles applicable to a going concern. The ability of the Group to continue as a going concern is dependent on the successful outcome of the workout proposal by the Special Administrators. The accounts of the Group and of the Company do not include any adjustments relating to the accounts and classification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

Other than as stated in the preceding paragraph, at the date of this report, the directors are not aware of any circumstances:

- (a) which would render the amount written off for bad debts or the amount of the provision for doubtful debts in the accounts of the Group and of the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the accounts of the Group and of the Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or
- (d) not otherwise dealt with in this report or accounts which would render any amount stated in the accounts of the Group and of the Company misleading.

At the date of this report, there does not exist:

- (a) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group or of the Company to meet their obligations as and when they fall due.

In the opinion of the directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of operations of the Group and of the Company for the succeeding financial year.

DIRECTORS

The following directors served on the Board of the Company since the date of the last report:

Dato' Choo Keng Weng
Syed Omar bin Syed Abdullah
Ghazali bin Saiboo
Venkata Chellam s/o Subramaniam
Y.M. Tunku Mahmood bin Tunku Mohammed

In accordance with Article 97 of the Company's Articles of Association, Messrs. Syed Omar bin Syed Abdullah and Ghazali bin Saiboo retire by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS

The shareholdings in the Company of those who were directors at the end of the financial year, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134, of the Companies Act, 1965, are as follows:

| | No. of shares of RM1 each | | | Balance at 31.12.1999 |
|---------------------------------------|---------------------------|--------|----------|--------------------------|
| | Balance at 1.1.1999 | Bought | Sold | |
| Shares in the Company | | | | |
| Registered in name of director | | | | |
| Dato' Choo Keng Weng | 70,000 | - | - | 70,000 |
| Syed Omar bin Syed Abdullah | 14,000 | - | (14,000) | - |
| Ghazali bin Saiboo | 54,000 | - | (54,000) | - |

Deemed Interest

(by virtue of his interest in
Macronet Sdn. Bhd.)

| | | | | |
|----------------------|-----------|---|---|-----------|
| Dato' Choo Keng Weng | 2,203,200 | - | - | 2,203,200 |
|----------------------|-----------|---|---|-----------|

| | No. of share options under ESOS | | | Balance at 31.12.1999 |
|---------------------------------------|---------------------------------|---------|-----------|--------------------------|
| | Balance at 1.1.1999 | Offered | Exercised | |
| Share options under ESOS | | | | |
| Registered in name of director | | | | |
| Dato' Choo Keng Weng | 30,000 | - | - | 30,000 |
| Syed Omar bin Syed Abdullah | 30,000 | - | - | 30,000 |
| Ghazali bin Saiboo | 30,000 | - | - | 30,000 |

By virtue of the directors having shareholdings in the Company, they are deemed to have beneficial interest in the shares of other related companies.

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the directors of the Company has received or become entitled to receive any benefit (other than those disclosed as directors' remuneration in the accounts) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

During and at the end of the financial year, no arrangement subsisted to which the Company was a party whereby directors of the Company might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Company No. 4690 – V

AUDITORS

The auditors, Messrs. Kassim Chan & Co., have indicated their willingness to continue in office.

Signed on behalf of the Board
in accordance with a resolution of the Directors,

SYED OMAR BIN SYED ABDULLAH

VENKATA CHELLAM S/O SUBRAMANIAM

Kuala Lumpur
12th April, 2000

REPORT OF THE AUDITORS TO THE MEMBERS OF

SIN HENG CHAN (MALAYA) BERHAD

(Incorporated in Malaysia)

We have audited the accompanying balance sheets as of 31st December, 1999, the related profit and loss accounts and consolidated cash flow statement, together with the notes thereto, for the year then ended. These accounts are the responsibility of the Company's directors. Our responsibility is to express an opinion on these accounts based on our audit.

We conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

As of 31st December, 1999, the Group and the Company have capital deficiency of RM12,643,714 and RM9,939,658 as a result of operational losses incurred in the current and prior years and, current liabilities exceeding current assets by RM26,104,821 and RM23,782,341 respectively. However, the accounts of the Group and of the Company have been drawn up on the basis of accounting principles applicable to a going concern. The ability of the Group to continue as a going concern is dependent upon the successful outcome of a workout proposal which is being developed by the Special Administrators appointed by Pengurusan Danaharta Nasional Berhad as mentioned under Note 28 to the Accounts. As the workout proposal is currently being developed and its outcome is presently not determinable, the accounts of the Group and of the Company do not include any adjustments relating to the amounts and classification of recorded assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

(Forward)

In our opinion:

- (a) except for the adjustments, if any that may be required should the going concern basis of preparation of the accounts be deemed inappropriate as explained in the preceding paragraph, the abovementioned accounts are properly drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - (i) the state of affairs of the Group and of the Company as of 31st December, 1999 and of the results of the Group and of the Company and the cash flows of the Group for the year ended on that date; and
 - (ii) the matters required by Section 169 of the Act to be dealt with in the accounts and consolidated accounts; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiary companies have been properly kept in accordance with the provisions of the Act.

We are satisfied that the accounts of the subsidiary companies that have been consolidated with the accounts of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated accounts, and we have received satisfactory information and explanations as required by us for these purposes.

The auditors' reports on the accounts of subsidiary companies were not subject to any qualification and did not include any comment made under Sub-section (3) of Section 174 of the Act except for the auditors' reports on the accounts of Southern Farms Sdn. Bhd., Goldkist (M) Sdn. Bhd., Universal Goldquest (M) Sdn. Bhd. and Excel Food Sdn. Bhd. and two sub-subsidiary companies, Central Feedmill Sdn. Bhd. and Goldkist (NS) Sdn. Bhd, which are qualified as explained in Note 5 to the Accounts.

KASSIM CHAN & CO.
AF 0080
Public Accountants

TAN BUN POO
1304/5/00 (J/PH)
Partner

12th April, 2000

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

**CONSOLIDATED BALANCE SHEET
AS OF 31ST DECEMBER, 1999**

| | Note | 1999 RM | 1998 RM |
|---|------|---------------------|--------------------|
| FIXED ASSETS | 4 | 17,471,876 | 16,480,367 |
| OTHER INVESTMENTS | 6 | 597,322 | 597,322 |
| EXPENDITURE CARRIED FORWARD | 7 | 155,785 | 151,144 |
| CURRENT ASSETS | | | |
| Stocks | 8 | 6,286,997 | 8,233,980 |
| Trade debtors | 9 | 15,067,612 | 23,889,541 |
| Other debtors, deposits and prepayments | 10 | 5,531,395 | 7,768,978 |
| Marketable securities | 11 | 3,524,824 | 2,970,960 |
| Deposits with licensed banks | 12 | 1,659,036 | 1,540,119 |
| Cash and bank balances | | 3,685,729 | 3,409,385 |
| | | <u>35,755,593</u> | <u>47,812,963</u> |
| CURRENT LIABILITIES | | | |
| Trade creditors | | 4,358,245 | 7,705,541 |
| Other creditors and accrued expenses | 13 | 12,739,916 | 11,209,202 |
| Bank borrowings | 15 | 44,560,463 | 50,100,358 |
| Provision for taxation | | 456,309 | 1,126,262 |
| Amount owing to directors | | 12,346 | 312 |
| Hire-purchase creditors - current portion | 16 | 253,135 | 607,105 |
| | | <u>62,380,414</u> | <u>70,748,780</u> |
| NET CURRENT LIABILITIES | | (26,624,821) | (22,935,817) |
| DEFERRED AND NON-CURRENT LIABILITIES | | | |
| Hire-purchase creditors - non-current portion | 16 | (931,496) | (1,132,627) |
| Long-term loans - non-current portion | 17 | <u>(2,526,819)</u> | <u>(181,967)</u> |
| NET LIABILITIES | | <u>(11,858,153)</u> | <u>(7,021,578)</u> |

(Forward)

| | Note | 1999 RM | 1998 RM |
|---------------------------------|-------------|----------------------------|---------------------------|
| Represented by: | | | |
| SHARE CAPITAL | 18 | 18,994,375 | 18,961,375 |
| RESERVES | 19 | 910,186 | 885,766 |
| ACCUMULATED LOSS | | <u>(32,548,275)</u> | <u>(27,632,060)</u> |
| CAPITAL DEFICIENCY | | (12,643,714) | (7,784,919) |
| MINORITY SHAREHOLDERS' INTEREST | | <u>785,561</u> | <u>763,341</u> |
| | | <u><u>(11,858,153)</u></u> | <u><u>(7,021,578)</u></u> |

The accompanying Notes form an integral part of the Accounts.

