THREE-A RESOURCES BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002

1. CORPORATE INFORMATION

The principal activity of the Company is that of an investment holding company. The principal activities of the subsidiary are manufacturing and selling of food and beverage ingredients. There have been no significant changes in the nature of the principal activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Malaysian Exchange Securities Dealing & Automated Quotation (MESDAQ) Market of the Kuala Lumpur Stock Exchange. The principal place of business of the Company is located at AL 308 Lot 590 & Lot 4196, Jalan Industri U19, Kampung Baru Seri Sungai Buloh, 47000 Selangor Darul Ehsan.

There were no personnel employed by the Company for the financial years ended 31 December 2002 and 2001 as the financial statements and relevant records are maintained by employees of San Soon Seng Food Industries Sdn. Bhd., the subsidiary. The number of employees in the Group at the end of the financial year was 78.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 24 April 2003.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements of the Group and of the Company have been prepared under the historical cost convention and comply with the provisions of the Companies Act 1965 and applicable Approved Accounting Standards in Malaysia.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary. A subsidiary is a company in which the Group has a long term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Basis of Consolidation (Contd.)

The subsidiary is consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiary acquired or disposed of during the year is included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or reserve arising on consolidation. The resulting goodwill or reserve is not amortised in the income statement. The carrying amount of goodwill is reviewed annually and written down for impairment where it is considered necessary.

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences which were not previously recognised in the consolidated income statement.

Minority interest is measured at the minorities' share of the post acquisition fair values of the identifiable assets and liabilities of the acquiree.

(c) Investment in a subsidiary

The Company's investment in a subsidiary is stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with the policy in Note 2(l).

On disposal of such investment, the difference between net disposal proceeds and its carrying amount is charged or credited to the income statement.

(d) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(l).

Long leasehold land and capital work-in-progress are not depreciated. Short leasehold land with unexpired lease periods of less than 50 years are amortised over the remaining period of the lease.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Property, Plant and Equipment and Depreciation (Contd.)

Depreciation on other property, plant and equipment is calculated on a reducing balance basis to write off the cost of the assets over their estimated useful lives. The principal annual rates used are as follows:

Factory and office buildings	2.00%
Plant and machinery	
- acquired before 31.12.94	10.00%
- acquired after 31.12.94	6.60%
Tools and implements	10.00%
Furniture, fittings, lab and office equipment	10.00%
Renovation and electrical installation	10.00%
Motor vehicles	10.00%
Fire hydrant system	10.00%

Upon the disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

(e) Leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incident to ownership.

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is consistent with that for depreciable property, plant and equipment as described in Note 2(d).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Inventories

Inventories are stated at the lower of cost (determined on the first-in, first-out basis) and net realisable value. Cost of finished goods and work-in-progress includes direct materials, direct labour, other direct costs and appropriate production overheads. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(g) Deferred Taxation

The tax expense for the year is based on the profit for the year, as adjusted for tax purposes, together with a charge or credit for deferred taxation.

Deferred taxation is provided for by the liability method for all timing differences except when there is reasonable evidence that these timing differences will not reverse in the foreseeable future. Deferred tax benefits are only recognised when there is a reasonable expectation of realisation in the near future.

(h) Provisions

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(i) Foreign Currencies

Transactions in foreign currencies are recorded in Ringgit Malaysia at the rates of exchange which approximate the exchange rates ruling at the dates of the transactions. Assets and liabilities in foreign currencies at balance sheet date are reported in Ringgit Malaysia at rates ruling at that date. Exchange differences are dealt with through the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Foreign Currencies (Contd.)

The principal closing rates used in translation of foreign currencies balances are as follows:

Foreign currency	31.12.2002 RM	31.12.2001 RM
1 US Dollar	3.800	3.800
1 Singaporean Dollar	2.162	2.044

(j) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank, deposits at call and short term highly liquid investments which have an insignificant risk of changes in value, net of outstanding bank overdrafts.

(k) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

(i) Sale of goods

Revenue from sale of goods is recognised net of returns and discounts upon the transfer of risks and rewards of ownership.

(ii) Interest income

Interest is recognised on a time proportion basis that reflects the effective yield on the asset.

(l) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets, other than inventories and financial assets, to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, for cash-generating unit to which the asset belongs.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(l) Impairment of Assets (Contd.)

An impairment loss is charged to the income statement immediately.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately.

(m) Deferred expenditure

The deferred expenditure comprised professional fees and expenses incurred in connection with the Company's Initial Public Offering. This will be written off against the share premium arising from the public issue.

(n) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

(ii) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(n) Financial Instruments (Contd.)

