



## **HWA TAI INDUSTRIES BERHAD**

Incorporated in Malaysia • Company No.: 19688-V

# **CONTENTS**

Notice of Annual General Meeting .....	2
Statement Accompanying the Notice of Annual General Meeting .....	3
Corporate Information .....	4
Profile of the Board of Directors .....	5
Audit Committee Report .....	8
Statement of Corporate Governance .....	11
Statement of Internal Controls .....	14
Directors' Responsibility Statement and Other Information .....	15
Chairman's Statement .....	17
Directors' Report .....	19
Balance Sheets .....	22
Income Statements .....	23
Statements of Changes in Equity .....	24
Cash Flow Statements .....	25
Notes to the Financial Statements .....	27
Statement by Directors .....	59
Statutory Declaration .....	59
Report of the Auditors .....	60
Analysis of Shareholdings .....	61
List of Group Properties .....	63
Form of Proxy .....	enclosed

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Twenty-Eighth Annual General Meeting of the Company will be held at The Katerina Hotel, Diamond Room, Level 2, No. 8, Jalan Zabedah, 83000 Batu Pahat, Johor Darul Takzim, Malaysia on Monday, 23 June 2003 at 10.00 a.m.

## AGENDA

1. To receive and adopt the Audited Financial Statements for the year ended 31 December 2002 together with the Directors' and Auditors' Reports thereon.
2. To approve payment of Directors' fee for the year ended 31 December 2002.
3. To re-elect the following Directors who retire in accordance with the Company's Articles of Association:-  
  
Lee Thye @ Lee Chooi Yoke  
Soo Suat Swon  
Y.M. Raja Zainal Abidin Bin Raja Hussin
4. To re-appoint Tan Sri Dato' Mohamed Yusoff Bin Mohamed who retires in accordance with Section 129(6) of the Companies Act, 1965.
5. To appoint Auditors and authorise the Directors to fix their remuneration.
6. To transact any other business appropriate to an Annual General Meeting.
7. As SPECIAL BUSINESS, to consider and, if thought fit, pass the following ordinary resolution:-

ORDINARY RESOLUTION - AUTHORITY TO ALLOT AND ISSUE SHARES IN GENERAL PURSUANT TO SECTION 132D OF THE COMPANIES ACT, 1965

"That, subject to the Companies Act, 1965 and the Articles of Association of the Company and approvals from the Securities Commission and the Kuala Lumpur Stock Exchange and other relevant governmental or regulatory authorities, the Directors be and are hereby empowered pursuant to Section 132D of the Companies Act, 1965 to allot and issue shares in the capital of the Company from time to time upon such terms and conditions and for such purposes as the Directors may in their discretion deem fit provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

By Order of the Board

JESSICA CHIN TENG LI (MAICSA 7003181)  
Secretary

Johor Darul Takzim, Malaysia  
30 May 2003

## NOTICE OF ANNUAL GENERAL MEETING



HWA TAI INDUSTRIES BERHAD

### NOTES:

A member entitled to attend and vote at the Meeting is entitled to appoint more than 2 proxies to attend and vote instead of him. Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least 1 proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account. A proxy need not be a member of the Company. The instrument appointing a proxy must be deposited at the Registered Office of the Company at No. 12, Jalan Jorak, Kawasan Perindustrian Tongkang Pecah, 83010 Batu Pahat, Johor Darul Takzim, Malaysia, not less than 48 hours before the time appointed for holding the Meeting.

### EXPLANATORY STATEMENT TO THE SPECIAL BUSINESS:

#### ORDINARY RESOLUTION

The proposed Ordinary Resolution, if passed, will give the Directors of the Company the power to issue shares in the Company up to an amount not exceeding in total 10% of the issued share capital of the Company for such purposes as the Directors consider would be in the interest of the Company. This would avoid any delay and cost involved in convening a general meeting to specifically approve such an issue of shares. This authority, unless revoked or varied at a general meeting, will expire at the next Annual General Meeting of the Company.

### STATEMENT ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

#### 1. TWENTY-EIGHTH ANNUAL GENERAL MEETING

Place : The Katerina Hotel  
Diamond Room (Level 2)  
No. 8, Jalan Zabadah  
83000 Batu Pahat  
Johor Darul Takzim, Malaysia

Date : Monday, 23 June 2003

Time : 10.00 a.m.