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

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER, 1999**

| | Note(s) | 1999 RM | 1998 RM |
|--|---------|---------------------|---------------------|
| TURNOVER | 20&21 | <u>64,194,377</u> | <u>103,997,765</u> |
| LOSS BEFORE TAXATION | 21&22 | (5,295,479) | (15,853,368) |
| TAXATION | 23 | <u>401,484</u> | <u>119,630</u> |
| NET LOSS | | (4,893,995) | (15,733,738) |
| Minority shareholders' interest in results of subsidiary companies | | <u>(22,220)</u> | <u>98,670</u> |
| NET LOSS ATTRIBUTABLE TO THE GROUP | | (4,916,215) | (15,635,068) |
| Accumulated loss at beginning of year | | <u>(27,632,060)</u> | <u>(11,996,992)</u> |
| ACCUMULATED LOSS AT END OF YEAR | | <u>(32,548,275)</u> | <u>(27,632,060)</u> |
| Loss accumulated by: | | | |
| The Company | | (29,830,413) | (25,909,803) |
| Subsidiary companies | | <u>(2,717,862)</u> | <u>(1,722,257)</u> |
| | | <u>(32,548,275)</u> | <u>(27,632,060)</u> |
| LOSS PER ORDINARY SHARE OF RM1 EACH | | <u>25.9 sen</u> | <u>82.5 sen</u> |

The accompanying Notes form an integral part of the Accounts.

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

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 1999**

| | Note | 1999 RM | 1998 RM |
|---|------|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Loss before taxation | | (5,295,479) | (15,853,368) |
| Adjustment for: | | | |
| Interest expenses | | 3,964,737 | 6,125,062 |
| Depreciation of fixed assets | | 2,301,461 | 2,590,567 |
| Loss on disposal of fixed assets | | 116,250 | - |
| Fixed assets written-off | | 82,816 | 491,139 |
| Interest income | | (149,192) | (747,450) |
| Dividend income | | (1,280,309) | (299,570) |
| Provision for retrenchment benefits | | - | 319,500 |
| Expenditure carried forward written-off | | - | 34,895 |
| Provision for retirement benefits | | - | 27,822 |
| Gain on disposal of fixed assets | | - | (58,763) |
| | | <hr/> | <hr/> |
| Operating Loss Before Working Capital Changes | | (259,716) | (7,370,166) |
| Decrease in stocks | | 1,946,983 | 5,016,812 |
| Decrease in trade debtors | | 8,821,929 | 5,951,729 |
| Decrease in other debtors, deposits and prepayments | | 2,290,056 | 1,201,071 |
| Increase in marketable securities | | (553,864) | (2,931,081) |
| Decrease in trade creditors | | (3,347,296) | (7,615,319) |
| Increase/(Decrease) in other creditors and accrued expenses | | 1,197,456 | (1,812,711) |
| Increase/(Decrease) in bank borrowings | | (24,703,655) | 6,323,216 |
| | | <hr/> | <hr/> |
| Cash Flows Used In Operations | | (14,608,107) | (1,236,449) |
| Taxation paid | | (268,469) | (362,421) |
| Retrenchment and retirement benefits paid | | - | (704,072) |
| Interest paid | | (3,619,445) | (6,125,062) |
| | | <hr/> | <hr/> |
| Net Cash Used In Operating Activities | | (18,496,021) | (8,428,004) |

