

11. **DIRECTORS' REPORT** (Prepared for inclusion in this Prospectus)



THREE-A RESOURCES BERHAD (481559-M)

Registered Office:

AL308 Lot 590 & Lot 4196
Jalan Industri U19
Kampung Baru Seri Sungai Buloh
47000 Selangor Darul Ehsan

18 June 2002

The Shareholders
Three-A Resources Berhad

Dear Sir/Madam

On behalf of the Board of Three-A Resources Berhad, I report after due inquiry that during the period from 31 December 2001, being a date to which the last audited financial statements of the Company and its subsidiary company have been made up, to the date hereof, being a date not earlier than fourteen (14) days before the issue of this Prospectus that:

- (a) the business of the Company and its subsidiary company have, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, save as disclosed in this prospectus, no circumstances have arisen since the last audited financial statements of the Company and its subsidiary company which have adversely affected the trading or the value of the assets of the Company or its subsidiary company;
- (c) the current assets of the Company and its subsidiary companies appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) there are no contingent liabilities by reason of any guarantees or indemnity given by the Company or its subsidiary company; and
- (e) save as disclosed in the Accountants' Report as set out in Section 12 of this Prospectus, there has been no changes in published reserve nor any unusual factors affecting the profits of the Company and its subsidiary company since the last audited financial statements of the Company and its subsidiary companies.

Yours faithfully
On behalf of the Board of Directors of
Three-A Resources Berhad

A handwritten signature in black ink, appearing to read 'Fang Chew Ham', written over a horizontal line.

Fang Chew Ham
Managing Director

12. ACCOUNTANTS' REPORT PREPARED BY AN APPROVED COMPANY AUDITOR



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Company No. 481559-M

ACCOUNTANTS' REPORT
(Prepared for inclusion in this Prospectus)

18 June 2002

The Board of Directors
Three-A Resources Berhad
AL 308 Lot 590 & Lot 4196
Jalan Industri, U19
Kampung Baru Seri Sungai Buloh
47000 Selangor Darul Ehsan

Dear Sirs,

1. INTRODUCTION

This report has been prepared by Ernst & Young, an approved company auditor, for inclusion in the Prospectus of Three-A Resources Berhad to be dated 29 June 2002 in connection with the Public Issue of 39,500,000 new ordinary shares of RM0.20 each in Three-A Resources Berhad (hereinafter referred to as "TARB" or "the Company") at an issue price of RM0.25 per ordinary share and the listing of and quotation for the entire enlarged issued and paid-up share capital of 140,000,010 ordinary shares of TARB on the MESDAQ Market of the Kuala Lumpur Stock Exchange (MESDAQ Market).

2. GENERAL INFORMATION

2.1 History

The Company was incorporated as a private limited company in Malaysia under the Companies Act, 1965 on 21 April 1999 as Three-A Resources Sdn. Bhd..

On 23 December 2000, the Company was converted into a public limited company and changed its name to Three-A Resources Berhad.

The principal activity of the Company is that of investment holding.



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2. GENERAL INFORMATION (CONTD.)

2.2 Restructuring and flotation scheme

The restructuring and flotation scheme involved the following :-

- (a) Acquisition of the entire issued and paid-up capital of San Soon Seng Food Industries Sdn. Bhd. ("SSSFI") comprising 3,000,000 ordinary shares of RM1.00 each for a total consideration of RM20,100,000, satisfied by an issuance of 20,100,000 ordinary shares of RM1.00 each in TARB at an issue price of RM1.00 per share.

The purchase consideration for the acquisition was based on the audited net tangible assets value of SSSFI of RM19,513,504 as at 31 December 1999.

The acquisition was made effective on 30 April 2002.

- (b) Pursuant to the completion of the acquisition of SSSFI, the balance of RM200,000 in the Share Application Fund Account of SSSFI is capitalised by an issuance of 200,000 ordinary shares of RM1.00 each to TARB.
- (c) Sub-division of each of the ordinary shares of RM1.00 each in TARB into 5 ordinary shares of RM0.20 each.
- (d) Public issue of 39,500,000 new ordinary shares of RM0.20 each in TARB at an issue price of RM0.25 per share.
- (e) The listing and quotation for the Company's entire enlarged issued and fully paid-up share capital of 140,000,010 ordinary shares of RM0.20 each on the MESDAQ.

All new ordinary shares issued pursuant to the restructuring and flotation scheme rank *pari passu* in all respect with the existing ordinary shares of TARB.



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2. GENERAL INFORMATION (CONTD.)