#### 2. NAMES OF DIRECTORS STANDING FOR RE-ELECTION/RE-APPOINTMENT

The names of the Directors standing for re-election/re-appointment at the forthcoming Twenty-Eighth Annual General Meeting are as follows:-

- i) Lee Thye @ Lee Chooi Yoke
- ii) Soo Suat Swon
- iii) Y.M. Raja Zainal Abidin Bin Raja Hussin
- iv) Tan Sri Dato' Mohamed Yusoff Bin Mohamed

#### 3. DETAILS OF DIRECTORS STANDING FOR RE-ELECTION/RE-APPOINTMENT

The details of the Directors standing for re-election/re-appointment at the forthcoming Twenty-Eighth Annual General Meeting are set out in the Directors' Profile appearing on pages 5 to 7 of this Annual Report.

#### 4. DETAILS OF ATTENDANCE OF DIRECTORS AT DIRECTORS' MEETINGS

There were five (5) Directors' Meetings held during the financial year ended 31 December 2002. The details of attendance of the Directors are set out in the Directors' Profile appearing on page 7 of this Annual Report.

# CORPORATE INFORMATION



HWA TAI INDUSTRIES BERHAD

## BOARD OF DIRECTORS

Soo Thien Ming @ Soo Thien See (Chairman)  
Lee Thye @ Lee Chooi Yoke (Executive Director)  
Lee Kah Keng @ Lee Kah Heng (Chief Operating Officer)  
Loh Poh Im (Group Financial Controller)  
Y.M. Raja Zainal Abidin Bin Raja Hussin  
Soo Suat Swon  
Tan Sri Dato' Mohamed Yusoff Bin Mohamed

## COMPANY SECRETARY

Jessica Chin Teng Li (MAICSA 7003181)

## REGISTERED OFFICE & PRINCIPAL BUSINESS ADDRESS

No. 12 Jalan Jorak  
Kawasan Perindustrian Tongkang Pecah  
83010 Batu Pahat  
Johor Darul Takzim, Malaysia  
Tel. No.: 607-4151688 Fax No.: 607-4151135

## SHARE REGISTRAR

Bina Management (M) Sdn. Bhd.  
Lot 10, The Highway Centre  
Jalan 51/205  
46050 Petaling Jaya  
Selangor Darul Ehsan, Malaysia  
Tel. No.: 603-77843922 Fax No.: 03-77841988

## AUDITORS

Monteiro & Heng  
Public Accountants  
22-1, Jalan Tun Sambanthan 3  
50470 Kuala Lumpur, Malaysia

## PRINCIPAL BANKERS

RHB Bank Berhad  
Bumiputra-Commerce Bank Berhad  
OCBC Bank (Malaysia) Berhad  
AmBank Berhad  
Bank Islam Malaysia Berhad  
HSBC Bank Malaysia Berhad

## LISTING

Kuala Lumpur Stock Exchange Second Board

# PROFILE OF THE BOARD OF DIRECTORS



HWA TAI INDUSTRIES BERHAD

## **MR. SOO THIEN MING @ SOO THIEN SEE**

Non-Independent Non-Executive Director

Mr. Soo Thien Ming, Malaysian, aged 55, is the Chairman on the Board of the Company. He was appointed to the Board on 26 April 1996. Mr. Soo is a Barrister-At-Law of Lincoln's Inn, London. He is an advocate and solicitor by profession and has been in practice for 28 years. Besides being a Notary Public and Commissioner for Oaths, he is also a member of the Advocates & Solicitors' Disciplinary Board, Malaysia. He is also the Vice President of Chinese Chamber of Commerce and Industry of Kuala Lumpur and Selangor.

He is the Chairman of the Nomination Committee and Remuneration Committee of the Company.

Mr. Soo has a direct shareholding of 849,730 ordinary shares of RM1/- each in the Company. He also has an indirect shareholding of 421,000 ordinary shares of RM1/- each in the Company. He does not have any equity holdings in its subsidiaries.

He does not have any family relationship with any directors and/or major shareholders of the Company. He also does not have any conflict of interest with the Company nor any convictions for offences within the past 10 years.

## **MDM. LEE THYE @ LEE CHOOI YOKE**

Non-Independent Executive Director

Mdm. Lee Thye @ Lee Chooi Yoke, Malaysian, aged 55, is the Executive Director of the Company. She was appointed to the Board on 9 August 1996. She is a director of various private companies.

She does not sit on any Committee of the Company.

Mdm. Lee has an indirect shareholding of 1,133,000 ordinary shares of RM1/- each in the Company. She does not have any equity holdings in its subsidiaries.

She is the mother of Ms. Soo Suat Swon, a Director of the Company and the wife of Mr. Soo Kim Chey, a substantial shareholder of the Company.

Mdm. Lee does not have any conflict of interest with the Company nor any convictions for offences within the past 10 years.