(Forward)

| | Note | 1999 RM | 1998 RM |
|--|-------------|----------------------------|---------------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from issue of shares | | 57,420 | 1,005,720 |
| Proceeds from disposal of fixed assets | | 448,514 | 563,128 |
| Interest received | | 96,719 | 595,865 |
| Dividend received | | 1,280,309 | 299,570 |
| Proceeds from disposal of other quoted investments | | - | 1,260 |
| Additions to expenditure carried forward | | (4,641) | (2,437) |
| Purchase of fixed assets | | <u>(3,940,550)</u> | <u>(1,385,233)</u> |
| Net Cash From/(Used In) Investing Activities | | <u>(2,062,229)</u> | <u>1,077,873</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from hire-purchase financing | | 20,000 | 110,000 |
| Proceeds from long-term loan | | 2,900,000 | 100,000 |
| Repayment of long-term loan | | - | (98,811) |
| Repayment of lease and hire-purchase creditors | | <u>(575,101)</u> | <u>(620,396)</u> |
| Net Cash From/(Used In) Financing Activities | | <u>2,344,899</u> | <u>(509,207)</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | (18,213,351) | (7,859,338) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | <u>(1,253,755)</u> | <u>6,605,583</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 27 | <u><u>(19,467,106)</u></u> | <u><u>(1,253,755)</u></u> |

The accompanying Notes form an integral part of the Accounts.

SIN HENG CHAN (MALAYA) BERHAD
(Incorporated in Malaysia)

BALANCE SHEET
AS OF 31ST DECEMBER, 1999

| | Note | 1999 RM | 1998 RM |
|---|------|---------------------|---------------------|
| FIXED ASSETS | 4 | 3,201,291 | 3,725,736 |
| INVESTMENT IN SUBSIDIARY COMPANIES | 5 | 10,075,756 | 10,161,953 |
| OTHER INVESTMENTS | 6 | 596,320 | 596,320 |
| CURRENT ASSETS | | | |
| Other debtors, deposits and prepayments | 10 | 4,587,498 | 6,467,547 |
| Amount owing by subsidiary companies | 14 | 3,759,173 | 3,569,659 |
| Marketable securities | 11 | 3,524,824 | 2,970,960 |
| Deposits with licensed bank | | - | 1,066,930 |
| Cash and bank balances | | 733,094 | 825,035 |
| | | <u>12,604,589</u> | <u>14,900,131</u> |
| CURRENT LIABILITIES | | | |
| Other creditors and accrued expenses | 13 | 7,613,941 | 7,440,192 |
| Amount owing to subsidiary companies | 14 | 6,417,215 | 4,972,289 |
| Bank borrowings | 15 | 22,244,972 | 22,683,614 |
| Hire-purchase creditors - current portion | 16 | 110,802 | 263,935 |
| | | <u>36,386,930</u> | <u>35,360,030</u> |
| NET CURRENT LIABILITIES | | (23,782,341) | (20,459,899) |
| LONG-TERM LIABILITY | | | |
| Hire-purchase creditors - non-current portion | 16 | <u>(30,684)</u> | <u>(100,578)</u> |
| | | <u>(9,939,658)</u> | <u>(6,076,468)</u> |
| Represented by: | | | |
| SHARE CAPITAL | 18 | 18,994,375 | 18,961,375 |
| SHARE PREMIUM | 19 | 896,380 | 871,960 |
| ACCUMULATED LOSS | | <u>(29,830,413)</u> | <u>(25,909,803)</u> |
| CAPITAL DEFICIENCY | | <u>(9,939,658)</u> | <u>(6,076,468)</u> |

The accompanying Notes form an integral part of the Accounts.

SIN HENG CHAN (MALAYA) BERHAD
(Incorporated in Malaysia)

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER, 1999

| | Note | 1999 RM | 1998 RM |
|---------------------------------------|------|---------------------|---------------------|
| TURNOVER | | <u>1,280,309</u> | <u>771,986</u> |
| LOSS BEFORE TAXATION | 22 | (3,920,610) | (7,485,773) |
| TAXATION | 23 | <u>-</u> | <u>-</u> |
| NET LOSS | | (3,920,610) | (7,485,773) |
| Accumulated loss at beginning of year | | <u>(25,909,803)</u> | <u>(18,424,030)</u> |
| ACCUMULATED LOSS AT END OF YEAR | | <u>(29,830,413)</u> | <u>(25,909,803)</u> |

The accompanying Notes form an integral part of the Accounts.