2.3 Share capital

At the date of incorporation, the Company's authorised share capital was RM100,000 divided into 100,000 ordinary shares of RM1.00 each. Two ordinary shares of RM1.00 each were issued to the subscribers at the time of incorporation.

Pursuant to a Group restructuring exercise which was made effective 30 April 2002, 20,100,000 ordinary shares of RM1.00 each were issued to the shareholders of San Soon Seng Food Industries Sdn. Bhd. at an issue price of RM1.00 each, in exchange for the entire issued and paid-up capital of San Soon Seng Food Industries Sdn. Bhd. ("SSSFI") for a consideration of RM20,100,000 based on the net tangible assets value of SSSFI of RM19,513,504 as at 31 December 1999.

At an Extraordinary General Meeting held on 17 June 2002, the shareholders of the Company approved the sub-division of each of the authorised and issued ordinary shares of RM1.00 each in the capital of the Company into 5 ordinary shares of RM0.20 each.

At the date of this report, the issued and paid-up capital of the Company is RM20,100,002 divided into 100,500,010 ordinary shares of RM0.20 each.

Upon completion of the Flotation Scheme set out in Section 2.2, the issued and paid-up share capital of TARB will be increased to RM28,000,002 of which RM7,900,000 will be from the issuance of 39,500,000 new ordinary shares of RM0.20 each for the Public Issue.

2.4 Particulars on SSSFI

(a) Incorporation

SSSFI was incorporated as a private limited company in Malaysia under the Companies Act, 1965 on 27 February 1989 as San Soon Seng Food Industries Sdn. Bhd.

The principal activities of SSSFI are the manufacturing and distribution of caramel, natural fermented vinegar and soya protein sauce (hydrolysed vegetable protein).

During the financial year ended 31 December 2001, SSSFI commenced operations in the manufacturing and distribution of glucose syrup and maltose syrup.

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2. GENERAL INFORMATION (CONTD.)**2.4 Particulars on SSSFI (Contd.)****(b) Share Capital**

The movements in the authorised share capital of SSSFI since the date of incorporation are as follows :-

Date of creation	No. of shares created	Par value RM	Total authorised share capital created (cumulative) RM
27 February 1989	250,000	1.00	250,000
26 September 1994	250,000	1.00	500,000
21 March 1997	500,000	1.00	1,000,000
10 May 1999	4,000,000	1.00	5,000,000

The movements in the issued and paid-up share capital of SSSFI since the date of incorporation are as follows :-

Date of issue	No. of shares issued	Par value RM	Consideration	Total issued and paid-up capital (Cumulative) RM
27 February 1989	4	1.00	Subscribers' shares	4
13 June 1989	180,000	1.00	Cash	180,004
23 September 1994	201,000	1.00	Cash	381,004
4 November 1996	118,996	1.00	Cash	500,000
2 April 1997	500,000	1.00	Cash	1,000,000
10 June 1999	1,000,000	1.00	Bonus issue	2,000,000
15 June 1999	100,000	1.00	Rights issue	2,100,000
3 August 1999	900,000	1.00	Rights issue	3,000,000
14 June 2002	200,000	1.00	Capitalisation of Share Application Fund Account	3,200,000



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3. ACCOUNTING POLICIES AND STANDARDS

This report is based on the audited financial statements which have been prepared in accordance with applicable approved accounting standards issued by the Malaysian Accounting Standards Board and is presented on a basis consistent with accounting policies normally adopted by TARB and SSSFI (hereinafter referred to as TARB Group).

There has been no change in the accounting policies of TARB Group for all the years relevant to this report.

4. FINANCIAL STATEMENTS AND AUDITORS

We have been the auditors of TARB since the first financial period ended 31 December 1999 and have been the auditors of SSSFI throughout the reporting periods.

The auditors' reports on the financial statements of TARB and SSSFI throughout the reporting periods were not subject to any reservation or qualification.

5. SUMMARISED INCOME STATEMENTS

The summarised proforma consolidated results of TARB Group for the last five (5) financial years are prepared by consolidating the audited financial statements of TARB and SSSFI for the respective years and are provided for illustrative purposes only, on the assumption that the Group existed throughout the years under review.