## **MR. LEE KAH KENG @ LEE KAH HENG**

Non-Independent Executive Director

Mr. Lee Kah Keng, Malaysian, aged 52, is the Chief Operating Officer of the Company. He was appointed to the Board on 1 February 1998. A graduate in Mechanical Engineering, he also holds a Master of Business Administration from the University of Hull, United Kingdom. He has extensive experience in the field of workshop management, solid waste management, ready mixed concrete and lime products, quarrying and general management. Prior to his appointment as the Chief Operating Officer of the Company, he was the Managing Director of Lime & Lime Products Sdn Bhd, a 100 % owned subsidiary of Megafirst Corporation Berhad and also the Executive Director of Rock Chemicals Industries Berhad.

He does not sit on any Committee of the Company.

Mr. Lee does not have any interest in the securities of the Company or its subsidiaries, neither does he have any family relationship with any directors and/or major shareholders of the Company. He does not have any conflict of interest with the Company nor any convictions for offences within the past 10 years.

## PROFILE OF THE BOARD OF DIRECTORS



HWA TAI INDUSTRIES BERHAD

### MDM. LOH POH IM

Non-Independent Executive Director

Mdm. Loh Poh Im, Malaysian, aged 37, is the Group Financial Controller of the Company. She was appointed to the Board on 1 December 2001. She graduated from the University of Malaya with an honours degree in Accountancy and subsequently qualified as a Registered Accountant. She is a member of the Malaysian Institute of Accountants since 1993. She has more than 10 years accounting and financial experience especially in the manufacturing sector. She has previously worked as a Senior Accountant and Accountant in multi national company as well as public listed company before joining the Company as an Accounts Manager in 1996.

She sits on the Audit Committee of the Company.

Mdm. Loh does not have any interest in the securities of the Company or its subsidiaries, neither does she have any family relationship with any directors and/or major shareholders of the Company. She does not have any conflict of interest with the Company nor any convictions for offences within the past 10 years.

### Y.M. RAJA ZAINAL ABIDIN BIN RAJA HUSSIN

Independent Non-Executive Director

Y.M. Raja Zainal Abidin Bin Raja Hussin, Malaysian, aged 46, was appointed to the Board on 3 April 1992. He is an entrepreneur, starting from the development of housing projects in Johor Bahru in 1977. He is currently a director and major shareholder in a few private limited companies with business ventures in commercial building development, small and medium size housing development, trading in broadcasting equipment, forest management and replanting and investment in small and medium size manufacturing industries.

He is the Chairman of the Audit Committee and also sits on the Nomination Committee and Remuneration Committee of the Company.

Y.M. Raja Zainal Abidin does not have any interest in the securities of the Company or its subsidiaries, neither does he have any family relationship with any directors and/or major shareholders of the Company. He does not have any conflict of interest with the Company nor any convictions for offences within the past 10 years.

### MS. SOO SUAT SWON

Non-Independent Non-Executive Director

Ms. Soo Suat Swon, Malaysian, aged 29, was appointed to the Board on 9 August 1996. She holds a Bachelor of Science in Economics from the London School of Economics and a Masters of Business Administration from Richmond College, London. Ms. Soo is also a Director in Anson Perdana Berhad.

She sits on the Remuneration Committee of the Company.

Ms. Soo has an indirect shareholding of 427,000 ordinary shares of RM1/- each in the Company. She does not have any equity holdings in its subsidiaries.

She is the daughter of Mdm. Lee Thye, the Executive Director of the Company and Mr. Soo Kim Chey, a substantial shareholder of the Company.

Ms. Soo does not have any conflict of interest with the Company nor any convictions for offences within the past 10 years.



**YBHG. TAN SRI DATO' MOHAMED YUSOFF BIN MOHAMED**

Independent Non-Executive Director

YBhg. Tan Sri Dato' Mohamed Yusoff bin Mohamed, Malaysian, aged 75, was appointed to the Board on 25 June 2001. He is a Barrister-At-Law from Lincoln's Inn, London. He was the High Court Judge in Kota Kinabalu, Kuching, Johor Bahru and Kuala Lumpur between 1974 and 1988. He has also served as a Supreme Court Judge between 1988 and 1992 before retiring in September 1992. Prior to his judgeship, he had served the judiciary from 1963 to 1968 in the capacity of President of Sessions Court and Legal Service, from 1968 to 1973 as Deputy Parliamentary Draftsman and Senior Federal Counsel in the Attorney General's Department, Kuala Lumpur. Currently, he is also a Director of Dunham-Bush (Malaysia) Berhad.

YBhg. Tan Sri Dato' Mohamed Yusoff sits on the Audit Committee and Nomination Committee of the Company.

