

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

NOTES TO THE ACCOUNTS

1. 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.

2. BASIS OF PREPARATION OF THE ACCOUNTS

The accounts 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 Malaysian Accounting Standards Board.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounts 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. This basis presumes that the Group and the Company will continue to receive support from its shareholders, creditors and bankers and the business operations will be profitable in the foreseeable future, and consequently the realisation of assets and the settlement of liabilities will occur in the ordinary course of business.

Basis of Consolidation

The consolidated accounts include the accounts 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 | | Principal Activities |
|---|------------------------|------------------|---|
| | Equity Interest | 1999 1998 | |
| 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% | 99% | Ceased operations (formerly involved in general trading and as commission agent) |
| Excel Food Sdn. Bhd. | 51% | 51% | Ceased operations (formerly involved in manufacturing and retailing of cakes and confectioneries) |
| 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% | Pre-operating |
| 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.

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 accounts. 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.

Dividends from investment in subsidiary companies are included in the profit and loss account 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.

Fixed Assets and Depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation.

Depreciation of fixed assets, 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.

| | Percentage |
|--|----------------------|
| Leasehold land | Over period of lease |
| Buildings | 4 - 5 |
| Livestock farm | 10 - 20 |
| Plant, machinery and crates | 7 1/2 - 33 1/3 |
| Renovation, furniture, fixtures and equipments | 5 - 20 |
| Motor vehicles | 20 |

Hire-purchase

Fixed assets acquired under hire-purchase arrangements are capitalised as fixed assets and the corresponding obligations treated as liabilities in the accounts. These assets are depreciated according to the basis set out above. Finance costs are allocated to the profit and loss account to give a constant periodic rate of interest on the remaining hire-purchase liabilities.

Finance Leases

Assets financed by leasing arrangements which in substance transfer substantially the risks and benefits of ownership of the assets to the Group are capitalised as fixed assets and depreciated according to the basis set out above. The leased assets and corresponding lease obligations are recorded at the lower of the present value of minimum lease payments and the fair value of the leased assets at the beginning of the respective lease terms. The finance costs of the lease rentals are charged to the profit and loss accounts over the period of the respective agreements.

Stocks

Stocks 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 livestock 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 livestock 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).

Debtors

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 debtor accounts.

Taxation

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.

Expenditure Carried Forward

Expenditure carried forward are amortized evenly over a period of three to five years. Expenditure carried forward of pre-operating subsidiary companies will be amortized when they commence business operations.

Turnover

Turnover of the Company and of its subsidiary companies represents gross invoiced values of sales less trade discounts and returns and income arising from investment activities.

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 profit and loss account.

Cash and Cash Equivalents

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. **FIXED ASSETS**

Fixed assets consist of:

**The Group
1999**

| Cost | At Beginning of Year RM | Additions RM | Disposals RM | Write Off RM | At 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 | 11,052,291 | 92,600 | - | - | 11,144,891 |
| Plant, machinery and crates | 19,285,334 | 453,735 | (3,639) | (54) | 19,735,376 |
| Renovation, furniture, fixtures and equipment | 4,493,158 | 605,623 | (483,058) | (1,286) | 4,614,437 |
| Motor vehicles | 3,058,757 | 16,100 | (89,767) | - | 2,985,090 |
| Motor vehicles under hire-purchase and lease | 2,829,871 | 25,030 | (667,661) | (127,500) | 2,059,740 |
| Construction in progress | 663,167 | 2,747,462 | - | - | 3,410,629 |
| Consolidated Total | <u>47,298,102</u> | <u>3,940,550</u> | <u>(1,244,125)</u> | <u>(128,840)</u> | <u>49,865,687</u> |

(Forward)

| The Group 1999 | At Beginning of Year RM | Charge For The Year RM | Disposals RM | Write Off RM | At End of Year RM | Net Book Value At End of Year RM |
|--|--|---------------------------------------|-------------------------|-------------------------|----------------------------------|---|
| Accumulated Depreciation | | | | | | |
| Freehold land | | | | | | |
| At 1978 valuation | - | - | - | - | - | 293,000 |
| At cost | - | - | - | - | - | 487,170 |
| Land under long leases | | | | | | |
| At 1978 valuation | 188,122 | 9,406 | - | - | 197,528 | 516,472 |
| At cost | 125,434 | 7,462 | - | - | 132,896 | 369,461 |
| Land under short leases | | | | | | |
| At 1978 valuation | 27,756 | 1,388 | - | - | 29,144 | 38,856 |
| At cost | 10,620 | 21,240 | - | - | 31,860 | 499,137 |
| Buildings | | | | | | |
| At 1978 valuation | 2,689,762 | 154,324 | - | - | 2,844,086 | 475,914 |
| At cost | 4,976,468 | 420,142 | - | - | 5,396,610 | 5,748,281 |
| Plant, machinery and crates | 15,712,878 | 812,303 | (467) | - | 16,524,714 | 3,210,662 |
| Renovation, furniture, fixtures and equipment | 2,734,865 | 372,200 | (238,783) | (899) | 2,867,383 | 1,747,054 |
| Motor vehicles | 2,821,303 | 113,300 | (50,231) | (26,000) | 2,858,372 | 126,718 |
| Motor vehicles under hire- purchase and lease | 1,530,527 | 389,696 | (389,880) | (19,125) | 1,511,218 | 548,522 |
| Construction in progress | - | - | - | - | - | 3,410,629 |
| Consolidated Total | 30,817,735 | 2,301,461 | (679,361) | (46,024) | 32,393,811 | 17,471,876 |

