



HWA TAI INDUSTRIES BERHAD

Company No.: 19688-V

contents

2	Notice of Annual General Meeting
4	Statement Accompanying the Notice of Annual General Meeting
5	Corporate Information
6	Profile of the Board of Directors
10	Audit Committee Report
14	Statement of Corporate Governance
17	Statement of Internal Control
18	Directors' Responsibility Statement and Other Information
20	Chairman's Statement
22	Directors' Report
29	Balance Sheets
31	Income Statements
32	Statements of Changes in Equity
33	Cash Flow Statements
36	Notes to the Financial Statements
69	Statement by Directors
69	Statutory Declaration
70	Report of the Auditors
71	Analysis of Securities Holdings
75	List of Group Properties
Enclosed	Form of Proxy

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Thirty-First Annual General Meeting of the Company will be held at The Katerina Hotel, Diamond Room, Level 2, No. 8, Jalan Zabadah, 83000 Batu Pahat, Johor Darul Takzim, Malaysia on Monday, 26 June 2006 at 10.00 a.m.

AGENDA

1. To receive and adopt the Audited Financial Statements for the year ended 31 December 2005 together with the Directors' and Auditors' Reports thereon.
2. To approve payment of Directors' fee for the year ended 31 December 2005.
3. To re-elect the following Directors who retire in accordance with the Company's Articles of Association:-
 - a) Soo Thien Ming @ Soo Thien See
 - b) Wong Chee Kheen
 - c) Col. (Rtd.) Dato' Ir. Cheng Wah
 - d) Soo Wei Chian
 - e) Noorhamimah Binti Mohd. Baseri
 - f) Mohamed Razif Bin Tan Sri Abdul Aziz
4. To appoint Auditors and authorise the Directors to fix their remuneration.
5. To transact any other business appropriate to an Annual General Meeting.
6. As SPECIAL BUSINESS, to consider and, if thought fit, pass the following ordinary resolutions:-

ORDINARY RESOLUTION NO. 1 - AUTHORITY TO ALLOT AND ISSUE SHARES PURSUANT TO THE EMPLOYEES' SHARE OPTION SCHEME

"That, subject to the Companies Act, 1965 and the Articles of Association of the Company, the Directors be and are hereby empowered pursuant to Section 132D of the Companies Act, 1965 to allot and issue such number of new ordinary shares of RM1.00 each in the capital of the Company as may be required to be issued pursuant to the exercise of options under the Employees' Share Option Scheme which was approved by ordinary resolution passed at the Extraordinary General Meeting of the Company held on 16 February 2004 and modified by ordinary resolution passed at the Extraordinary General Meeting of the Company held on 13 December 2004."

ORDINARY RESOLUTION NO. 2 - 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 Bursa Malaysia Securities Berhad 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)
Company Secretary

Johor Darul Takzim, Malaysia
2 June 2006

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 NO. 1**

On 16 February 2004, the Shareholders of the Company had approved the Employees' Share Option Scheme ("ESOS") and the ESOS was subsequently modified on 13 December 2004. According to Section 132D of the Companies Act, 1965, the approval given by the Shareholders to the Directors of the Company to allot and issue shares pursuant to the ESOS expires at the forthcoming Thirty-First Annual General Meeting. As such, the Directors seek the Shareholders' renewed approval to allot and issue shares for the ESOS.

ORDINARY RESOLUTION NO. 2

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) THIRTY-FIRST ANNUAL GENERAL MEETING**

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

Date : Monday, 26 June 2006

Time: 10.00 a.m.

2) NAMES OF DIRECTORS STANDING FOR RE-ELECTION

The names of the Directors standing for re-election at the forthcoming Thirty-First Annual General Meeting are as follows:-

- i) Soo Thien Ming @ Soo Thien See
- ii) Wong Chee Kheen
- iii) Col. (Rtd.) Dato' Ir. Cheng Wah
- iv) Soo Wei Chian
- v) Noorhamimah Binti Mohd. Baseri
- vi) Mohamed Razif Bin Tan Sri Abdul Aziz

3) DETAILS OF DIRECTORS STANDING FOR RE-ELECTION

The details of the Directors standing for re-election at the forthcoming Thirty-First Annual General Meeting are set out in the Directors' Profile appearing on pages 6 to 9 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 2005. The details of attendance of the Directors are set out in the Directors' Profile appearing on page 9 of this Annual Report.

BOARD OF DIRECTORS

Soo Thien Ming @ Soo Thien See (Chairman)
Soo Chung Yee (Executive Director)
Wong Chee Kheen (Chief Operating Officer / Director)
Y.M. Raja Zainal Abidin Bin Raja Hussin
Col. (Rtd.) Dato' Ir. Cheng Wah
Soo Wei Chian
Noorhamimah Binti Mohd. Baseri
Mohamed Razif Bin Tan Sri Abdul Aziz

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.: 603-77841988

AUDITORS

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

PRINCIPAL BANKERS

RHB Bank Berhad
Bumiputra-Commerce Bank Berhad
AmBank Berhad
Bank Islam Malaysia Berhad
Bangkok Bank Berhad

LISTING

Bursa Malaysia Securities Berhad, Second Board

PROFILE OF THE BOARD OF DIRECTORS

MR. SOO THIEN MING @ SOO THIEN SEE

- Non-Independent Non-Executive Director

Mr. Soo Thien Ming, Malaysian, aged 58, 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 30 years. He is also a Notary Public and Commissioner for Oaths. He holds several directorships in private companies in Malaysia and abroad.