He does not have any interest in the securities of the Company or its subsidiaries, neither does he have any family relationship with any directors and/or major shareholders of the Company. He does not have any conflict of interest with the Company nor any convictions for offences within the past 10 years.

**DETAILS OF ATTENDANCE OF DIRECTORS AT BOARD MEETINGS DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2002**

During the financial year ended 31 December 2002, a total of 5 Directors' Meetings were held. The details of attendance of Directors at these Meetings are as follows:

Name of Director	Number of Meetings Attended
Soo Thien Ming @ Soo Thien See	5 of 5
Lee Thye @ Lee Chooi Yoke	5 of 5
Lee Kah Keng @ Lee Kah Heng	5 of 5
Loh Poh Im	5 of 5
Raja Zainal Abidin bin Raja Hussin	3 of 5
Soo Suat Swon	4 of 5
Tan Sri Dato' Mohamed Yusoff bin Mohamed	3 of 5

# AUDIT COMMITTEE REPORT



HWA TAI INDUSTRIES BERHAD

## 1. COMPOSITION OF AUDIT COMMITTEE

Y. M. Raja Zainal Abidin Bin Raja Hussin (Chairman)	Independent Non-Executive Director
Tan Sri Dato' Mohamed Yusoff Bin Mohamed	Independent Non-Executive Director
Loh Poh Im	Executive Director

## 2. TERMS OF REFERENCE OF AUDIT COMMITTEE

### MEMBERSHIP

1. An Audit Committee shall be appointed by the Directors from among their number (except Alternate Directors) pursuant to a resolution of the Board of Directors which fulfils the following requirements:
  - (a) The Audit Committee must be composed of no fewer than 3 Members;
  - (b) A majority of the Audit Committee must be Independent Directors; and
  - (c) At least one Member of the Audit Committee:
    - (i) Must be a member of the Malaysian Institute of Accountants; or
    - (ii) If he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:
      - (1) He must have passed the examinations specified in Part 1 of the 1<sup>st</sup> Schedule of the Accountants Act, 1967; or
      - (2) He must be a member of one of the associations of accountants specified in Part II of the 1<sup>st</sup> Schedule of the Accountants Act, 1967.
2. The Members of the Audit Committee shall elect a Chairman from among their number who shall be an Independent Director.
3. If a Member of the Audit Committee resigns, dies or for any other reason ceases to be a Member with the result that the number of Members is reduced below 3, the Board of Directors shall, within 3 months of that event, appoint such number of new Members as may be required to make up the minimum of 3 Members.
4. The terms of office and performance of the Audit Committee and each of its Members shall be reviewed by the Board of Directors no less than once every 3 years.

### MEETINGS

1. Meetings shall be held not less than 4 times a year.
2. Upon the request of the External Auditor, the Chairman of the Audit Committee shall convene a meeting of the Committee to consider any matters the External Auditor believes should be brought to the attention of the Directors or Shareholders. The External Auditor has the right to appear and be heard at any meeting of the Audit Committee and shall appear before the Committee when required to do so by the Committee.
3. The Chairman shall convene a meeting whenever any Member of the Audit Committee requests for a meeting.
4. Written notice of the meeting together with the agenda shall be given to the Members of the Audit Committee and the External Auditor, where applicable.
5. The quorum for a meeting shall be 2 Provided Always that the majority of Members present must be Independent Directors and any decision shall be by a simple majority. The Chairman shall not have a casting vote.

## 2. TERMS OF REFERENCE OF AUDIT COMMITTEE (Cont'd)

### MEETINGS (Cont'd)

6. The other Board Members, Accounts Manager, the Head of Internal Audit (if any), any employee of the Company and a representative of the External Auditors may be invited to attend meetings. If necessary, the Audit Committee shall meet with the External Auditors without any Executive Board Member present.
7. The Company Secretary shall be the secretary of the Audit Committee.

### AUTHORITY

The Audit Committee is authorised by the Board of Directors to:

- a) Investigate any activity within its terms of reference.
- b) Seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee.
- c) Obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

The Audit Committee shall have direct access to the External Auditor and person(s) carrying out the internal audit procedure or activity (if any) and be able to convene meetings with the External Auditor, excluding the attendance of the Executive Members of the Audit Committee, whenever necessary.

The Audit Committee shall be empowered to appoint and remove the Internal Auditor.