**The Group
1998**

| Cost | At Beginning of Year RM | Additions RM | Disposals RM | Write Off RM | At End of Year RM |
|--|--|-------------------------|-------------------------|-------------------------|----------------------------------|
| Freehold land | | | | | |
| At 1978 valuation | 293,000 | - | - | - | 293,000 |
| At cost | 865,172 | - | (345,649) | (32,353) | 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 | 11,045,241 | 7,050 | - | - | 11,052,291 |
| Plant, machinery and crates | 19,787,434 | 320,319 | (50,506) | (771,913) | 19,285,334 |
| Renovation, furniture, fixtures and equipment | 4,462,723 | 235,627 | (45,160) | (160,032) | 4,493,158 |
| Motor vehicles | 3,181,564 | 37,500 | (52,362) | (107,945) | 3,058,757 |
| Motor vehicles under hire-purchase and lease | 2,809,669 | 150,000 | (129,798) | - | 2,829,871 |
| Construction in progress | 559,427 | 103,740 | - | - | 663,167 |
| Consolidated Total | 47,608,587 | 1,385,233 | (623,475) | (1,072,243) | 47,298,102 |

(Forward)

| The Group 1998 | At Beginning of Year RM | Charge For The Year RM | Disposals RM | Write Off RM | At End of Year RM | Net Book Value At End of Year RM |
|--|--|---------------------------------------|-------------------------|-------------------------|----------------------------------|---|
| Accumulated Depreciation | | | | | | |
| Freehold land | | | | | | |
| At 1978 valuation | - | - | - | - | - | 293,000 |
| At cost | - | - | - | - | - | 487,170 |
| Land under long leases | | | | | | |
| At 1978 valuation | 178,716 | 9,406 | - | - | 188,122 | 525,878 |
| At cost | 117,973 | 7,461 | - | - | 125,434 | 376,923 |
| Land under short leases | | | | | | |
| At 1978 valuation | 26,369 | 1,387 | - | - | 27,756 | 40,244 |
| At cost | - | 10,620 | - | - | 10,620 | 520,377 |
| Buildings | | | | | | |
| At 1978 valuation | 2,535,438 | 154,324 | - | - | 2,689,762 | 630,238 |
| At cost | 4,556,839 | 419,629 | - | - | 4,976,468 | 6,075,823 |
| Plant, machinery and crates | 15,216,393 | 882,111 | (47,344) | (338,282) | 15,712,878 | 3,572,456 |
| Renovation, furniture, fixtures and equipment | 2,419,846 | 380,714 | (10,103) | (55,592) | 2,734,865 | 1,758,293 |
| Motor vehicles | 2,841,935 | 134,219 | (52,361) | (102,490) | 2,821,303 | 237,454 |
| Motor vehicles under hire- purchase and lease | 1,033,873 | 590,696 | (94,042) | - | 1,530,527 | 1,299,344 |
| Construction in progress | - | - | - | - | - | 663,167 |
| Consolidated Total | 28,927,382 | 2,590,567 | (203,850) | (496,364) | 30,817,735 | 16,480,367 |

**The Company
1999**

| Cost | At Beginning of Year RM | Additions RM | Disposals RM | At End of Year RM |
|---|--|-------------------------|-------------------------|----------------------------------|
| Freehold land | | | | |
| At 1978 valuation | 293,000 | - | - | 293,000 |
| At cost | 184,170 | - | - | 184,170 |
| Land under long leases | | | | |
| At 1978 valuation | 714,000 | - | - | 714,000 |
| At cost | 144,501 | - | - | 144,501 |
| Land under short leases | | | | |
| At 1978 valuation | 68,000 | - | - | 68,000 |
| Buildings | | | | |
| At 1978 valuation | 3,320,000 | - | - | 3,320,000 |
| At cost | 2,384,846 | - | - | 2,384,846 |
| Plant, machinery and crates | 1,219 | - | (1,139) | 80 |
| Renovation, furniture, fixtures and equipment | 552,770 | 107,850 | (145,105) | 515,515 |
| Motor vehicles | 3,690 | - | - | 3,690 |
| Motor vehicles under hire-purchase | 1,532,060 | - | (59,738) | 1,472,322 |
| Total | <u>9,198,256</u> | <u>107,850</u> | <u>(205,982)</u> | <u>9,100,124</u> |

(Forward)