He is the Chairman of the Nomination Committee, Remuneration Committee and Employee Share Option Scheme ("ESOS") Committee.

Mr. Soo has a direct shareholding of 9,748,327 ordinary shares of RM1/- each in the Company as at 30 April 2006. He is deemed to have an interest in the equity holdings held by the Company in its subsidiaries by virtue of his controlling interest in the Company. Mr. Soo also has a direct interest of 2,977,123 warrants in the Company as at 30 April 2006.

He is the father of Mr. Soo Chung Yee, the Executive Director of the Company.

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

MR. SOO CHUNG YEE

- Non-Independent Executive Director

Mr. Soo Chung Yee, Malaysian, aged 27, is the Executive Director. He was appointed to the Board on 16 August 2004. Mr. Soo holds a Bachelor of Arts from the University of Derby, United Kingdom. He also holds several directorships in private companies in Malaysia and abroad.

He is a member of the Remuneration Committee and ESOS Committee.

He is the son of Mr. Soo Thien Ming, the Chairman of the Company.

Mr. Soo does not have any interest in the securities of the Company or its subsidiaries. He also does not have any conflict of interest with the Company nor any convictions for offences within the past 10 years.

MR. WONG CHEE KHEEN

- Non-Independent Executive Director

Mr. Wong Chee Kheen, Malaysian, aged 42, is the Chief Operating Officer. He was appointed to the Board on 1 July 2005. He is a Fellow of The Chartered Association of Certified Accountants, United Kingdom and a member of the Malaysian Institute of Accountants. He also holds a Diploma in Financial Accounting, Tunku Abdul Rahman College. He has vast exposure in public accounting works in Malaysia and United Kingdom. He was the operating head of finance and administration functions of various companies in a public listed conglomerate group. He also has commendable experience in the Fast Moving Consumer Goods ("FMCG") industry both in Malaysia and abroad. In the manufacturing industry, he was exposed to various aspects of Good Manufacturing Practice for FMCG products.

Mr. Wong sits on the Audit Committee and ESOS Committee.

He does not have any family relationship with any directors and/or major shareholders of the Company. He does not have any interest in the securities of the Company or its subsidiaries. He 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 49, was appointed to the Board on 3 April 1992. He is an entrepreneur, starting from the development of housing projects in Johor Bahru such as Taman Teratai (200 acres), Taman Ahmad Perang, Taman Aman, Taman Senai and Taman Ulu Choh and the development in Puncak Pokok Sena, Kedah (200 acres) and Taman Seri Tanjung Pinang, Penang which are still in progress.

He is currently a director and major shareholder of a few private limited companies with business ventures in commercial building development, small and medium size housing development, forest management and replanting also investment in small and medium size manufacturing industries.

He is a member of the Audit Committee and Nomination Committee.

Y.M. Raja Zainal Abidin has a direct shareholding of 126,300 ordinary shares of RM1/- each in the Company as at 30 April 2006. He does not have any equity holdings in its subsidiaries. Y.M. Raja Zainal Abidin also has a direct interest of 45,750 warrants in the Company as at 30 April 2006.

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.

YBHG. COL. (RTD.) DATO' IR. CHENG WAH**- Independent Non-Executive Director**

YBhg. Col. (Rtd.) Dato' Ir. Cheng Wah, Malaysian, aged 67, was appointed to the Board on 1 August 2005. He graduated from the University of Malaya with a Bachelor of Engineering (Civil). He is a Professional Engineer with the Board of Engineers, Malaysia. He is also a graduate of the Royal Military Academy Sandhurst, United Kingdom and the Command and General Staff College, Fort Leavenworth, United States of America. He had served about 26 years i.e. from the period of December 1957 to September 1983 in the Malaysian Armed Forces. He had held various positions in the Malaysian Armed Forces including the positions of Director of Armed Forces Works, Logistic Division, Ministry of Defence in 1978 and Director of Logistic, Ministry of Defence in 1980 before retiring in September 1983. Upon retirement in 1983, he joined Resorts World Berhad as Senior Vice President (Property Development) till June 2004. Currently, he sits on the Board of two other listed companies, PacificMas Berhad and Tamandam Bonded Warehouse Berhad. He is also a director in several other non-listed companies.

YBhg. Col. (Rtd.) Dato' Ir. Cheng Wah is the Chairman of the Audit Committee.

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

MR. SOO WEI CHIAN**- Non-Independent Non-Executive Director**

Mr. Soo Wei Chian, Malaysian, aged 37, was appointed to the Board on 1 August 2005. He holds a Masters of Business Administration, University of Strathclyde, United Kingdom. He is a fellow member of the Chartered Institute of Management Accountants, United Kingdom and a member of the Malaysian Institute of Accountants. He held financial positions in UEM and Berjaya groups of companies for the period between 1991 and 1995. He joined NV Multi Corporation Berhad ("NV Multi") as the Finance Manager in 1995 and he now holds the position of Executive Director in NV Multi.

Mr. Soo sits on the Audit Committee and ESOS Committee.

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

CIK NOORHAMIMAH BINTI MOHD. BASERI**- Independent Non-Executive Director**

Cik Noorhamimah Binti Mohd. Baseri, Malaysian, aged 28, was appointed to the Board on 1 August 2005. She holds an LLB (Hons), LLM and DSLP. She is a solicitor practicing at Kuala Lumpur, Malaysia.

Cik Noorhamimah is a member of the Audit Committee, Nomination Committee and Remuneration Committee.