(iii) Interest-Bearing Borrowings

Interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs directly attributable to the acquisition of property, plant and equipment are capitalised as part of the cost of those assets, until such time as the assets are ready for their intended use. All other borrowing costs are charged to the income statement as an expense in the period in which they are incurred.

(iv) Equity Instruments

Ordinary shares are classified as equity.

The transaction costs of an equity transaction, other than in the context of a business combination, are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided. Cost of issuing equity securities in connection with a business combination are included in the cost of acquisition.

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

3. PROPERTY, PLANT AND EQUIPMENT

Company	Furniture and fittings 2002 RM
Cost	
At 1 January 2002	-
Additions	4,675
At 31 December 2002	4,675
Accumulated Depreciation	
At 1 January 2002	-
Charge for the year (Note 17)	117
At 31 December 2002	117
Net Book Value	
At 31 December 2002	4,558
At 31 December 2001	-
Depreciation charge for 2001	-

. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Group	Long leasehold land RM	Short leasehold land RM	Factory and office buildings RM	Plant and machinery RM	Tools and implements RM	Furniture and fittings, lab and office equipment RM	Renovation and electrical installation RM	Motor vehicles RM	Fire hydrant system RM	Capital work-in-progress RM	Total 2002 RM
Cost											
At 1 January	-	-	-	-	-	-	-	-	-	-	-
Arising on acquisition of subsidiary company	5,279,432	500,000	9,430,603	20,195,123	1,332,947	538,217	625,288	1,137,484	218,200	96,614	39,353,908
Additions	-	-	225,504	1,515,922	5,023	1,103,940	60,669	185,000	-	1,108,440	4,204,498
At 31 December	5,279,432	500,000	9,656,107	21,711,045	1,337,970	1,642,157	685,957	1,322,484	218,200	1,205,054	43,558,406
Accumulated Depreciation											
At 1 January	-	-	-	-	-	-	-	-	-	-	-
Arising on acquisition of subsidiary company	302,703	60,667	700,253	3,313,439	496,450	134,393	178,886	368,870	41,143	-	5,596,804
Charge for the year (Note 17)	-	-	119,030	815,501	60,743	57,256	34,176	62,257	12,211	-	1,161,174
At 31 December	302,703	60,667	819,283	4,128,940	557,193	191,649	213,062	431,127	53,354	-	6,757,978
Net Book Value											
At 31 December	4,976,729	439,333	8,836,824	17,582,105	780,777	1,450,508	472,895	891,357	164,846	1,205,054	36,800,428

3. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

(a) The net book value of property, plant and equipment pledged as security for bank borrowings, as disclosed in Note 13 is as follows:

	Group 2002 RM
Long leasehold land	4,976,729
Short leasehold land	439,333
Factory and office buildings	8,836,824
	14,252,886

(b) The net book value of property, plant and equipment at balance sheet date acquired under hire purchase arrangements is as follows:

	Group 2002 RM
Motor vehicles	293,043

4. DEFERRED EXPENDITURE

	Company 2002 RM
At 1 January 2002	548,000
Written off to share premium account	(548,000)
At 31 December 2002	-

5. INVESTMENT IN A SUBSIDIARY

	Company 2002 RM
Unquoted shares, at cost	20,100,000

5. INVESTMENT IN A SUBSIDIARY (CONTD.)

The particulars of the subsidiary are as follows:

Subsidiary	Country of incorporation	Percentage of equity held	Principal activities
San Soon Seng Food Industries Sdn. Bhd.	Malaysia	100%	Manufacturing and selling of food and beverage ingredients

(i) On 30 April 2002, the Company acquired the entire issued and paid-up share capital of its subsidiary as disclosed above for a purchase consideration of RM20,100,000 satisfied by an issuance of 20,100,000 ordinary shares of RM1 each to the shareholders of the subsidiary in exchange for the entire issued and paid-up share capital of the subsidiary.

The effect of the acquisition on the financial results of the Group from the date of acquisition to 31 December 2002 is as follows:

	RM
Revenue	23,780,757
Other operating income	165,281
Operating costs	(20,607,854)
Finance costs	(702,803)
Profit before taxation	2,635,381
Taxation	(712,896)
Net profit after taxation	1,922,485

(ii) The effect of the acquisition on the financial position of the Group as at 31 December 2002 is as follows:

	RM
Property, plant and equipment	36,795,870
Inventories	3,391,448
Trade and other receivables	10,077,464
Cash and bank balances	7,560
Trade and other payables	(2,806,302)
Hire purchase payables	(175,000)
Amount owing to holding company	(8,632,873)
Bank borrowings	(10,862,884)
Provision for taxation	(272,274)
Deferred taxation	(2,900,928)
Group's share of net assets	24,622,081