### DUTIES

The duties of the Audit Committee shall be:

1. To recommend the nomination of a person or persons as External Auditors.
2. To review the following and report the same to the Board of Directors:-
  - a. With the External Auditor, the audit plan;
  - b. With the External Auditor, his evaluation of the system of internal controls;
  - c. With the External Auditor, his audit report;
  - d. The assistance given by the employees of the Company to the External Auditor;
  - e. The adequacy of the scope, functions and resources of the Internal Audit functions and that it has the necessary authority to carry out its work;
  - f. The Internal Audit programme, processes, the results of the Internal Audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the Internal Audit function;
  - g. The quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:-
    - i) Changes in or implementation of major accounting policy changes;
    - ii) Significant and unusual events; and
    - iii) Compliance with accounting standards and other legal requirements;
  - h. Any related party transaction and conflict of interest situation that may arise within the Company or group including any transaction, procedure or course of conduct that raises questions of management integrity;
  - i. Any letter of resignation from the External Auditors of the Company; and
  - j. Whether there is reason (supported by grounds) to believe that the Company's External Auditor is not suitable for re-appointment; and
3. To discuss problems and reservations arising from the interim and final audits, and matters the External Auditor may wish to discuss (in the absence of management where necessary).

## 2. TERMS OF REFERENCE OF AUDIT COMMITTEE (Cont'd)

### DUTIES (Cont'd)

4. To keep under review the effectiveness of internal control systems, and in particular review the External Auditor's management letter and management's response.
5. To consider other topics, as agreed to by the Audit Committee and the Board of Directors.

### PROCEDURES

Each Audit Committee may regulate its own procedure and in particular the calling of meetings, the notice to be given of such meetings, the voting and proceedings thereat, the keeping of minutes and the custody, production and inspection of such minutes.

## 3. AUDIT COMMITTEE MEETING

During the financial year 31 December 2002, 3 Audit Committee Meetings were held. Details of the attendance of each Committee Member are as follows:-

Name of Audit Committee Member	Attendance
Y. M. Raja Zainal Abidin Bin Raja Hussin (Chairman)	3 of 3
Tan Sri Dato' Mohamed Yusoff Bin Mohamed	3 of 3
Loh Poh Im	3 of 3

## 4. ACTIVITIES OF THE AUDIT COMMITTEE

During the financial year, the activities of the Audit Committee included the following:

- a. Reviewed and recommended for Board approval the quarterly financial results for public announcement.
- b. Reviewed the related party transactions that had arisen within the Company and Group.
- c. Reviewed and discussed the External Auditors' management letter and the major findings during the course of their year end audit and the management's response.
- d. Reviewed and recommended for Board approval the Group's audited financial year end statement.
- e. Reviewed the audit reports submitted by the Internal Auditor.

## 5. INTERNAL AUDIT

The Internal Audit Department's main role is to undertake independent and systematic reviews of the processes and guidelines of the Group and report on their application and compliance to the Audit Committee and Board of Directors. They are responsible to report the state of internal control of the various operations within the Group and the extent of compliance with the established policies and procedures and suggest any additional improvement opportunities in the areas of internal control, systems and efficiency improvement.

During the financial year, the Internal Audit Department carried out, inter-alia, the following activities:-

- formulated and approved by the Audit Committee the strategy and scope of work.
- review of Internal Audit's resource requirements.
- review of Internal Audit's plan and programs.
- analysed and assessed certain key operation processes, reported findings and made recommendation for improvements.
- reviewed compliance with established policies and procedures, as well as assessing the adequacy and effectiveness of the Group's internal control.

# STATEMENT OF CORPORATE GOVERNANCE



HWA TAI INDUSTRIES BERHAD

## BOARD OF DIRECTORS

### A. The Board

The Board leads and controls the Group. The Board is bestowed with the duty and responsibility to ensure the interests of the shareholders are protected.

Where appropriate, formal structures and committees are in place to facilitate the Board in carrying out its duties. All Board committees report to the Board.

The Board meets on a regular and scheduled basis, at least 4 times a year.

### B. Composition and Board Balance

The Board comprises 7 members to reflect the interests of the major shareholders, management, and minority shareholders.

The Chairman, who is a Non Independent Non Executive Director, heads the Board with 3 Executive Directors, 1 Non Independent Non Executive Director and 2 Independent Non Executive Directors.

The Directors together bring a wide range of business, financial, industrial and legal experience to lead the Group in the area of business strategies, performance, utilization of resources and standards of conduct.

Generally, the Executive Directors are responsible for carrying out the day to day operational functions while the Non Executive Directors will play the supporting role by contributing their knowledge and experience in the business strategic plans.

Where areas of conflict of interest arise, the Director concerned will have to declare his/her interest and abstain from participating in the decision making process.

The Board also set up an Executive Committee (Exco) in the year 1998 to assist the Board in the management of the operations of the Group.

The Exco meets regularly prior to the Board meetings and is responsible to review the performance of the Group operations and any other pertinent issues pertaining to the performance of the Group.