She does not have any family relationship with any directors and/or major shareholders of the Company. She does not have any interest in the securities of the Company or its subsidiaries. She does not have any conflict of interest with the Company nor any convictions for offences within the past 10 years.

ENCIK MOHAMED RAZIF BIN TAN SRI ABDUL AZIZ**- Independent Non-Executive Director**

Encik Mohamed Razif Bin Tan Sri Abdul Aziz, Malaysian, aged 45, was appointed to the Board on 20 March 2006. He is a Barrister-at-law from Lincoln's Inn, United Kingdom. He was admitted as an Advocate and Solicitor of the High Court of Malaya in 1985. He specialises in corporate, financial services and conveyancing matters and has handled numerous housing projects for major developers and a variety of corporate as well as off-shore loan documentations. He is also specialised in Syariah Corporate Law and Syariah Conveyancing/Security documentation. He is an advisor for internal disciplinary inquiry committees of various organisations. He is also involved in Commercialisation of Biotechnology Products and Services and familiar with the Malaysian Intellectual Property laws. He is a committee member of the Kuala Lumpur Malay Chamber of Commerce and is the Chairman of the Professional Committee of the said Chamber. He is the Deputy President of Southampton University United Kingdom Alumni and a committee member of both the Malay College Old Boys Association (MCOBA) and Lincoln's Inn Alumni. He holds non-executive directorships in various companies.

Encik Mohamed Razif sits on the Audit Committee.

He does not have any family relationship with any directors and/or major shareholders of the Company. He does not have any interest in the securities of the Company or its subsidiaries. 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 2005

During the financial year ended 31 December 2005, a total of five (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
Soo Chung Yee	4 of 5
Wong Chee Kheen	3 of 3 *
Raja Zainal Abidin bin Raja Hussin	4 of 5
Col. (Rtd.) Dato' Ir. Cheng Wah	2 of 2 *
Soo Wei Chian	2 of 2 *
Noorhamimah Binti Mohd. Baseri	2 of 2 *
Mohamed Razif Bin Tan Sri Abdul Aziz	N/A
Tan Sri Dato' Mohamed Yusoff bin Mohamed	4 of 5 ***
Lee Kah Keng @ Lee Kah Heng	2 of 3 **
Mohamed Harmy bin Tan Sri Dato' Yusoff	2 of 2 **
Loh Poh Im	2 of 2 **
Lee Thye @ Lee Chooi Yoke	2 of 2 **
Soo Suat Swon	2 of 2 **

* Appointed during the financial year ended 31 December 2005.

** Resigned during the financial year ended 31 December 2005.

*** Resigned after the financial year ended 31 December 2005.

N/A Not Applicable. Appointed after the financial year ended 31 December 2005.

1. COMPOSITION OF AUDIT COMMITTEE

Col. (Rtd.) Dato' Ir. Cheng Wah (Chairman)	Independent Non-Executive Director
Y. M. Raja Zainal Abidin Bin Raja Hussin	Independent Non-Executive Director
Wong Chee Kheen (MIA)	Non-Independent Executive Director
Soo Wei Chian (MIA)	Non-Independent Non-Executive Director
Noorhamimah Binti Mohd. Baseri	Independent Non-Executive Director
Mohamed Razif Bin Tan Sri Abdul Aziz	Independent Non-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 1st 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 1st 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.

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

MEETINGS (Cont'd)

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.
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;

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

2. To review the following and report the same to the Board of Directors:- (Cont'd)
 - 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).
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 ended 31 December 2005, four (4) Audit Committee Meetings were held. Details of the attendance of each Committee Member are as follows:-

Name of Audit Committee Member	Attendance
Col. (Rtd.) Dato' Ir. Cheng Wah (Chairman)	2 of 2 *
Y. M. Raja Zainal Abidin Bin Raja Hussin	3 of 4
Wong Chee Kheen	2 of 2 *
Soo Wei Chian	2 of 2 *
Noorhamimah Binti Mohd. Baseri	2 of 2 *
Mohamed Razif Bin Tan Sri Abdul Aziz	N/A
Tan Sri Dato' Mohamed Yusoff Bin Mohamed	3 of 4 ***
Loh Poh Im	2 of 2 **
Mohamed Harny Bin Tan Sri Dato' Yusoff	2 of 2 **

* Appointed during the financial year ended 31 December 2005.

** Resigned during the financial year ended 31 December 2005.

*** Resigned after the financial year ended 31 December 2005.

N/A Not Applicable. Appointed after the financial year ended 31 December 2005.

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' 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:-

- a. Mapping of the current state of procedures and process.
- b. Testing, evaluating and identifying potential areas that lack internal control.
- c. Analysing and assessing certain key operation processes, report findings and make recommendation for improvements.
- d. Reviewing compliance with established policies and procedures, as well as assessing the adequacy and effectiveness of the Group's internal control.
- e. Performing ad-hoc task as requested by the Audit Committee.

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 8 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 2 Executive Directors, 1 Non Independent Non Executive Director and 4 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 was renamed Management Council recently in the year 2005.

The Management Council 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, minutes of Board Committees, 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 27th 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, Y.M. Raja Zainal Abidin Bin Raja Hussin and Cik Noorhamimah Binti Mohd. Baseri. 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 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

The Directors have attended various training programmes accredited by Bursa Malaysia. The Directors will continue to attend other relevant training programmes as and when the Board deems necessary to enhance their skills and knowledge.

DIRECTORS' REMUNERATION

The Board set up the Remuneration Committee on 27th 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, Cik Noorhamimah Binti Mohd. Baseri and Mr. Soo Chung Yee. 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, whereas 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 including the estimated monetary value of benefit in kind for the financial year under review is disclosed in Note 21 to the financial statements.