5.1 TARB Group - Summarised Proforma Consolidated Results

	Note	Year Ended 31 December				
		1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Revenue		18,001	18,933	18,487	22,268	23,735
Profit before depreciation, interest and taxation		6,091	4,517	3,945	4,901	4,912
Depreciation		(636)	(732)	(961)	(1,173)	(1,161)
Interest		(613)	(1,128)	(764)	(660)	(696)
Profit before taxation		4,842	2,657	2,220	3,068	3,055
Taxation		(471)	(440)	96	(627)	(622)
Profit after taxation		4,371	2,217	2,316	2,441	2,433
Number of ordinary shares assumed in issue before sub-division ('000)	1	20,100	20,100	20,100	20,100	20,100
Gross earnings per share before sub-division (sen)		24	13	11	15	15
Net earnings per share before sub-division (sen)		22	11	12	12	12
Number of ordinary shares assumed in issue after sub-division ('000)	2	100,500	100,500	100,500	100,500	100,500
Gross earnings per share after sub-division (sen)		4.82	2.64	2.21	3.05	3.04
Net earnings per share after sub-division (sen)		4.35	2.21	2.30	2.43	2.42

1. The number of ordinary shares assumed in issue is the number of ordinary shares in issue after the acquisition of SSSFI by TARB.
2. The number of ordinary shares assumed in issue is the number of ordinary shares in issue after the sub-division of each of the ordinary shares of RM1.00 each in TARB into 5 ordinary shares of RM0.20 each.

5.2 Notes to Summarised Proforma Consolidated Results

1. The increase in revenue by approximately 5% for the year ended 31 December 1998 was mainly due to the appreciation of the US Dollar against the Ringgit Malaysia. In the subsequent year, the pegging of US Dollar against the Ringgit Malaysia at RM3.80 contributed to the decrease in revenue by 2%. The significant growth in revenue for the year ended 31 December 2000 by 20% was mainly due to the realisation of marketing efforts for the overseas market. The subsequent increase of 7% for the year ended 31 December 2001 was due to the commencement of the manufacturing and distribution of glucose syrup and maltose syrup.

However, profit before taxation had declined from RM4.84 million in 1997 to RM2.66 million in 1998 mainly due to higher operating expenses which mainly comprise interest on bank borrowings and provision for doubtful debts of approximately RM1.13 million and RM0.38 million respectively. The decrease was also due to the promotional expenses on samples for a new range of caramel. In spite of the increase in revenue by RM1.47 million for the year ended 31 December 2001, profit before taxation has decreased by RM13,000 mainly due to higher operating costs as the Company has commenced operations in the manufacturing and distribution of glucose syrup and maltose syrup during the year.

2. The effective tax rates for the years ended 31 December 1997, 1998, 2000 and 2001 were lower than the statutory tax rates due to the availability of reinvestment allowance. The tax charge was mainly in respect of deferred tax.

The disproportionate tax charge for the year ended 31 December 1999 was because SSSF I was not subject to any tax as tax on chargeable income (other than dividend income) was waived under Section 12, Income Tax (Amendment) Act 1999. The credit balance was mainly due to the excess of the reversal of overprovision of tax in the prior years over the deferred tax charge.

3. There was no extraordinary item during the reporting periods.

6. SUMMARISED BALANCE SHEETS

The summarised balance sheets of SSSFII based on the audited financial statements for the relevant financial years under review are set out below :-

	As at 31 December				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
Property, plant and equipment	14,862	18,018	20,414	23,709	31,668
Current assets	6,975	7,239	10,778	9,584	11,272
Current liabilities	(10,855)	(11,403)	(9,895)	(11,473)	(16,418)
Net current (liabilities)/assets	(3,880)	(4,164)	883	(1,889)	(5,146)
	10,982	13,854	21,297	21,820	26,522
Financed by:					
Share capital	1,000	1,000	3,000	3,000	3,000
Share premium	-	-	4,977	4,977	4,977
Retained profits	8,004	10,221	11,537	11,786	14,224
Shareholders' funds	9,004	11,221	19,514	19,763	22,201
Share application fund	-	800	200	200	200
Long term liabilities	1,978	1,833	1,583	1,857	4,121
	10,982	13,854	21,297	21,820	26,522
Net tangible assets per share of RM1.00 each (RM)	9.00	11.22	6.50	6.59	7.40

7. DIVIDENDS

No dividends were declared by SSSFII throughout the reporting periods.

8. STATEMENT OF ASSETS AND LIABILITIES

The following are the statements of assets and liabilities of the Company and of the Proforma Group based on the audited financial statements as at 31 December 2001. The proforma statement of assets and liabilities is provided for illustrative purposes only to show the effects of the acquisition of the entire issued and paid-up capital of SSSF I and the capitalisation of the Share Application Fund Account in SSSF I.