**The Company
1999**

| Accumulated Depreciation | At Beginning of Year RM | Charge For The Year | Disposals RM | At End of Year RM | Net Book Value At End of Year RM |
|--|--|--------------------------------|-------------------------|----------------------------------|---|
| Freehold land | | | | | |
| At 1978 valuation | - | - | - | - | 293,000 |
| At cost | - | - | - | - | 184,170 |
| Land under long leases | | | | | |
| At 1978 valuation | 188,122 | 9,406 | - | 197,528 | 516,472 |
| At cost | 41,117 | 1,880 | - | 42,997 | 101,504 |
| Land under short leases | | | | | |
| At 1978 valuation | 27,756 | 1,388 | - | 29,144 | 38,856 |
| Buildings | | | | | |
| At 1978 valuation | 2,689,762 | 154,324 | - | 2,844,086 | 475,914 |
| At cost | 1,252,362 | 71,854 | - | 1,324,216 | 1,060,630 |
| Plant, machinery and crates | 306 | 121 | (400) | 27 | 53 |
| Renovation, furniture, fixtures and equipment | 223,420 | 108,202 | (92,945) | 238,677 | 276,838 |
| Motor vehicles | 1,680 | 840 | - | 2,520 | 1,170 |
| Motor vehicles under hire-purchase | 1,047,995 | 203,560 | (31,917) | 1,219,638 | 252,684 |
| Total | 5,472,520 | 551,575 | (125,262) | 5,898,833 | 3,201,291 |

**The Company
1998**

| Cost | At Beginning of Year RM | Additions RM | Disposals RM | Write Off RM | At End of Year RM |
|--|--|-------------------------|-------------------------|-------------------------|----------------------------------|
| Freehold land | | | | | |
| At 1978 valuation | 293,000 | - | - | - | 293,000 |
| At cost | 529,819 | - | (345,649) | - | 184,170 |
| Land under long leases | | | | | |
| At 1978 valuation | 714,000 | - | - | - | 714,000 |
| At cost | 144,501 | - | - | - | 144,501 |
| Land under short leases | | | | | |
| At 1978 valuation | 68,000 | - | - | - | 68,000 |
| Buildings | | | | | |
| At 1978 valuation | 3,320,000 | - | - | - | 3,320,000 |
| At cost | 2,384,846 | - | - | - | 2,384,846 |
| Plant, machinery and crates | 1,139 | 80 | - | - | 1,219 |
| Renovation, furniture, fixtures and equipment | 409,254 | 159,533 | - | (16,017) | 552,770 |
| Motor vehicles | 3,690 | - | - | - | 3,690 |
| Motor vehicles under hire-purchase | 1,661,858 | - | (129,798) | - | 1,532,060 |
| Total | 9,530,107 | 159,613 | (475,447) | (16,017) | 9,198,256 |

(Forward)

**The Company
1998**

| Accumulated Depreciation | At Beginning of Year RM | Charge For The Year RM | Disposals RM | Write Off RM | At end of Year RM | Net Book Value At End of Year RM |
|--|--|---------------------------------------|-------------------------|-------------------------|----------------------------------|---|
| Freehold land | | | | | | |
| At 1978 valuation | - | - | - | - | - | 293,000 |
| At cost | - | - | - | - | - | 184,170 |
| Land under long leases | | | | | | |
| At 1978 valuation | 178,716 | 9,406 | - | - | 188,122 | 525,878 |
| At cost | 39,238 | 1,879 | - | - | 41,117 | 103,384 |
| Land under short leases | | | | | | |
| At 1978 valuation | 26,369 | 1,387 | - | - | 27,756 | 40,244 |
| Buildings | | | | | | |
| At 1978 valuation | 2,535,438 | 154,324 | - | - | 2,689,762 | 630,238 |
| At cost | 1,180,508 | 71,854 | - | - | 1,252,362 | 1,132,484 |
| Plant, machinery and crates | 181 | 125 | - | - | 306 | 913 |
| Renovation, furniture, fixtures and equipment | 166,993 | 66,670 | - | (10,243) | 223,420 | 329,350 |
| Motor vehicles | 840 | 840 | - | - | 1,680 | 2,010 |
| Motor vehicles under hire- purchase | 782,644 | 359,393 | (94,042) | - | 1,047,995 | 484,065 |
| Total | <u>4,910,927</u> | <u>665,878</u> | <u>(94,042)</u> | <u>(10,243)</u> | <u>5,472,520</u> | <u>3,725,736</u> |

Land and buildings were last revalued by directors in 1984 based on valuation made by independent firms of professional valuers using as bases, the fair market value and highest present utility of the land and buildings. The directors are of the opinion that the fair values of the Group's land and buildings at the end of the financial year are equal to or higher than their book carrying value.

Included in fixed assets of the Group are plant and machineries with a carrying book value of RM104,438 (RM142,251 in 1998) which is idle during the year.