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 69 of this Annual Report.

Internal Controls

The Board recognizes its responsibilities to maintain a sound system of internal controls to safeguard shareholders investment and Group's assets.

The review of the system of internal control is set out in the Statement of Internal Control on page 17 of this Annual Report.

Audit Committee / Relationship with Auditors

The Audit Committee works closely with the external auditors and maintains a transparent professional relationship with them.

A summary of the activities of the Audit Committee during the year are set out in the Audit Committee Report on pages 10 to 13 of this Annual Report.

Employees' Share Option Scheme ("ESOS") Committee

The ESOS Committee was formed in 2004 in accordance with the Bye-Laws to administer the Company's ESOS.

The ESOS Committee comprises Mr. Soo Thien Ming, Mr. Soo Chung Yee, Mr. Wong Chee Kheen and Mr. Soo Wei Chian. Mr. Soo Thien Ming is the Chairman of the ESOS Committee.

The ESOS Committee may, at its sole and absolute discretion at any time during the duration of the ESOS, make offers to selected eligible employees based on the criteria for allotment as set forth in the Bye-Laws. The ESOS Committee must ensure that the allocation of options is verified by the Audit Committee.

BOARD RESPONSIBILITY

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. Due to limitations inherent in any system of internal control, it is important to note that the system is designed to manage rather than eliminate risk of failure to achieve corporate objectives. Therefore, the system can only provide reasonable and not absolute assurance against material misstatement or loss.

RISK MANAGEMENT

The Board also recognizes that risk management should be an integral part of the Group culture and is a continuous on going process of identifying, evaluating, minimizing and managing of risk. The management is responsible for creating risk awareness culture and to build the necessary environment for effective risk management. 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 highlighted to the Board. If deemed necessary, assistance from external parties shall be consulted on issues in which the Board needs to seek an opinion.

KEY ELEMENTS OF INTERNAL CONTROLS

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

1. The Group has a well defined organization structure with clear lines of reporting, responsibilities and level of authority.
2. There are clear definition of authorization procedure for major operating functions including purchases, capital expenditures, payment, credit control and 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 performance of each operating unit is monitored through monthly reports.
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 senior management also regularly highlights the significant issues and changes in the business, major policy matters, external environment affecting the Group and financial performance of each operating unit to the Management Council.

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 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 since 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 & HACCP System certificate since 2002. Good Manufacturing Practice is documented and practiced to ensure food safety.
10. In ensuring each operating unit is functioning efficiently, much emphasis is placed on personnel employed. 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.

18 DIRECTORS' RESPONSIBILITY STATEMENT AND OTHER INFORMATION**DIRECTORS' RESPONSIBILITY STATEMENT**

The Board of Directors is required under Paragraph 15.27(a) of the Listing Requirements of the Bursa Malaysia Securities Berhad ("Bursa Malaysia") 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 2005 as set out herein on pages 29 to 68 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**

There were no 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

There were no non-audit fees paid to the Auditors, Messrs. Monteiro & Heng, during the financial year.

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

During the financial year 2004, the Company issued 19,845,000 free detachable warrants ("Warrants") at an exercise price of RM1.74 and the period of the Warrants is five years from the date of issuance of the Warrants. None of the Warrants was exercised during the financial year.

The Company also implemented an Employees' Share Option Scheme ("ESOS") during the financial year 2004 which shall be in force for a period of five years from the date of the implementation of the ESOS with an option to renew for a further period of up to five years. No ESOS was exercised 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 2005 and the unaudited results previously released for the financial quarter ended 31 December 2005.

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.

Dear Shareholders,

On behalf of the Board of Directors of Hwa Tai Industries Berhad, I am pleased to present the Thirty-First Annual Report and the Audited Financial Statements of the Group and the Company for the financial year ended 31 December 2005.

MANAGEMENT DEVELOPMENT

The year 2005 saw some major changes in the composition of the Board of Directors and Management of the Group. We have now a new team of highly professional and dedicated people to help the Group recover from its lackluster performance in the past few years.

These changes were made following my emergence as the new controlling shareholder of the Company in mid 2004. In starting a new chapter, besides restructuring the Board and Management, the Group also made various substantial one-off provisions which details are explained in the Financial Review section hereunder.

From a clean new page, the new team hopes to steer the Group to the road of recovery and prosperity.

BUSINESS ENVIRONMENT

Throughout 2005, Hwa Tai continued to operate in a highly competitive and challenging business environment in the Fast Moving Consumer Goods industry. External influences such as sharp increases in raw and packaging materials and escalating commodity prices intensified the pressures faced by the Group. Notwithstanding these developments, the Malaysian economy remained resilient, buoyed by strong underlying domestic fundamentals to support consumer spending.

FINANCIAL REVIEW

Hwa Tai Industries Berhad has recorded a Group turnover of RM82.5 million for the year ended 31 December 2005. This turnover was 10% softer than those recorded in the year of 2004 which was due to the termination of non-performing agencies in the Trading arm.

However the turnover at company level has achieved a 5.3% improvement in turnover of RM57.1 million as compared to 2004 turnover of RM54.2 million.

2005 business losses before tax has increased to RM18.9 million mainly resulted from the one-off provisions in respect of the impairment loss on properties, old bad debts, old bad stock from agencies and customers terminated by the previous regime.

With the above legacy write-off, the net loss per share has increased to 47 sen in 2005 while the net tangible asset per share has been eroded to RM0.35.