The statements should be read in conjunction with the notes set out in Section 9.

	Note	As at 31 December 2001	
		Company (As Audited) RM'000	Proforma Group (After acquisition of SSSFI and capitalisation of Share Application Fund in SSSFI) RM'000
Property, Plant and Equipment	9.2	-	31,668
Deferred Expenditure	9.3	548	548
Current Assets			
Inventories	9.4	-	2,839
Trade receivables	9.5	-	7,809
Other receivables	9.6	-	416
		-	11,064
Current Liabilities			
Trade payables		-	1,718
Other payables		562	3,174
Hire purchase payables	9.7	-	273
Bank borrowings	9.8	-	10,398
Provision for taxation		-	1,209
		562	16,772
Net Current Liabilities		(562)	(5,708)
		(14)	26,508

8. STATEMENT OF ASSETS AND LIABILITES (CONTD.)

	Note	As at 31 December 2001	
		Company (As Audited) RM'000	Proforma Group (After acquisition of SSSFI and capitalisation of Share Application Fund in SSSFI) RM'000
Financed by :-			
Share Capital	9.9	-	20,100
Reserve on Consolidation	9.10	-	2,301
Accumulated Losses		(14)	(14)
Shareholders' Funds		(14)	22,387
Long Term Liabilities			
Deferred taxation	9.11	-	2,102
Hire purchase payables	9.7	-	639
Bank borrowings	9.8	-	1,380
		(14)	26,508

9. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES

9.1 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of the Company and of the Proforma Group are prepared under the historical cost convention, unless otherwise stated in this summary of significant accounting policies, and comply with applicable approved accounting standards issued by the Malaysian Accounting Standards Board.

(b) Basis of Consolidation

The proforma consolidated statement of assets and liabilities have been prepared based on the audited financial statements of TARB and SSSFI as at 31 December 2001. The revenue of SSSFI is included in the Proforma Group financial statements from the date of acquisition based on the acquisition method of accounting.

All inter-company transactions and balances are eliminated on consolidation.

Reserve on consolidation represents the difference between the consideration paid for the shares in the subsidiary company and the fair value of attributable net assets acquired. Reserve on consolidation is separately disclosed in the statement of assets and liabilities.

(c) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Gain or losses arising from the disposal of an asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in the income statement.

The carrying amounts of the property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an item of property, plant and equipment exceeds its recoverable amount. The impairment loss is charged to income statement unless it reverses a previous revaluation in which case it is treated as a decrease in the revaluation surplus.

9.1 SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(c) Property, Plant and Equipment (contd.)

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 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	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%

(d) Property, Plant and Equipment under Hire Purchase Arrangements

Property, plant and equipment acquired under hire purchase agreements are capitalised at their purchase cost and depreciated according to the policy in (c) above. The total amount repayable under hire purchase arrangements are included under hire purchase payables. The interest charges are allocated to the income statement over the period of the agreements.

(e) Borrowing Costs

Borrowing costs incurred on the construction of property, plant and equipment which require a substantial period of time to get them ready for the intended use are capitalised and included as part of the related assets. Capitalisation of the borrowing costs will cease when the assets are ready for their intended use.

(f) Investment in Subsidiary Company

Investment in the subsidiary company and investments which are held on a long term basis are stated at cost. Allowance for impairment loss in value of the investment is only made if the impairment in value of investment is of a permanent nature. Permanent impairment in value of investment is recognised as an expense in the period in which the impairment is identified.

9.1 SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Inventories

Inventories are valued at the lower of cost and net realisable value. In arriving at the net realisable value, due allowance is made for all damaged and slow moving items.

Cost is determined on the first-in first-out method. The cost of raw materials comprises the original purchase price plus cost incurred in bringing the inventories to their present location. The cost of work in progress and finished goods comprises the cost of raw materials, direct labour and a proportion of production overheads. Net realisable value represents the estimated selling price in the ordinary course of business less selling and distribution costs and all other estimated costs to completion.

(h) Receivables

Known bad debts are written off and specific provision is made for any debts considered to be doubtful of collection.

(i) Payables

Payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company or SSSFI.

(j) Provisions

Provisions are recognised when the Company or SSSFI has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(k) Deferred Taxation

Deferred taxation is provided for on all material timing differences using the liability method except where it can be demonstrated with reasonable probability that these timing differences will not reverse in the foreseeable future. Deferred tax benefits are not recognised in the financial statements unless there is reasonable expectation of realisation in the near future.