5. **INVESTMENT IN SUBSIDIARY COMPANIES**

Investment in subsidiary companies consists of:

| | 1999 | 1998 |
|---|--------------------------|--------------------------|
| | RM | RM |
| Unquoted shares in subsidiary companies - at cost | 11,151,954 | 11,151,953 |
| Advances to a subsidiary company | <u>-</u> | <u>1,745,035</u> |
| | 11,151,954 | 12,896,988 |
| Provision for diminution in value | (1,076,198) | (990,000) |
| Provision for doubtful debts | <u>-</u> | <u>(1,745,035)</u> |
| Net | <u><u>10,075,756</u></u> | <u><u>10,161,953</u></u> |

The advances in 1998 are interest- free and have no fixed terms of repayment.

The auditors' reports on the accounts of four subsidiary companies, Southern Farms Sdn. Bhd., Goldkist (M) Sdn. Bhd., Universal Goldquest (M) Sdn. Bhd. and Excel Food Sdn. Bhd., together with two sub-subsidiary companies namely Central Feedmill Sdn. Bhd. and Goldkist (NS) Sdn. Bhd., are qualified as to the appropriateness of presenting their accounts on the basis of accounting principles applicable to a going concern in view of their significant capital deficiencies resulting from operating losses sustained over the years.

6. **OTHER INVESTMENTS**

| | The Group | | The Company | |
|-----------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 1999 | 1998 | 1999 | 1998 |
| | RM | RM | RM | RM |
| Unquoted shares | 592,072 | 592,072 | 591,070 | 591,070 |
| Gold bullion | <u>5,250</u> | <u>5,250</u> | <u>5,250</u> | <u>5,250</u> |
| Total | <u><u>597,322</u></u> | <u><u>597,322</u></u> | <u><u>596,320</u></u> | <u><u>596,320</u></u> |

Certain unquoted shares of the Group at a cost of RM1,002 (RM1,002 in 1998) are registered in a director's name and are held in trust for one of its subsidiary companies.

7. **EXPENDITURE CARRIED FORWARD**

Expenditure carried forward of the Group consists of:

| | 1999 RM | 1998 RM |
|--------------------------|-----------------------|-----------------------|
| At cost: | | |
| Preliminary expenses | 24,223 | 24,223 |
| Pre-operating expenses | <u>212,783</u> | <u>208,142</u> |
| | 237,006 | 232,365 |
| Less: Amount written-off | <u>(81,221)</u> | <u>(81,221)</u> |
| Net | <u><u>155,785</u></u> | <u><u>151,144</u></u> |

Included in current year's charge to pre-operating expenses is an audit fee of RM1,200 (RM1,200 in 1998).

8. **STOCKS**

Stocks which pertain to the Group consist of:

| | 1999 RM | 1998 RM |
|----------------|-------------------------|-------------------------|
| Raw materials | 2,563,162 | 3,691,432 |
| Livestocks | 2,664,282 | 2,220,349 |
| Finished goods | 224,876 | 1,232,679 |
| Spare parts | <u>834,677</u> | <u>1,089,520</u> |
| Total | <u><u>6,286,997</u></u> | <u><u>8,233,980</u></u> |

9. **TRADE DEBTORS**

Trade debtors of the Group are as follow:

| | 1999 RM | 1998 RM |
|------------------------------------|--------------------------|--------------------------|
| Trade debtors | 27,661,250 | 36,103,493 |
| Less: Provision for doubtful debts | <u>(12,593,638)</u> | <u>(12,213,952)</u> |
| Net | <u><u>15,067,612</u></u> | <u><u>23,889,541</u></u> |

10. OTHER DEBTORS, DEPOSITS AND PREPAYMENTS

| | The Group | | The Company | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 1999 | 1998 | 1999 | 1998 |
| | RM | RM | RM | RM |
| Other debtors, deposits and prepayments | 15,466,559 | 17,429,970 | 13,623,547 | 15,229,424 |
| Less: Provision for doubtful debts | <u>(9,935,164)</u> | <u>(9,660,992)</u> | <u>(9,036,049)</u> | <u>(8,761,877)</u> |
| Net | <u>5,531,395</u> | <u>7,768,978</u> | <u>4,587,498</u> | <u>6,467,547</u> |

11. MARKETABLE SECURITIES

Marketable securities of the Group and of the Company consist of:

| | 1999 | 1998 |
|-----------------------------------|------------------|------------------|
| | RM | RM |
| Quoted shares - At cost | 3,847,430 | 3,794,222 |
| Provision for diminution in value | <u>(322,606)</u> | <u>(823,262)</u> |
| Total | <u>3,524,824</u> | <u>2,970,960</u> |
| Market value | <u>3,531,849</u> | <u>2,970,960</u> |

12. DEPOSITS

Deposits with licensed banks of the Group of RM90,000 (RM60,000 in 1998) are charged to a bank for overdraft facilities granted and guarantees issued by the said bank.