CORPORATE DEVELOPMENTS

In February 2005, AmMerchant Bank Berhad announced on behalf of the Company a proposal to undertake a private placement of new shares in the Company representing up to 10% of the issued and paid-up share capital of the Company ("Proposed Placement"). Funds raised from the Proposed Placement shall be utilised for working capital requirements. The Securities Commission had approved the Proposed Placement in June 2005.

The deadline for the implementation of the Proposed Placement, which expired in December 2005, had subsequently been approved by the Securities Commission for extension of six months up to June 2006. The Proposed Placement is now pending negotiation and implementation.

OUTLOOK AND FUTURE PROSPECTS

Hwa Tai's brand name has been a household name for many in Malaysia over the years. With a strong brand name, we will continue to seek new avenues for growth and we are committed to delivering high quality products that meet the expectations of our customers.

The prospect for the Malaysian economy in 2006 remains strong with the expected positive economic and political environment. Aided with these optimistic sentiments and barring unforeseen circumstances, I am confident that our new team of Board and Management will be able to turn around the Group in 2006 and drive the Group to greater heights.

ACKNOWLEDGEMENT

The Group will continue to rely on the patronage of our valued customers and the support of our suppliers, distributors, bankers, business associates and regulatory authorities, and to these the Board and Management of Hwa Tai Industries Berhad wish to extend our heartfelt gratitude. We would also like to express our sincere appreciation to our esteemed Shareholders for the confidence placed on the Company.

I wish to extend a warm welcome to the new Directors namely, YBhg. Col. (Rtd.) Dato' Ir. Cheng Wah, Mr. Wong Chee Kheen, Mr. Soo Wei Chian, Cik Noorhamimah Binti Mohd. Baseri and Encik Mohamed Razif Bin Tan Sri Abdul Aziz to the Board and look forward to their contributions to the Company.

Lastly, the Board would like to thank all its employees for their continued commitment and contributions.

SOO THIEN MING @ SOO THIEN SEE

Chairman

2 June 2006

The directors hereby submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 31st December 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Company are that of a biscuit manufacturer and investment holding. The principal activities of the subsidiary companies are disclosed in Note 4 to the financial statements.

There have been no significant changes to the nature of these principal activities during the financial year.

RESULTS

	GROUP RM	COMPANY RM
Lost after taxation	(19,005,672)	(5,955,233)
Minority interest	–	–
Net loss for the year	(19,005,672)	(5,955,233)

DIVIDENDS

No dividend was paid or declared by the Company since the end of the previous financial year.

The directors do not recommend the payment of any dividend in respect of the financial year ended 31st December 2005.

RESERVES AND PROVISIONS

All material transfers to and from reserves and provisions during the financial year have been disclosed in the financial statements.

BAD AND DOUBTFUL DEBTS

Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that there are no known bad debts and adequate allowance had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances which would necessitate the writing off for bad debts, or render the amount of the allowance for doubtful debts, in the financial statements of the Group and of the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Group and of the Company had been written down to an amount that they might be expected to realise.

At the date of this report, the directors are not aware of any circumstances that would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:-

- (i) any charge on the assets of the Group and of the Company that has arisen since the end of the financial year which secures the liabilities of any other person, or
- (ii) any contingent liability in respect of the Group and of the Company that has arisen since the end of the financial year, other than as disclosed in Note 28 to the financial statements.

No contingent liability or other liability of the Group and of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Group and of the Company, that would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and of the Company for the financial year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

ISSUE OF SHARES AND DEBENTURES

During the financial year, the Company has not issued any shares or debentures.

EMPLOYEES' SHARE OPTION SCHEME

The Company's Employees' Share Option Scheme ("ESOS") is governed by the by-laws which was approved by the shareholders at an Extraordinary General Meeting held on 16th February 2004 and subsequently amended at an Extraordinary General Meeting held on 13th December 2004 and shall be in force for a period of five (5) years from the date of implementation on 6th May 2004, with an option to renew for a further period of up to five (5) years.

EMPLOYEES' SHARE OPTION SCHEME (Cont'd)

The main features of the ESOS are as follows:-

- (a) The maximum number of new ordinary shares in the Company which may be made available under the share options ("Options") granted pursuant to the ESOS shall not exceed fifteen percent (15%) of the issued and paid-up share capital of the Company at any one time during the duration of the ESOS, or such percentage of the issued and paid-up share capital of the Company as may be permitted by the authorities from time to time during the duration of the ESOS. The Company will for the duration of the ESOS make available sufficient number of unissued shares in the authorised share capital of the Company to satisfy all outstanding Options which may be exercisable from time to time throughout the duration of the ESOS.
- (b) An Eligible Employee is any Director or employee of the Company or its subsidiaries ("the Group") who at the date of offer:-
 - (i) has attained at least eighteen (18) years of age;
 - (ii) is not an employee on probation nor an employee on a fixed term contract of less than two (2) years' duration, whether renewable or not;
 - (iii) in the case of the Director or employee of a corporation which is acquired by the Group during the duration of the ESOS and such corporation becomes a subsidiary of the Company upon completion of such acquisition, the Director or employee must not be an employee on probation nor an employee on a fixed term contract of less than two (2) years' duration, whether renewable or not, following the date that such corporation becomes or is deemed to be a subsidiary of the Company;
 - (iv) is not a participant of any other employees share option scheme implemented by any other corporation within the Group and which is in force for the time being;
 - (v) the Executive Director or employee has attained the mandatory retirement age of fifty five (55) years old and has served for a continuous period of at least one (1) year in any corporation in the Group prior to attaining the said mandatory retirement age, and has been subsequently offered continued employment with such corporation for a minimum period of one (1) year and at the time of consideration for the offer, he continues to be so employed.