9.1 SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(l) 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.

(m) Revenue Recognition

Revenue from sale of goods is recognised upon delivery of products and when the risks and rewards of ownership has passed.

9.2 PROPERTY, PLANT AND EQUIPMENT

	PROFORMA GROUP		
	Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
Long leasehold land	5,279	303	4,976
Short leasehold land	500	50	450
Factory	9,418	641	8,777
Plant and machinery	17,912	2,938	14,974
Tools and implements	1,322	466	856
Furniture and fittings, lab and office equipment	422	120	302
Renovation and electrical installation	621	164	457
Motor vehicles	987	342	645
Fire hydrant system	218	35	183
Capital work-in-progress	48	-	48
	<u>36,727</u>	<u>5,059</u>	<u>31,668</u>

9.2 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

The net book value of property, plant and equipment pledged as security for bank borrowings, as disclosed in Note 9.8 are as follows :-

	PROFORMA GROUP RM'000
- long leasehold land	4,976
- short leasehold land	450
- factory buildings	<u>8,777</u>
	<u><u>14,203</u></u>

The carrying amount of the property, plant and equipment at 31 December 2001 acquired under hire purchase arrangements are as follows :-

	PROFORMA GROUP RM'000
Plant and machinery	1,223
Motor vehicle	<u>325</u>
	<u><u>1,548</u></u>

9.3 DEFERRED EXPENDITURE

This comprises professional fees and expenses incurred in connection with the Company's flotation scheme which will be written off against the share premium arising from the shares issued pursuant to the flotation scheme.

9.4 INVENTORIES

	PROFORMA GROUP RM'000
At cost :-	
Finished goods	1,334
Raw materials	1,263
Packing materials	<u>242</u>
	<u><u>2,839</u></u>

9.5 TRADE RECEIVABLES

	PROFORMA GROUP RM'000
Trade debtors	8,189
Less: Provision for doubtful debts	<u>(380)</u>
	<u><u>7,809</u></u>

Included in trade receivables is an amount of RM117,356 owing by a company in which certain Directors of SSSFI have substantial financial interest.

9.6 OTHER RECEIVABLES

	PROFORMA GROUP RM'000
Sundry receivables, deposits and prepayments	536
Less: Provision for doubtful debts	<u>(120)</u>
	<u><u>416</u></u>

9.7 HIRE PURCHASE PAYABLES

	PROFORMA GROUP RM'000
Minimum instalments payable	
- not later than one year	335
- later than one year and not later than five years	<u>785</u>
	1,120
Less : Finance charges allocated to future periods	<u>(208)</u>
	<u><u>912</u></u>
Repayable as follows :-	
- not later than one year (included under current liabilities)	273
- later than one year and not later than five years	<u>639</u>
	<u><u>912</u></u>

9.8 BANK BORROWINGS

	PROFORMA GROUP RM'000
Secured :	
Bank overdraft	6,579
Bankers acceptances	3,361
Term loan	1,838
	<u>11,778</u>
Less : Portion of term loan repayable after next twelve months	<u>(1,380)</u>
	<u><u>10,398</u></u>

The average effective interest rates are as follows :-

	%
Bank overdraft	7.90
Bankers acceptances	4.20 - 4.40
Term loan	8.40 - 8.80

The bank borrowings are secured by:

- the leasehold land, factory buildings, boiler houses, warehouses and a chemical room of SSSF1 (Note 9.2);
- debentures incorporating fixed and floating charges over all assets and undertakings of SSSF1, both present and future;
- joint and several guarantees by the Directors of SSSF1.

The two term loans are repayable over 4 years from 23 July 2001 and 1 October 2001 respectively.

9.9 SHARE CAPITAL

	<u>COMPANY</u>	
	No. of shares	RM
Authorised:		
Ordinary shares of RM1.00 each as at 31 December 2001	100,000	100,000
Created on 30 April 2002	49,900,000	49,900,000
Additional number of ordinary shares arising from sub-division of each of the ordinary shares of RM1.00 each into 5 ordinary shares of RM0.20 each	<u>200,000,000</u>	<u>-</u>
Number of TARB shares of RM0.20 each after restructuring agreement and sub-division	<u>250,000,000</u>	<u>50,000,000</u>
Issued and fully paid:		
Number of ordinary shares of RM1.00 each in issue as at 31 December 2001	2	2
Issue of ordinary shares of RM1.00 each to shareholders of SSSFI in exchange for shares in SSSFI	20,100,000	20,100,000
Additional number of ordinary shares arising from sub-division of each of the ordinary shares of RM1.00 each into 5 ordinary shares of RM0.20 each	<u>80,400,008</u>	<u>-</u>
Number of TARB shares of RM0.20 each after restructuring agreement and sub-division	<u>100,500,010</u>	<u>20,100,002</u>