13. OTHER CREDITORS AND ACCRUED EXPENSES

Included in other creditors and accrued expenses of the Group and of the Company is an amount of RM9,009,040 (RM8,971,132 in 1998) and RM6,835,579 (RM6,797,750 in 1998) respectively which represents disputed debts owing to a company of which certain of its directors were former directors and shareholders of the Company as mentioned in Note 24 to the Accounts.

14. RELATED COMPANY TRANSACTIONS

The amount owing by/(to) the subsidiary companies arose mainly from trade transactions and interest-free advances with no fixed terms of repayment except for certain advances which bear interest at rates determined at the discretion of the management. These are as follows:

| | 1999 | 1998 |
|--|------------------|------------------|
| | RM | RM |
| Amount owing by subsidiary companies | | |
| - net of provision for doubtful debts of RM9,553,697 in 1999 and 1998 | <u>3,759,173</u> | <u>3,569,659</u> |
| Amount owing to subsidiary companies | <u>6,417,215</u> | <u>4,972,289</u> |

Significant transactions with subsidiary companies during the financial year are as follows:

| | 1999 | 1998 |
|--|-------------|---------------|
| | RM | RM |
| Management fees receivable from subsidiary companies | - | 285,903 |
| Rental received from subsidiary company | - | 500,000 |
| Interest expense on advances from subsidiary companies | 188,985 | 461,202 |
| Interest income on advances to subsidiary companies | - | 186,513 |
| Rental of equipment receivable from subsidiary company | <u>-</u> | <u>93,611</u> |

15. BANK BORROWINGS

Bank borrowings consist of:

| | 1999 | 1998 |
|-----------------------------------|-------------------|-------------------|
| | RM | RM |
| The Company: | | |
| Bankers' acceptances | 9,630,000 | 18,220,000 |
| Short-term loan | 3,075,000 | 3,075,000 |
| Bank overdrafts | <u>9,539,972</u> | <u>1,388,614</u> |
| | <u>22,244,972</u> | <u>22,683,614</u> |
| Subsidiary companies: | | |
| Bankers' acceptances | 6,383,000 | 22,496,655 |
| Bank overdrafts | 15,271,899 | 4,814,645 |
| Long-term loans - current portion | <u>660,592</u> | <u>105,444</u> |
| | <u>22,315,491</u> | <u>27,416,744</u> |
| The Group | <u>44,560,463</u> | <u>50,100,358</u> |

The Group and the Company have bank overdrafts and other credit facilities amounting to RM40.8 million and RM19.2 million respectively (72.2 million and RM22.8 million in 1998). The credit facilities of the Group bear interest ranging from 3.35% to 12.75% (4.00% to 14.30% in 1998) per annum.

The credit facilities of the Company are obtained by a negative charge over all its assets. The credit facilities of the subsidiary companies from certain banks are guaranteed by the Company.

The existing credit facilities of one of the subsidiary companies are also secured by the following:

- (i) first and second legal charge over the said subsidiary's properties.
- (ii) loan agreement cum assignment over one of its directors' property.
- (iii) debenture by way of a first fixed and floating charge on the subsidiary's assets both present and future.
- (iv) jointly and severally guaranteed by its directors.

16. **HIRE-PURCHASE CREDITORS**

| | The Group | | The Company | |
|-----------------------------------|------------------|------------------|--------------------|------------------|
| | 1999 | 1998 | 1999 | 1998 |
| | RM | RM | RM | RM |
| Total outstanding principal | 1,184,631 | 1,739,732 | 141,486 | 364,513 |
| Less: Portion due within one year | <u>(253,135)</u> | <u>(607,105)</u> | <u>(110,802)</u> | <u>(263,935)</u> |
| Non-current portion | <u>931,496</u> | <u>1,132,627</u> | <u>30,684</u> | <u>100,578</u> |

The non-current portion of the hire-purchase creditors are repayable as follows:

| | The Group | | The Company | |
|----------------------|------------------|------------------|--------------------|----------------|
| | 1999 | 1998 | 1999 | 1998 |
| | RM | RM | RM | RM |
| Due within: | | | | |
| 2 years | 326,903 | 388,135 | 30,684 | 74,409 |
| 3 years | 28,666 | 146,565 | - | 26,169 |
| 4 years | 16,500 | 22,000 | - | - |
| Greater than 4 years | <u>559,427</u> | <u>575,927</u> | <u>-</u> | <u>-</u> |
| | <u>931,496</u> | <u>1,132,627</u> | <u>30,684</u> | <u>100,578</u> |

The interest rates implicit in the hire-purchase creditors of the Group are about 5.75% to 8.50% (5.75% to 8.50% in 1998) per annum.

