THREE-A RESOURCES BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2003

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. 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 Malaysia Securities Exchange Berhad. The registered office 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 2003 and 2002 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 87 (2002: 78).

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 21 April 2004.

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.

During the financial year ended 31 December 2003, the Company adopted the following Malaysian Accounting Standards Board ("MASB") Standards for the first time:

MASB 25	Income Taxes
MASB 27	Borrowing Costs
MASB 29	Employee Benefits

The effects of adopting MASB 25 are summarised in the Statement of Changes in Equity and further information is disclosed in Note 21 to the financial statements. The adoption of MASB 27 and 29 have not given rise to any adjustments to the opening balances of retained profits of the prior and current year or to changes in comparatives.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(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.

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 negative goodwill arising on consolidation.

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 company 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(m).

On disposal of such investment, the difference between net disposal proceeds and its carrying amount is recognised in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(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(m).

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.

Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Factory and office buildings	2%
Plant and machinery	5%
Tools and implements	10%
Furniture and fittings, lab and office equipment	10%
Renovation and electrical installation	10%
Motor vehicles	10%

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

With effect from the current financial year, the Group changed the depreciation method from reducing balance basis to straight line basis. The Group also changed the annual depreciation rates for plant and machinery from 6.6% - 10% to 5% so as to better reflect their estimated useful lives. The effect on the financial statements of these changes in depreciation method and useful life is an increase in depreciation charge for the year by RM252,754 and a decrease in the Group's current year profit by RM252,754.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(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. All other leases are classified as operating leases.

(i) Finance lease

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 recognised as an expense in 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).

(ii) Operating leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the relevant lease.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Provisions for Liabilities

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 economic 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.

(h) Employee Benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

(i) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Income Tax (Contd.)

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

Prior to the adoption of MASB 25 Income Taxes on 1 January 2003, deferred tax was provided for using the liability method in respect of significant timing differences and deferred tax assets were not recognised unless there was reasonable expectation of their realisation. This change in accounting policy has been accounted for retrospectively and the effects of this change are disclosed in Note 21 to the financial statements.

(j) 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 relating to 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.

(k) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(l) Foreign Currencies

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies at balance sheet date are translated into Ringgit Malaysia at exchange rates ruling at that date, unless hedged by forward foreign exchange contracts. All exchange rate differences are taken to the income statement.

The principal exchange rates used for every unit of foreign currency ruling at the balance sheet date used are as follows:

	2003 RM	2002 RM
United States Dollar	3.80	3.80
Singapore Dollar	2.17	2.16

(m) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any 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.

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(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, and 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.

(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, construction or production of qualifying assets are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the income statement as an expense in the period in which they are incurred.

(vi) Equity Instruments

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

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.

3. PROPERTY, PLANT AND EQUIPMENT

Group	Long Leasehold Land RM	Short Leasehold Land RM	Factory and Office Buildings RM	Plant and Machinery, Tools and Implements RM	Furniture and Fittings, Lab and Office Equipment RM	Renovation and Electrical Installation RM	Motor Vehicles RM	Capital Work-in-Progress RM	Total RM
Cost									
At 1 January 2003	5,279,432	500,000	9,656,107	23,049,015	1,642,157	904,157	1,322,484	1,205,054	43,558,406
Additions	-	-	1,490,750	1,985,925	21,876	25,893	55,000	1,272,038	4,851,482
Reclassification	-	-	484,298	48,750	-	-	-	(533,048)	-
At 31 December 2003	5,279,432	500,000	11,631,155	25,083,690	1,664,033	930,050	1,377,484	1,944,044	48,409,888
Accumulated Depreciation									
At 1 January 2003	302,703	60,667	819,283	4,686,133	191,649	266,416	431,127	-	6,757,978
Charge for the year (Note 17)	-	10,667	210,384	1,303,576	174,548	105,854	192,781	-	1,997,810
At 31 December 2003	302,703	71,334	1,029,667	5,989,709	366,197	372,270	623,908	-	8,755,788
Net Book Value									
At 31 December 2003	4,976,729	428,666	10,601,488	19,093,981	1,297,836	557,780	753,576	1,944,044	39,654,100
At 31 December 2002	4,976,729	439,333	8,836,824	18,362,882	1,450,508	637,741	891,357	1,205,054	36,800,428
Depreciation charge for 2002 (Note 17)	-	-	119,030	876,244	57,256	46,387	62,257	-	1,161,174