9.10 RESERVE ON CONSOLIDATION

	<u>PROFORMA GROUP RM'000</u>
Reserve arising from acquisition of SSSFI	<u>2,301</u>

9.11 DEFERRED TAXATION

PROFORMA
GROUP
RM'000

At 31 December 2001

2,102

The deferred taxation is in respect of timing differences arising from the excess of capital allowances claimed over depreciation charges.

9.12 SIGNIFICANT RELATED PARTY TRANSACTIONS

PROFORMA
GROUP
RM'000

Transactions with a company in which certain Directors of SSSFI have substantial financial interest :-

Sales to Seong Chan Sauce & Foodstuff Sdn Bhd

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The Directors of SSSFI are of the opinion that the above transactions have been entered into in the normal course of business and established under terms that are no less favourable than those arranged with independent third parties.

9.13 CAPITAL COMMITMENTS

PROFORMA
GROUP
RM'000

Contracted but not provided for
Approved but not contracted for

2,169
1,750

9.14 SUBSIDIARY COMPANY

PROFORMA
GROUP
RM'000

Unquoted shares, at cost

20,100

The subsidiary company is:-

<u>Company</u>	<u>Principal Activities</u>	<u>Country of Incorporation</u>	<u>Equity Interest %</u>
San Soon Seng Food Industries Sdn. Bhd.	Manufacturing and distribution of caramel, natural fermented vinegar, soya protein sauce (hydrolysed vegetable protein), glucose syrup and maltose syrup.	Malaysia	100

9.15 PROFORMA NET TANGIBLE ASSETS COVER

Based on the proforma statement of assets and liabilities of TARB Group as at 31 December 2001, the proforma net tangible assets and enlarged ordinary share capital are derived as follows :-

(i) Proforma Net Tangible Assets

	RM'000
Net tangible assets as at 31 December 2001	22,387
Add: Proceeds from Public Issue	<u>9,875</u>
	32,262
Less: Estimated listing expenses	<u>(1,500)</u>
Proforma net tangible assets	<u><u>30,762</u></u>

(ii) Share Capital

	Number of ordinary shares
Number of ordinary shares of RM1.00 each in issue as at 31 December 2001	2
Issue of ordinary shares of RM1.00 each to shareholders of SSSFI in exchange for shares in SSSFI	<u>20,100,000</u>
	20,100,002
Additional number of ordinary shares arising from sub-division of each of the ordinary shares of RM1.00 each into 5 ordinary shares of RM0.20 each	<u>80,400,008</u>
Number of TARB shares of RM0.20 each before the public issue	100,500,010
Public Issue	<u>39,500,000</u>
Proforma issued and paid-up share capital of the Company	<u><u>140,000,010</u></u>
Proforma net tangible assets per ordinary share of RM0.20 each (sen)	<u><u>22</u></u>

10. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

The Proforma Consolidated Cash Flow Statement is provided for illustrative purposes only to show the effects of the restructuring and the public issue detailed in Section 2.2 herein on the assumption that these transactions were completed as at 31 December 2001.

	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Loss before taxation	(6)
Working capital changes:	
Payables	<u>6</u>
Cash used in operations	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of a subsidiary company (Note)	(6,579)
Purchase of property, plant and machinery	<u>(2,000)</u>
Net cash used in investing activities	<u>(8,579)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from Public Issue	9,875
Payment of estimated listing expenses	(1,500)
Repayment of term loans	<u>(1,838)</u>
Net cash generated from financing activities	<u>6,537</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,042)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>(2,042)</u></u>

10. PROFORMA CONSOLIDATED CASH FLOW STATEMENT (CONTD.)

Cash and cash equivalents included in the Proforma Consolidated Cash Flow Statement comprise the following :-

	RM'000
Bank overdrafts	<u>(2,042)</u>

Note

Analysis of acquisition of a subsidiary company :-

	RM'000
Property, plant and equipment	31,668
Inventories	2,839
Trade receivables	7,809
Other receivables, deposits and prepayments	624
Trade payables	(1,718)
Other payables and accruals	(2,820)
Hire purchase payables	(912)
Overdraft	(6,579)
Other bank borrowings	(5,199)
Provision for taxation	(1,209)
Deferred taxation	<u>(2,102)</u>
	22,401
Reserve on acquisition	<u>(2,301)</u>
Total purchase consideration	20,100
Add: Bank overdraft acquired	<u>6,579</u>
	26,679
Discharged by :-	
Issuance of shares	<u>(20,100)</u>
Net cash outflow	<u><u>6,579</u></u>