17. **LONG-TERM LOANS**

The long-term loans of the Group consists of:

| | 1999 | 1998 |
|--|------------------|------------------|
| | RM | RM |
| Outstanding loan principals | 3,187,411 | 287,411 |
| Less: Portion due within one year (included under bank borrowings) (Note 15) | <u>(660,592)</u> | <u>(105,444)</u> |
| Non-Current Portion | <u>2,526,819</u> | <u>181,967</u> |

The non-current portion of the long-term loans are repayable as follows:

| | 1999 | 1998 |
|----------------------|------------------|----------------|
| | RM | RM |
| Due within: | | |
| 2 years | 706,819 | 135,148 |
| 3 years | 585,000 | 46,819 |
| 4 years | 585,000 | - |
| Greater than 4 years | <u>650,000</u> | <u>-</u> |
| | <u>2,526,819</u> | <u>181,967</u> |

The long-term loans of the Group obtained from local banks bear interest at rates ranging from 8.80% to 10.15% (11.70% to 14.60% in 1998) and are secured by:

- i) a fixed charge on the leasehold land and buildings of a subsidiary company;
- ii) a first fixed and floating charge on all the assets of a subsidiary company;
- iii) corporate guarantee by the Company;
- iv) guarantee of directors of a subsidiary company;
- v) loan cum assignment over the property of the directors of a subsidiary company;
- vi) debentures by way of a first fixed and floating charge on both present and future assets of a subsidiary company.

18. **SHARE CAPITAL**

Share capital is represented by:

| | 1999 | 1998 |
|-----------------------------|-------------------|-------------------|
| | RM | RM |
| Authorised: | | |
| Ordinary shares of RM1 each | <u>25,000,000</u> | <u>25,000,000</u> |
| Issued and fully paid: | | |
| Ordinary shares of RM1 each | | |
| At beginning of year | 18,961,375 | 18,383,375 |
| Issued during the year | <u>33,000</u> | <u>578,000</u> |
| At end of year | <u>18,994,375</u> | <u>18,961,375</u> |

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 up to 1,792,000 new ordinary shares of RM1 each in the Company were granted to eligible directors and employees of SHC Group.

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.

19. **RESERVES**

Reserves which are non-distributable consist of:

| | The Group | | The Company | |
|------------------------------------|------------------|----------------|--------------------|----------------|
| | 1999 | 1998 | 1999 | 1998 |
| | RM | RM | RM | RM |
| Share premium: | | | | |
| At beginning of year | 871,960 | 444,240 | 871,960 | 444,240 |
| Premium arising from shares issued | <u>24,420</u> | <u>427,720</u> | <u>24,420</u> | <u>427,720</u> |
| At end of year | 896,380 | 871,960 | 896,380 | 871,960 |
| Reserve arising on consolidation | <u>13,806</u> | <u>13,806</u> | <u>-</u> | <u>-</u> |
| | <u>910,186</u> | <u>885,766</u> | <u>896,380</u> | <u>871,960</u> |

Additions to share premium reserve arose from the issuance of 33,000 ordinary shares of RM1 each at RM1.74 per share pursuant to the exercise of options granted under ESOS during the financial year.

Reserve arising on consolidation represents excess of net assets acquired over the consideration paid for investment in subsidiary company.

20. TURNOVER

The operating costs, classified by nature, deducted from turnover in arriving at loss from operations are as follows:

| | The Group | |
|---|-------------------|--------------------|
| | 1999 | 1998 |
| | RM | RM |
| Raw materials and cost of livestock | 39,624,930 | 73,273,100 |
| Net change in inventory of finished goods | 1,007,803 | 1,319,772 |
| Labour costs | 1,260,527 | 2,923,615 |
| Other operating costs | 29,681,966 | 26,638,198 |
| | <u>71,575,226</u> | <u>104,154,685</u> |

21. SEGMENT ANALYSIS

| By Group Activity | Poultry Breeding RM | Feedmilling RM | Non- Segment RM | Total RM |
|----------------------------------|------------------------------------|---------------------------|--------------------------------|---------------------|
| Operating revenue | | | | |
| 1999 | 12,261,323 | 50,089,587 | 1,843,467 | 64,194,377 |
| 1998 | <u>2,644,461</u> | <u>96,776,292</u> | <u>4,577,012</u> | <u>103,997,765</u> |
| Profit/(Loss) before taxation | | | | |
| 1999 | 1,250,225 | 795,433 | (7,341,137) | (5,295,479) |
| 1998 | <u>(1,803,202)</u> | <u>(2,923,995)</u> | <u>(11,126,171)</u> | <u>(15,853,368)</u> |
| Assets employed | | | | |
| 1999 | 14,278,688 | 24,024,020 | 15,677,868 | 53,980,576 |
| 1998 | <u>8,474,867</u> | <u>34,189,391</u> | <u>22,377,538</u> | <u>65,041,796</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.