No Eligible Employee of the Group shall participate at any time in more than one (1) employees share option scheme implemented by any corporation within the Group.

- (c) Basis of allotment and maximum allowable allotment to eligible employees:-
 - (i) The aggregate number of Options to be offered to any Eligible Employee in accordance with the ESOS shall be determined at the discretion of the ESOS Committee, subject to the maximum allowable limits for the category corresponding to his/her position.
 - (ii) Subject always to the directive, policies, instructions and guidelines of the relevant authorities and all applicable laws, not more than fifty percent (50%) of the Options available under the ESOS shall be allocated in aggregate to Directors and senior management of the Group but not more than ten percent (10%) of the Options available under the ESOS shall be allocated to any individual Eligible Employee of the Group who either singly or collectively through persons connected with the Eligible Employee holds twenty percent (20%) or more in the issued and paid-up share capital of the Company.

EMPLOYEES' SHARE OPTION SCHEME (Cont'd)**(c) Basis of allotment and maximum allowable allotment to eligible employees:- (Cont'd)**

- (iii) In the event that an Eligible Employee is promoted, the maximum allowable limit applicable to such Eligible Employee shall, upon such promotion, be the maximum allowable limit for the category corresponding to his/her new grade.
- (iv) Notwithstanding the above, the number of Options to be offered to each Eligible Employee shall be at the sole and absolute discretion of the ESOS Committee, subject to each Eligible Employee's maximum allowable limit. In exercising its discretion in considering the number of Options to be offered, the ESOS Committee shall take into consideration (inter alia) the seniority, position, performance and length of service of each Eligible Employee. The decision of the ESOS Committee shall be final and binding.

- (d) The price at which a grantee is entitled to subscribe for each new share shall be based on the weighted average market price of the ordinary shares of the Company as shown in the daily official list issued by Bursa Malaysia Securities Berhad for the five (5) market days immediately preceding the offer date, subject to a discount of not more than ten percent (10%) or at the par value of the shares, whichever is higher.

- (e) The Options granted to a grantee under the ESOS is, subject to the provisions of Bye-Law 17 (Termination and/or Suspension of Exercise of Options), exercisable only by that grantee during his/her lifetime and whilst he/she is in the employment of the Group and within the option period.

Upon acceptance of an offer, the grantee may during the option period exercise the Options, during normal business hours on a market day in such manner and subject to such conditions as are stipulated in the offer letter, provided always that the exercise of the Options shall be subject to the following limits, save as otherwise expressly provided:-

Number of Option Shares Granted	Maximum Percentage of Option Shares Exercisable by the Selected Eligible Employee within each particular year of the Option Period*		
	Year 1	Year 2	Year 3 onwards
Below 20,000	100 %	—	—
20,000 and above	60 %**	80%	100%

* Cumulative

** 60% or 20,000 Option Shares, whichever is the higher

Options exercisable in a particular year but not exercised may be carried forward to the subsequent years provided that no Options shall be exercised beyond the last day of the option period. Any Options that remain unexercised at the expiry of the option period shall automatically lapse and be null and void and be of no further force and effect.

- (f) The new shares to be allotted and issued upon any exercise of an Option shall upon such allotment and issuance rank pari passu in all respects with the then existing issued and fully paid-up share capital of the Company, save and except that they will not be entitled to any dividend rights, allotments and/or other distributions, declared, made or paid to shareholders the entitlement date of which precedes the relevant date of allotment of the new shares and will be subject to all the provisions of the Articles of Association of the Company relating to voting, transfer, transmission and otherwise of the shares.

EMPLOYEES' SHARE OPTION SCHEME (Cont'd)

The summary movement in the options exercisable by the Eligible Employees during the financial year to take up unissued ordinary shares of RM1/- each at the option price of RM1.3138 per share were as follows:-

Total Option Granted	Options Exercisable (including Directors) Over Ordinary Shares of RM1/- each				
	Exercisable	Additional Exercisable	Exercised	Lapsed	Exercisable
	At 1.1.2005				At 31.12.2005
3,222,000	1,796,600	190,000	–	970,900	1,015,700

On 13th March 2006, the Company had been granted an exemption by the Companies Commission of Malaysia from having to disclose the details of options holders who have been granted options in aggregate of less than 80,000 options. The details of the option holders in aggregate of 80,000 and above during the financial year are set out below:-

	Total Options Granted	Options Exercisable (including Directors) Over Ordinary Shares of RM1/- each				
		Exercisable	Additional Exercisable	Exercised	Lapsed	Exercisable
		At 1.1.2005				At 31.12.2005
Loh Poh Im	350,000	205,000	–	–	205,000	–
Tai Chee Moi	100,000	60,000	20,000	–	–	80,000
Yap Ket Loong	80,000	48,000	16,000	–	–	64,000
Chia Seor Boay	80,000	47,000	16,000	–	–	63,000
Foong Chee Kwong	80,000	48,000	16,000	–	64,000	–
Tan Boon Kok	80,000	48,000	16,000	–	64,000	–

WARRANTS 2004/2009

In the financial year 2004, the Company had issued of 19,845,000 free detachable warrants. The detachable warrants carry the rights for subscribe 1 new ordinary share of RM1/- each at the exercise price of RM1.74 each and within the exercise period of five (5) years from the date of issuance of the warrants.