### C. Supply of Information

A Board report is prepared prior to the Board meeting and sufficient notice is given to the Directors to review the papers and agenda for the meeting.

Generally, the Board papers provide information on the operating results, financial, corporate development, acquisitions and disposals proposals, if any.

In furtherance of the Directors' duties, all members, either as full Board or in their individual capacities, will have access to all information of the Group.

Directors are also free to seek independent advice should the need arise and have direct access to the advice and services of the Company Secretary.



#### D. Appointments to the Board

In compliance with the Malaysian Code of Corporate Governance on the appointment of Directors, the Board has on 27<sup>th</sup> November 2001 set up a Nomination Committee to advise the Board on the nomination of new Board members and assess Directors on an ongoing basis.

The Nomination Committee comprises Mr. Soo Thien Ming, Chairman of the Board, Y Bhg Tan Sri Dato' Mohd Yusoff Bin Mohd, and Y.M. Raja Zainal Abidin Bin Raja Hussin. Mr. Soo Thien Ming is the Chairman of the Nomination Committee.

The Committee shall make recommendations to the Board on the appropriate appointments of new Directors and also to fill seats on committees of the Board.

In addition, the Nomination Committee assess as the contribution of individual Board members the effectiveness of the Board, and the committees of the Board.

The duties and responsibilities are spelt out in the Terms of Reference of the Nomination Committee.

#### E. Re-election

In accordance to the Company's Articles of Association, an election of Directors shall take place each year at an Annual General Meeting and all Directors shall retire from office once at least in every 3 years. In addition, a Director who attains the age over 70 retires at every Annual General Meeting pursuant to the Companies Act, 1965. Directors appointed by the Board are subject to retirement at the next Annual General Meeting held following their appointments in accordance with the Company's Articles of Association. All retiring Directors are eligible for re-election.

#### DIRECTORS TRAINING

All Directors of the Company have attended the KLSE's Mandatory Accreditation Programme.

#### DIRECTORS REMUNERATION

The Board set up the Remuneration Committee on 27<sup>th</sup> November 2001 to review the policy and make recommendations to the Board on the remuneration package and benefits annually as accorded to the Executive Directors. The Executive Directors shall not participate in the decision makings relating to their own remunerations.

The members of the Remuneration Committee comprises Mr. Soo Thien Ming, Y.M. Raja Zainal Abidin Bin Hussin and Miss Soo Suat Swon. Mr. Soo Thien Ming is the Chairman of the Committee.

Fees payable to the Directors are recommended by the Board with the approval from shareholders at the Annual General Meeting.

Generally, the remuneration package will be structured according to the skills, experience and performance of the Executive Directors to ensure the Group attracts and retains the Directors needed to run the Group successfully, whereby the remuneration package for the Non Executive Directors will hinge on their contribution to the Group in terms of their knowledge and experience.

The breakdown of the Directors remuneration for the financial year under review is reflected in the following table:

Ranges of Remuneration (RM)	Executive Director	Non-Executive Director
RM1 - RM50,000	–	2
RM50,001 - RM100,000	–	1
RM150,001 - RM200,000	1	–
RM300,001 - RM350,000	–	1
RM350,001 - RM400,000	2	–



### SHAREHOLDERS

#### Dialogue between the Group and Investors.

The Group recognizes the importance of accountability to the shareholders and as such convey information on the Group's performance, directions, other matters of interest to the shareholders by way of annual reports, relevant circulars and the issuance of press releases.

#### Annual General Meeting

Annual General Meeting is used as a primary mode of communication to report on the Group's performance. Notice of Annual General Meeting is issued 21 days before the date of meeting.

At the Annual General Meeting, shareholders are encouraged to raise any questions pertaining to any issues regarding the Group.

The Chairman, assisted by the Directors are available to answer any queries and discuss matters pertaining to the business activities of the Group.

### ACCOUNTABILITY AND AUDIT

#### Financial Reporting

In preparing the annual financial statements and quarterly announcements, the Directors take steps to ensure a clear, balanced and understandable assessment of the Group's positions and prospects.

The Statement by Directors pursuant to section 169 of the Companies Act, 1965 is set out on page 59 of this Annual Report.

#### Internal controls

The Board recognizes its responsibilities for the Group's system of internal controls to safeguard shareholders investment and Group's assets.

To cover financial together with operational and compliance controls, the Board has initiated an Internal Audit Division in 2002 to regularly review, appraise, and monitor the effectiveness of the systems of internal controls within the Group.

The review of the system of internal control is set out under the Statement of Internal Control set out on page 14 of this Annual Report.