22. LOSS BEFORE TAXATION

Loss before taxation is arrived at:

| | The Group | | The Company | |
|--|------------------|-------------|--------------------|-------------|
| | 1999 | 1998 | 1999 | 1998 |
| | RM | RM | RM | RM |
| After charging: | | | | |
| Interest on: | | | | |
| Bankers' acceptances | 2,274,234 | 4,768,093 | 1,196,694 | 2,292,777 |
| Bank overdrafts | 1,095,061 | 781,674 | 420,015 | 196,056 |
| Hire-purchase | 239,914 | 257,607 | 58,759 | 79,232 |
| Term loans | 334,376 | 312,514 | 307,956 | 281,237 |
| Others | 21,152 | 5,174 | - | - |
| Provision for doubtful debts | 1,132,832 | 6,607,309 | 487,003 | 2,424,767 |
| Depreciation of fixed assets | 2,301,461 | 2,590,567 | 551,575 | 665,878 |
| Rental of premises | 764,891 | 696,096 | 461,932 | 23,456 |
| Fixed assets written off | 82,816 | 575,879 | - | 5,774 |
| Stocks written off | 50,000 | 130,766 | - | - |
| Audit fee | 68,079 | 70,800 | 20,000 | 20,000 |
| Directors' remuneration: | | | | |
| Fees | 65,500 | 48,000 | 17,500 | - |
| Other emoluments | 588,702 | 976,701 | 452,922 | 833,021 |
| Expenditure carried forward written off | - | 34,895 | - | - |
| Bad debts written off | 9,138 | 33,100 | 9,138 | - |
| Provision for retirement benefits | - | 27,822 | - | - |
| Lease rental | 3,000 | 3,000 | - | - |
| Provision for diminution in value: | | | | |
| Investment in subsidiary companies | - | - | 86,198 | - |
| Marketable securities | - | 189,634 | - | 189,634 |
| Retrenchment benefits paid | 374,849 | 319,500 | - | - |
| Interest on advances from subsidiary companies | - | - | 188,985 | 461,202 |
| Loss on disposal of fixed assets | 116,250 | - | 5,288 | - |
| Deposit written off | 122,185 | - | 122,185 | - |
| Provision for stocks obsolescence | 216,448 | - | - | - |

(Forward)

| | The Group | | The Company | |
|---|------------------|-------------|--------------------|-------------|
| | 1999 | 1998 | 1999 | 1998 |
| | RM | RM | RM | RM |
| And crediting: | | | | |
| Provision for doubtful debts no longer required | 376,402 | 145,931 | 158,733 | 58,957 |
| Gain on disposal of fixed assets | - | 58,763 | - | 57,895 |
| Bad debts recovered | 4,000 | 16,244 | - | 1,500 |
| Interest income: | | | | |
| Advances to subsidiary companies | - | - | - | 186,513 |
| Short-term deposits | 149,192 | 740,692 | 105,364 | 634,627 |
| Others | - | 6,758 | - | 6,758 |
| Management fees from subsidiary companies | - | - | - | 285,903 |
| Gain on disposal of marketable securities | 97,098 | 533,435 | 97,098 | 533,435 |
| Gain on foreign exchange | 18,272 | 11,549 | - | - |
| Dividend from investments: | | | | |
| Unquoted shares | 1,242,842 | 298,282 | 1,242,842 | 298,282 |
| Quoted shares in Malaysia | 37,467 | 1,288 | 37,467 | 1,288 |
| Rental of premises: | | | | |
| Subsidiary company | - | - | - | 500,000 |
| Others | 55,871 | 113,400 | - | 6,800 |
| Rental of equipment from subsidiary company | - | - | - | 93,611 |
| Provision for diminution in value of marketable securities no longer required | 500,656 | - | 500,656 | - |

23. TAXATION

Provision for taxation is represented by:

| | The Group | | The Company | |
|-----------------------------|------------------|-------------|--------------------|-------------|
| | 1999 | 1998 | 1999 | 1998 |
| | RM | RM | RM | RM |
| Estimated tax payable: | | | | |
| Current | - | (24,586) | - | - |
| Overprovision in prior year | 401,484 | - | - | - |
| Deferred taxation | - | 144,216 | - | - |
| Total | 401,484 | 119,630 | - | - |

Although certain subsidiary companies made a profit before taxation in 1999, no provision for estimated tax payable has been made in 1999 as tax payable on chargeable income of the subsidiary companies is to be waived under the Income Tax (Amendment) Act, 1999 to facilitate the transition of the income tax assessment from a preceding year system to a current year system. The tax payable to be waived for the Group amounted to approximately RM43,000 and is distributable by way of tax exempt dividend without attracting any further tax liabilities.

Despite a Group loss before taxation in 1998, provision for estimated tax payable is made due mainly to losses of certain subsidiary companies which for tax purposes cannot be offset against profits of other companies within the Group.

No provision for taxation has been made for the Company in 1999 and 1998 as the Company incurred operating losses.