Company	Furniture and fittings 2003 RM	2002 RM
Cost		
At 1 January	4,675	-
Additions	-	4,675
At 31 December	4,675	4,675
Accumulated Depreciation		
At 1 January	117	-
Charge for the year (Note 17)	351	117
At 31 December	468	117
Net Book Value		
At 31 December	4,207	4,558

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 10 is as follows:

	Group 2003 RM	Group 2002 RM
Long leasehold land	4,976,729	4,976,729
Short leasehold land	428,666	439,333
Factory and office buildings	10,601,488	8,836,824
	16,006,883	14,252,886

(b) Included in property, plant and equipment of the Group are motor vehicles held under hire purchase with net book values of RM251,179 (2002 : RM293,043).

(c) Interest expense on borrowings directly related to the construction of the factory building amounting to RM49,363 was capitalised under factory and office buildings in previous year.

4. INVESTMENT IN A SUBSIDIARY

	Company 2003 RM	Company 2002 RM
Unquoted shares, at cost	20,100,000	20,100,000

The particulars of the subsidiary are as follows:

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

5. AMOUNT OWING BY A SUBSIDIARY

The amount owing by a subsidiary is interest-free, unsecured and has no fixed terms of repayment.

6. RESERVE ON CONSOLIDATION

	Group 2003 RM	2002 RM
At 1 January	4,553,656	-
Arising on acquisition of a subsidiary	-	4,553,656
At 31 December	4,553,656	4,553,656

7. INVENTORIES

	Group 2003 RM	2002 RM
At cost :		
Finished goods	1,740,900	1,636,986
Raw materials	1,572,925	1,452,988
Packing materials	348,232	301,474
	3,662,057	3,391,448

The cost of inventories recognised as an expense during the financial year in the Group amounted to RM30,476,801 (2002: RM16,822,757).

8. TRADE RECEIVABLES

	Group 2003 RM	2002 RM
Trade receivables	12,898,384	10,356,447
Less: Provision for doubtful debts	(585,459)	(425,459)
	12,312,925	9,930,988

Included in trade receivables is an amount of RM143,769 (2002: RM97,139) due from Seong Chan Sauce & Foodstuff Sdn Bhd, a company in which certain directors, Fang Chew Ham, Foong Chiew Fatt, Fong Chiew Hean and Fong Chu King @ Tong Chu King have substantial financial interests.

The Group's normal trade credit term ranges from 30 to 150 days. Other credit terms are assessed and approved on a case-by-case basis.

The Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

9. OTHER RECEIVABLES

	Group 2003 RM	Group 2002 RM	Company 2003 RM	Company 2002 RM
Sundry receivables, deposits and prepayments	287,999	327,636	1,160	1,160
Less: Provision for doubtful debts	(182,500)	(180,000)	-	-
	105,499	147,636	1,160	1,160

10. BORROWINGS

	Group 2003 RM	Group 2002 RM
Short Term Borrowings		
Secured:		
Bank overdrafts	1,653,812	4,266,517
Bankers acceptances	8,944,743	6,596,367
Term loans	197,463	-
Hire purchase payables (Note 11)	60,000	60,000
	10,856,018	10,922,884
Long Term Borrowings		
Secured:		
Term loans	1,602,537	-
Hire purchase payables (Note 11)	55,000	115,000
	1,657,537	115,000
Total Borrowings		
Bank overdrafts	1,653,812	4,266,517
Bankers acceptances	8,944,743	6,596,367
Term loans	1,800,000	-
Hire purchase payables (Note 11)	115,000	175,000
	12,513,555	11,037,884
Maturity of borrowings (excluding hire purchase payables)		
Within one year	10,796,018	10,862,884
More than 1 year and less than 2 years	417,777	-
More than 2 years but less than 5 years	1,184,760	-
	12,398,555	10,862,884