#### Audit Committee / Relationship with Auditors.

The Audit Committee Report is set out on pages 8 to 10 of this Annual Report.

The role of the Audit Committee in relation to the Auditors is stated in the Audit Committee Report.

# STATEMENT OF INTERNAL CONTROLS



HWA TAI INDUSTRIES BERHAD

The Board of Directors recognizes its overall responsibility for maintaining the Group's system of internal control and risk management to safeguard shareholders' investment and the Company's assets, as well as for reviewing the adequacy and integrity of the internal control system. The system of internal controls is designed to manage rather than eliminate risk of failure to achieve business objectives. It should be noted that the internal control system can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year, the Board and management have considered the key risks in their review of strategies and business plan of each operating units. In addition, the Heads of Department are responsible for managing the risk of their department on a day to day basis. Significant issues related to internal controls and risk management are discussed in the operation review meetings.

Subsequent to financial year end, the Board of Directors is considering the proposal to outsource its internal audit function to external consultants to assist in the review of the adequacy and integrity of the Group's system of internal controls and the development of the key risk profile of the Group.

Key elements of the Group's internal controls that have been in place include the following:

1. The Group has a well defined organisation structure with clear lines of reporting, responsibilities and level of authority.
2. There are clear definition of authorisation procedure for major operating functions including purchases, capital expenditures, payment, credit control & stock control. Authority of the Directors is required for key treasury matters including loan and trade financing, cheque signatories and opening of bank accounts.
3. There is a budgeting and business planning process each year to establish plans and targets for each operating units. The Executive Committee reviews and approves the annual budget and business plan.
4. The Group's management team meets regularly to review the monthly report, monitors the business development, discusses and resolves key operational and management issues and reviews the financial performance against the business plan and budget for each operating units within the Group.

The Chief Operating Officer also regularly highlights the significant issues, major policy matters and financial performance of each operating units in the Executive Committee meeting.

5. The Audit Committee reviews the quarterly financial results and yearly audited financial statements prior to the approval by the Board of Directors.
6. The Audit Committee also reviews the internal audit functions, internal audit reports and monitors the status of the implementation of corrective actions to address internal control weaknesses.
7. In addition to the internal controls, the Board of Directors and management have ensured that safety and health regulations have been considered and complied with.
8. The Company was accredited ISO 9002 since 1996 and upgraded to MS ISO9001 2000 quality management systems in year 2002. Documented internal procedures and standard operating procedures have been put in place and surveillance audits are conducted by the assessors of the ISO certification body to ensure that the system is adequately implemented.
9. Strong emphasis is also given to food safety. The Company was accredited the Hazard Analysis Critical Control Point (HACCP) system certification since year 2000 and upgraded to Integrated Quality Management and HACCP System certificate in 2002. Good Manufacturing Practice is documented and practiced to ensure food safety.
10. The professionalism and competence of the staff are maintained through a structural recruitment process, performance appraisal system and wide variety of training and development programs.

The statement is made in accordance with a resolution of the Board of Directors.

# DIRECTORS' RESPONSIBILITY STATEMENT AND OTHER INFORMATION



HWA TAI INDUSTRIES BERHAD

## DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors are required under Paragraph 15.27(a) of the Listing Requirements of the Kuala Lumpur Stock Exchange to issue a statement explaining their responsibility for preparing the annual audited financial statements.

The Directors are required by law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the financial year end and of the results and cashflows of the Company and of the Group for the financial year then ended.

The Directors consider that, in preparing the financial statements of the Company and of the Group for the financial year ended 31 December 2002 as set out herein on pages 22 to 58 of this Annual Report, the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. The Directors also consider that all applicable approved accounting standards in Malaysia have been followed and confirm that the financial statements have been prepared on a going concern basis.

The Directors are responsible for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the provisions of the Companies Act, 1965.

The Directors are also responsible for taking such steps that are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

## OTHER INFORMATION

### Sanctions and/or Penalties

During the financial year, the Kuala Lumpur Stock Exchange publicly reprimanded and imposed a fine of RM1,187,500/- on the Company for breaches of the Listing Requirements in respect of the Company's various past transactions in quoted shares. These breaches had been subsequently rectified by the Company.

Other than the above, there were no other public sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or management by any regulatory bodies during the financial year.

### Material Contracts

There were no material contracts entered into by the Company and its subsidiaries involving Directors and substantial shareholders.

### Revaluation Policy on Landed Properties

Landed properties at valuation are revalued at a regular interval of at least once in every five years with additional valuations in the intervening years where market conditions indicate that the carrying values of the revalued properties materially differ from the market values.