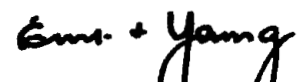
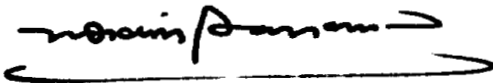


Company No. 481559-M

11. AUDITED FINANCIAL STATEMENTS

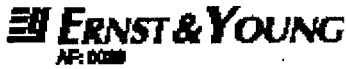
No audited financial statements have been prepared in respect of any period subsequent to 31 December 2001.

Yours faithfully


ERNST & YOUNG AF : 0039
Chartered Accountants


Dato' Nordin Baharuddin 837/03/04 (J)
Partner

13. PROFORMA CONSOLIDATED BALANCE SHEET OF TARB AS AT 31 DECEMBER 2001, TOGETHER WITH THE BASES AND ASSUMPTIONS, AND THE AUDITORS' LETTER THEREON



■ Chartered Accountants
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Company No. 481559-M

Mail Address:
P.O. Box 10068
50704 Kuala Lumpur, Malaysia

Reporting Accountants' Letter on the Proforma Consolidated Balance Sheets
(Prepared for inclusion in this Prospectus)

18 June 2002

The Board of Directors
Three-A Resources Berhad
AL 308 Lot 590 & Lot 4196
Jalan Industri, U19
Kampung Baru Seri Sungai Buloh
47000 Selangor Darul Ehsan

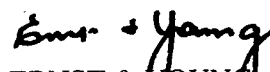
Dear Sirs

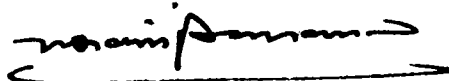
THREE-A RESOURCES BERHAD
PROFORMA CONSOLIDATED BALANCE SHEETS

We have reviewed the presentation of the Proforma Consolidated Balance Sheets of Three-A Resources Berhad ("TARB") and its subsidiary company (TARB Group) as at 31 December 2001, together with the notes thereon, for which the Directors of TARB are solely responsible, as set out in the Prospectus to be dated 29 June 2002 in connection with the public issue of 39,500,000 new ordinary shares of RM0.20 each in TARB at an issue price of RM0.25 per ordinary share and the listing of and quotation for the entire enlarged issued and fully paid-up ordinary share capital of TARB on the MESDAQ Market of the Kuala Lumpur Stock Exchange (MESDAQ Market).

In our opinion, the Proforma Consolidated Balance Sheets together with the notes thereon, which are provided for illustrative purposes only have been properly compiled on the basis consistent with the accounting policies normally adopted by TARB Group and are presented in the form suitable for inclusion in the Prospectus.

Yours faithfully,


ERNST & YOUNG AF: 0039
Chartered Accountants



Dato' Nordin Baharuddin 837/03/04 (J)
Partner

Proforma Consolidated Balance Sheets of TARB Group as at 31 December 2001 together with Notes and Assumptions

The Proforma Consolidated Balance Sheets set out below have been prepared on a cumulative basis and is provided for illustrative purposes only to show the effects of the acquisition of San Soon Seng Food Industries Sdn. Bhd. (SSSFI), capitalisation of Share Application Fund in SSSFI, sub-division of each of the ordinary shares of RM1.00 each into 5 ordinary shares of RM0.20 each and the Public Issue of 39,500,000 new ordinary shares of RM0.20 each in TARB on the assumption that these transactions were effected on 31 December 2001.

	As at 31 December 2001		
	Company	Proforma Group	Proforma Group
	(Audited) RM'000	(After acquisition of SSSFI, capitalisation of Share Application Fund in SSSFI and sub-division of shares but before Public Issue) RM'000	(After Public Issue) RM'000
Property, Plant and Equipment	-	31,668	33,668
Deferred Expenditure	548	548	-
Current Assets			
Inventories	-	2,839	2,839
Trade receivables	-	7,809	7,809
Other receivables	-	416	416
	-	11,064	11,064
Current Liabilities			
Trade payables	-	1,718	1,718
Other payables	562	3,174	2,626
Hire purchase payables	-	273	273
Bank borrowings	-	10,398	5,403
Provision for taxation	-	1,209	1,209
	562	16,772	11,229
Net Current Liabilities	(562)	(5,708)	(165)
	(14)	26,508	33,503