Upon expiry of the exercise period, any unexercised warrants will lapse and cease to be valid for any purpose.

As at the end of the financial year, no exercise of warrants had taken place.

DIRECTORS

The directors in office since the date of the last report are:-

Soo Thien Ming @ Soo Thien See	
Soo Chung Yee	
Y.M. Raja Zainal Abidin Bin Raja Hussin	
Wong Chee Kheen	- appointed on 1.7.2005
Col. (Rtd.) Dato' IR. Cheng Wah	- appointed on 1.8.2005
Soo Wei Chian	- appointed on 1.8.2005
Noorhamimah Binti Mohd Baseri	- appointed on 1.8.2005
Mohamed Razif Bin Tan Sri Abdul Aziz	- appointed on 20.3.2006
Lee Thye @ Lee Chooi Yoke	- resigned on 27.6.2005
Soo Suat Swon	- resigned on 27.6.2005
Loh Poh Im	- resigned on 1.7.2005
Lee Kah Keng @ Lee Kah Heng	- resigned on 1.8.2005
Mohamed Harmy Bin Tan Sri Dato' Yusoff	- resigned on 1.8.2005
Tan Sri Dato' Mohamed Yusoff Bin Mohamed	- resigned on 20.3.2006

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings, the interests of those directors who held office at the end of the financial year in shares, warrants and options in the Company during the financial year are as follows:-

	Number of ordinary shares of RM1/- each			
	At 1.1.2005	Bought	Sold	At 31.12.2005
Soo Thien Ming @ Soo Thien See				
- direct	5,923,927	3,233,000	-	9,156,927
Y.M. Raja Zainal Abidin Bin Raja Hussin				
- direct	89,000	37,300	-	126,300
Soo Chung Yee				
- direct	-	10,200	-	10,200
	Number of warrants for shares of RM1/- each, exercisable at RM1.74 per share			
	At 1.1.2005	Offered/ Bought	Exercised/ Sold	At 31.12.2005
Soo Thien Ming @ Soo Thien See				
- direct	2,977,123	-	-	2,977,123
Y.M. Raja Zainal Abidin Bin Raja Hussin				
- direct	45,750	-	-	45,750

Other than as stated above, none of the other directors in office at the end of the financial year had any interest in shares, warrants or options in the Company or its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit (other than as disclosed in the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Neither during nor at the end of the financial year was the Company or any of its related corporations a party to any arrangement whose object was to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate apart from the Directors' entitlements to subscribe for new ordinary shares in the Company under the ESOS of the Company.

AUDITORS

The auditors, Messrs Monteiro & Heng, have expressed their willingness to continue in office.

On behalf of the Board,

SOO THIEN MING @ SOO THIEN SEE

Director

WONG CHEE KHEEN

Director

Kuala Lumpur
25 April 2006

		GROUP		COMPANY	
	Note	2005 RM	2004 RM	2005 RM	2004 RM
NON-CURRENT ASSETS					
Property, plant and equipment	3	35,882,728	40,860,195	25,984,670	30,399,960
Investment in subsidiary companies	4	–	–	5,587,074	6,587,074
Amount owing by a subsidiary company	5	–	–	875,303	872,127
Goodwill on consolidation	6	23,542	23,542	–	–
CURRENT ASSETS					
Inventories	7	4,913,411	11,380,252	4,166,740	4,208,217
Amount due from customers for construction contracts	8	–	1,297,726	–	–
Trade and sundry receivables	9	19,339,229	28,297,619	11,979,490	8,304,989
Tax recoverable		537,934	463,911	496,130	429,267
Amounts owing by subsidiary companies	5	–	–	22,590,399	24,553,791
Fixed deposits placed with a licensed bank		–	103,710	–	–
Cash and bank balances		1,129,106	916,697	254,118	104,197
		25,919,680	42,459,915	39,486,877	37,600,461
Less:					
CURRENT LIABILITIES					
Trade and sundry payables	10	21,952,286	19,689,250	16,905,390	12,937,490
Amount owing to a subsidiary company	11	–	–	399,786	399,763
Hire purchase liabilities	12	668,655	1,027,077	454,863	738,434
Provisions	13	675,310	360,337	391,501	125,000
Short term borrowings	14	20,175,000	21,930,171	16,459,000	17,018,171
Term loans	15	987,868	987,868	–	–
Tax payable		156,064	1,232,546	–	–
Bank overdrafts	16	1,296,301	2,100,821	1,244,187	2,100,821
		45,911,484	47,328,070	35,854,727	33,319,679
NET CURRENT (LIABILITIES)/ASSETS		(19,991,804)	(4,868,155)	3,632,150	4,280,782
		15,914,466	36,015,582	36,079,197	42,139,943

BALANCE SHEETS (Cont'd)

	Note	GROUP		COMPANY	
		2005 RM	2004 RM	2005 RM	2004 RM
FINANCED BY:					
Share capital	17	40,042,400	40,042,400	40,042,400	40,042,400
Capital reserve	18	7,664	7,664	7,664	7,664
(Accumulated losses)/Unappropriated profits		(26,075,770)	(7,070,098)	(4,280,643)	1,674,590
Shareholders' funds		13,974,294	32,979,966	35,769,421	41,724,654
Minority interest		–	–	–	–
Total equity		13,974,294	32,979,966	35,769,421	41,724,654
NON-CURRENT LIABILITIES					
Hire purchase liabilities	12	556,632	875,937	309,776	415,289
Term loans	15	1,362,114	2,142,429	–	–
Deferred taxation	19	21,426	17,250	–	–
		15,914,466	36,015,582	36,079,197	42,139,943

The accompanying notes form an integral part of these financial statements.