As mentioned in Note 3, the tax effects of timing differences which would give rise to net future tax benefits are recognised generally on actual realisation. As of 31st December, 1999, the estimated amount of deferred taxation calculated at current tax rate pertaining to the Company and certain subsidiary companies not recognised in the accounts, is as follows:

| | Deferred Assets/(Liabilities) | | | |
|--|--------------------------------------|-------------------|--------------------|-------------------|
| | The Group | | The Company | |
| | 1999 | 1998 | 1999 | 1998 |
| | RM | RM | RM | RM |
| Tax effects of timing differences in respect of: | | | | |
| Excess of tax capital | | | | |
| Allowances over book depreciation | (1,034,011) | (1,053,938) | (23,539) | (53,110) |
| Unabsorbed capital allowances and tax losses | 19,470,481 | 19,872,862 | 10,943,377 | 9,425,320 |
| Other timing differences | <u>963,300</u> | <u>1,109,579</u> | <u>398,307</u> | <u>695,879</u> |
| Net Deferred Assets | <u>19,399,770</u> | <u>19,928,503</u> | <u>11,318,145</u> | <u>10,068,089</u> |

The unabsorbed capital allowances and tax losses are subject to the agreement of the tax authorities.

24. LOSS PER ORDINARY SHARE

Loss per ordinary share is calculated by dividing the net loss attributable to the Group of RM4,916,215 (RM15,635,068 in 1998) by the average number of ordinary shares in issue during the financial year.

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.

25. CONTINGENT LIABILITIES - UNSECURED

- (a) As of 31st December, 1999, the subsidiary companies have credit facilities amounting to RM40.0 million (RM47.0 million in 1998) obtained from certain local financial institutions which are guaranteed by the Company. Accordingly, the Company is contingently liable to the extent of the amount of the credit facilities utilised by its subsidiary companies.
- (b) As of 31st December, 1999, there was a contingent disputed claim against the Group and the Company to the extent of RM7.1 million (RM5.8 million in 1998) and RM3.7 million (RM2.9 million in 1998) respectively in respect of interest claimed on disputed trade debts owing to a company which at all material time together with certain other parties having common directors and controlling shareholdings of the Company. In the opinion of management, the interest charges are without any merit whatsoever and accordingly no provision for the amount claimed is deemed necessary.

The said company has had instituted legal proceedings in 1998 for disputed trade debts, services provided and or interests as alleged, and the Company, expressly without prejudice to all its rights, title, entitlement, interest and estate, its relevant subsidiaries and a former subsidiary (pursuant to the arrangement for sale) have taken steps to defend and counter-claim against the said company and all other parties, and is seeking, inter alia, substantive exemplary damages which management is of the opinion is meritorious.

As of 31st December, 1999, the hearings of the proceedings on both actions are in progress and the ultimate outcome of the matter cannot presently be determined, and as such no provision for any liability that may result has been made in the accounts.

26. CAPITAL COMMITMENTS

As of 31st December, 1999, the Group has the following capital commitments:

| | 1999 | 1998 |
|---------------------------------|-------------------------|--------------------------|
| | RM | RM |
| Approved and contracted for | 8,088,604 | 2,841,292 |
| Approved but not contracted for | <u>677,554</u> | <u>10,977,554</u> |
| | <u><u>8,766,158</u></u> | <u><u>13,818,846</u></u> |

27. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated cash flow statement comprise the following balance sheet amounts:

| | 1999 | 1998 |
|------------------------------|----------------------------|---------------------------|
| | RM | RM |
| Deposits with licensed banks | 1,659,036 | 1,540,119 |
| Cash and bank balances | 3,685,729 | 3,409,385 |
| Bank overdrafts | <u>(24,811,871)</u> | <u>(6,203,259)</u> |
| Total | <u><u>(19,467,106)</u></u> | <u><u>(1,253,755)</u></u> |

28. 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.

29. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year’s presentation.

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

STATEMENT BY DIRECTORS

The directors of **SIN HENG CHAN (MALAYA) BERHAD**, state that in their opinion, the accompanying balance sheets, profit and loss accounts, and the consolidated cash flow statement, together with the notes thereto, are 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 the state of affairs of the Group and of the Company as of 31st December, 1999 and of the results of the businesses and the cash flows of the Group for the year ended on that date.

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

**DECLARATION BY THE OFFICER PRIMARILY RESPONSIBLE FOR
THE FINANCIAL MANAGEMENT OF THE COMPANY**

I, **FREDDIE YONG**, the Officer primarily responsible for the financial management of **SIN HENG CHAN (MALAYA) BERHAD**, do solemnly and sincerely declare that the accompanying balance sheets, profit and loss accounts, and the consolidated cash flow statement, together with the notes thereto, are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed **FREDDIE YONG** at **KUALA
LUMPUR** this 12th day of April, 2000.

Before me

COMMISSIONER FOR OATHS

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

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Company No. 4690 - V

These Audited Statements of Accounts of the Company with *Qualified/Unqualified Auditors' Report for the year ended 31st December, 1999 were tabled at the Annual General Meeting/Adjourned Annual General Meeting held on

SYED OMAR BIN SYED ABDULLAH

SIN HENG CHAN (MALAYA) BERHAD

(Company No. 4690-V)

(Incorporated in Malaysia)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 1999

(In Ringgit Malaysia)