As at 31 December 2001			
Company	(Audited) RM'000	Proforma Group (After acquisition of SSSFI, capitalisation of Share Application Fund in SSSFI and sub-division of shares but before Public Issue) RM'000	Proforma Group (After Public Issue) RM'000
Financed by :-			
Share Capital	- *	20,100	28,000
Share Premium	-	-	475
Reserve on Consolidation	-	2,301	2,301
Accumulated Losses	(14)	(14)	(14)
Shareholders' Funds	(14)	22,387	30,762
Long Term Liabilities			
Deferred taxation	-	2,102	2,102
Hire purchase payables	-	639	639
Bank borrowings	-	1,380	-
	(14)	26,508	33,503
Number of ordinary shares of RM0.20 each ('000)	N/A	100,500	140,000
Net tangible assets per ordinary share (sen)	N/A	22	22

* The share capital as at 31 December 2001 was RM2.00 comprising two ordinary shares of RM1.00 each.



Company No. 481559-M

The Proforma Consolidated Balance Sheets provided for illustrative purposes only, have been prepared based on the audited balance sheet of TARB as at 31 December 2001 and on accounting principles and bases consistent with those previously adopted in the preparation of the financial statements, with the assumption that the following have been effected on that date :-

1. (i) The acquisition of the entire issued and paid-up capital of SSSFI comprising 3,000,000 ordinary shares of RM1.00 each for a total consideration of RM20,100,000, satisfied by the issuance of 20,100,000 ordinary shares of RM1.00 each in TARB at an issue price of RM1.00 per share.

(ii) Pursuant to the completion of the acquisition of SSSFI, the balance of RM200,000 in the Share Application Fund Account of SSSFI is capitalised by the issuance of 200,000 ordinary shares of RM1.00 each to TARB.

2. Sub-division of each of the authorised and issued ordinary shares of RM1.00 each in the capital of TARB into 5 ordinary shares of RM0.20 each.

3. Public issue of 39,500,000 new ordinary shares of RM0.20 each in TARB at an issue price of RM0.25 per share. Listing expenses estimated to be RM1,500,000 are charged against the Share Premium Account.

4. The gross proceeds from the public issue of RM9,875,000 are expected to be utilised as follows :-

	Note	RM'000
(a) Set-up of factory and purchase of plant and machineries	(i)	4,000
(b) Loan repayment	(ii)	2,000
(c) Working capital	(iii)	2,375
(d) Estimated listing expenses		1,500
		9,875

Notes :-

- (i) RM4 million is earmarked for setting up a factory which will be particularly used for producing liquid glucose, powdered Caramel and/or powdered hydrolysed vegetable protein ("HVP"). The proceeds will be used to finance or repay the financing for the construction of the factory building and purchase of plant and machineries including but not limited to cooking tanks, storage tanks, mixing tanks system for products such as liquid glucose, Caramel and/or powdered HVP.
- (ii) The Directors propose to repay bank borrowings, which is used to finance amongst others the repayment of the balance of the Bank Bumiputra term loan (initially used for the financing of the natural fermented vinegar ("NFV") and HVP Plant) and for part financing the construction works.
- (iii) This will be used to fund the Group's day to day working capital requirements which may include funding creditor's payments, marketing and other operational expenses, etc.

5. The movement of the issued and paid-up share capital of TARB is as follows :-

	Number of ordinary shares	RM
Number of ordinary shares of RM1.00 each in issue as at 31 December 2001	2	2
Issue of ordinary shares of RM1.00 each to shareholders of SSSF1 in exchange for shares in SSSF1	<u>20,100,000</u>	<u>20,100,000</u>
	20,100,002	20,100,002
Additional number of ordinary shares arising from sub-division of each of the ordinary shares of RM1.00 each into 5 ordinary shares of RM0.20 each	<u>80,400,008</u>	<u>-</u>
Number of TARB shares of RM0.20 each after restructuring agreement and sub-division	100,500,010	20,100,002
Public Issue	<u>39,500,000</u>	<u>7,900,000</u>
Enlarged issued and paid-up share capital of TARB	<u><u>140,000,010</u></u>	<u><u>28,000,002</u></u>

6. The movement of the share premium account is as follows :-

	RM'000
Arising from the Public Issue	1,975
Less: Estimated expenses arising from Public Issue	<u>(1,500)</u>
	<u><u>475</u></u>