### Non-Audit Fees

During the financial year, a non-audit fee of RM800/- was paid to Messrs. Monteiro & Heng for professional services in rendering auditor's certificate in respect of application for Certificate of Performance under ECR Facility of the Company.

### Utilisation of Proceeds

The Company did not implement any fund raising exercise during the financial year.



**Share Buy-Backs**

The Company did not make any share buy-back during the financial year.

**Options and Warrants**

The Company did not offer any options and warrants during the financial year.

**American Depositary Receipt ("ADR") or Global Depositary Receipt ("GDR")**

The Company did not sponsor any ADR or GDR programme during the financial year.

**Variation in Results**

There was no material variation between the audited results for the financial year ended 31 December 2002 and the unaudited results previously released for the financial quarter ended 31 December 2002.

**Profit Guarantee**

The Company did not make any arrangement during the financial year which requires profit guarantee.

**Recurrent Related Party Transaction of a Revenue Nature**

There was no recurrent related party transaction of a revenue nature which requires Shareholders' mandate during the financial year.



On behalf of the Board of Directors of Hwa Tai Industries Berhad, I am pleased to present the 28<sup>th</sup> Annual Report and the Audited Financial Statements of the Group and of the Company for the year ended 31<sup>st</sup> December 2002.

## OPERATING RESULTS

The year 2002 was a difficult year for the Group due to the persistent adverse trading conditions and poor consumers' sentiments in the market place resulting from the slow pick up in US, the global risk of terrorism coupled with the threat of war in Iraq.

The Group's turnover thus decreased by 9% to RM95.1 million in 2002 as compared to RM104.5 million in 2001.

The decrease was mainly due to the adverse trading conditions and poor performance from the trading subsidiary Company.

Group profit before tax suffered and deteriorated from a profitable position of RM2.2 million in 2001 to a loss before tax of RM8.3 million. The losses were mainly incurred by the poor performance of the trading subsidiaries (RM3.1 million), penalty imposed by Kuala Lumpur Stock Exchange for non-compliance with the Exchange's Listing Requirements (RM1.4 million) and the provision for diminution in value in quoted shares (RM4.2 million).

The management has since taken action to restructure and re-organize the operations in the trading subsidiaries.

At the Company level, turnover dropped by 7% to RM50.4 million (2001 - RM54.2 million) and operating profit stood at RM2.1 million against RM5.2 million in 2001 mainly due to higher production costs resulting from higher raw material prices.

Net loss per share was RM0.67 compared to net earnings per share of RM0.12 in 2001 while net tangible assets per share was RM1.47 (2001 - RM2.14).

## DIVIDEND

Your Board is not recommending any dividend for the year ended 31<sup>st</sup> December 2002.

## OUTLOOK AND FUTURE PROSPECTS

2002 was a very challenging year for the Group in view of the ongoing poor economic conditions and uncertainty prevailing in the region.

Higher production costs due to higher raw material cost like palm olein, fuel oil and related materials had adversely affected our margins.

Poor performance from the trading subsidiary due to stiff price competition and unprofitable agencies also pulled down our bottom line.



The delay in the launching of our new cakes due to some initial technical and process problems in one way or other also affected our turnover.

Looking ahead, the biscuits manufacturing industry is expected to remain highly competitive amidst facing higher production costs.

With reorganization in place in the trading subsidiary, the smooth launching of the mini Swiss rolls (cakes) coupled with new biscuits products, we expect to improve our sales in the coming year.

Nevertheless, the war in Iraq, even though swift, affected our sales to the Middle East countries in the first quarter of 2003 and the current outbreak of SARS may further aggravate market conditions.

It is too early to determine if the manufacturing industry sales will be affected, albeit in a small way in the food industries.

Barring unforeseen circumstances, the Board anticipates 2003 to be a challenging year for the Group and expect the Company's performance to maintain at a satisfactory level by implementing the above said measures.

#### DIRECTORATE

There was no change in the composition of the Board and the various Committees in the year 2002.

#### CORPORATE EVENTS

On 1<sup>st</sup> April 2002, the Company increased its equity interest in its subsidiary company, Acetai Corporation Sdn Bhd (Acetai) from 70% to 90% by subscribing for 1,000,000 ordinary shares of RM1/- each in Acetai at par.

Accordingly, the Company's shareholdings in Acetai have increased to 4,500,000 ordinary shares of RM1/- each after the above share subscription.

#### ACKNOWLEDGEMENT

On behalf of the Board, I would like to take the opportunity to thank our valued customers, suppliers, bankers, business associates, regulatory authorities for their continued support and also our management and staff for their diligence and dedication to the Group.

**SOO THIEN MING @ SOO THIEN SEE**  
CHAIRMAN

6 May 2003