INCOME STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005

31

	Note	GROUP		COMPANY	
		2005 RM	2004 RM	2005 RM	2004 RM
REVENUE	20	82,515,063	92,077,119	57,086,419	54,226,408
Cost of sales		(70,848,257)	(76,256,577)	(49,258,619)	(46,515,595)
GROSS PROFIT		11,666,806	15,820,542	7,827,800	7,710,813
Other operating income		248,631	895,205	649,217	1,250,773
Selling and distribution expenses		(7,173,711)	(6,208,789)	(4,253,197)	(4,169,572)
Administrative expenses		(20,645,356)	(13,615,422)	(6,320,202)	(4,607,076)
OPERATING (LOSS)/PROFIT	21	(15,903,630)	(3,108,464)	(2,096,382)	184,938
Finance costs	22	(1,366,636)	(2,110,955)	(924,662)	(1,475,102)
Loss from investing activities	23	(1,714,761)	(4,674,435)	(2,917,720)	(2,277,152)
Corporate exercise expenses	24	–	(999,962)	–	(999,962)
LOSS BEFORE TAXATION		(18,985,027)	(10,893,816)	(5,938,764)	(4,567,278)
Taxation	25	(20,645)	4,397	(16,469)	–
LOSS AFTER TAXATION		(19,005,672)	(10,889,419)	(5,955,233)	(4,567,278)
Minority interest		–	25,248	–	–
NET LOSS FOR THE YEAR		(19,005,672)	(10,864,171)	(5,955,233)	(4,567,278)
Loss per ordinary shares (sen)	26				
Basic		(47)	(29)		

The accompanying notes form an integral part of these financial statements.

32 STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2005

	Share Capital RM	Capital Reserve RM	Share Premium RM	(Accumulated Losses)/ Unappropriated Profits RM	Total RM
GROUP					
Balance at 1st January 2004	13,230,000	7,664	–	6,440,073	19,677,737
Issuance of shares					
- Two-call rights issue	26,460,000	–	–	(2,646,000)	23,814,000
- pursuant to ESOS	352,400	–	110,583	–	462,983
Shares issue expenses	–	–	(110,583)	–	(110,583)
Net loss for the year	–	–	–	(10,864,171)	(10,864,171)
Balance at 31st December 2004	40,042,400	7,664	–	(7,070,098)	32,979,966
Net loss for the year	–	–	–	(19,005,672)	(19,005,672)
Balance at 31st December 2005	40,042,400	7,664	–	(26,075,770)	13,974,294
COMPANY					
Balance at 1st January 2004	13,230,000	7,664	–	8,887,868	22,125,532
Issuance of shares					
- Two-call rights issue	26,460,000	–	–	(2,646,000)	23,814,000
- pursuant to ESOS	352,400	–	110,583	–	462,983
Shares issue expenses	–	–	(110,583)	–	(110,583)
Net loss for the year	–	–	–	(4,567,278)	(4,567,278)
Balance at 31st December 2004	40,042,400	7,664	–	1,674,590	41,724,654
Net loss for the year	–	–	–	(5,955,233)	(5,955,233)
Balance at 31st December 2005	40,042,400	7,664	–	(4,280,643)	35,769,421

The accompanying notes form an integral part of these financial statements.

CASH FLOW STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2005

33

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
CASH FLOWS FROM OPERATING ACTIVITIES:				
Loss before taxation	(18,985,027)	(10,893,816)	(5,938,764)	(4,567,278)
Adjustments for:				
Allowance for doubtful debts	8,016,639	1,423,405	1,313,584	55,104
Allowance for doubtful debts no longer required	–	–	–	(313,996)
Allowance for inventories obsolescence	2,458,548	400,000	749,434	–
Depreciation	3,449,195	3,546,467	2,841,128	2,815,664
Gain on disposal of property, plant and equipment	(50,551)	(487,725)	(33,251)	(426,924)
(Gain)/loss on disposal of a subsidiary company	(202,960)	–	999,999	–
Impairment loss on properties	1,917,721	2,397,283	1,917,721	–
Impairment loss on investment in subsidiary company	–	–	–	2,277,152
Impairment loss on goodwill	–	2,277,152	–	–
Interest income	(339)	(63,817)	(339)	(63,817)
Interest expenses	1,366,636	2,110,955	924,662	1,475,102
Loss on inventories	–	179,398	–	179,398
Property, plant and equipment written off	109,060	950	–	269
Provision for expenses	2,169,991	902,189	900,601	155,007
Share issues expenses	–	999,962	–	999,962
Unrealised loss on foreign exchange	31,000	–	31,000	–
	279,913	2,792,403	3,705,775	2,585,643
Changes in Working Capital:				
Inventories	4,008,293	(1,302,511)	(707,957)	(838,231)
Receivables	910,751	(2,083,996)	(5,019,085)	(1,132,002)
Payables	2,693,800	(4,081,518)	3,967,900	(2,526,631)
Balances with subsidiary companies	–	–	2,067,666	(6,222,305)
Utilisation of provision of expenses	(1,855,018)	(1,370,974)	(634,100)	(165,801)
	6,037,739	(6,046,596)	3,380,199	(8,299,327)
Interest paid	(715,460)	(948,652)	(281,537)	(328,544)
Tax paid	(90,492)	(267,804)	(83,332)	(262,500)
Tax refund	–	279,069	–	279,069
Net Operating Cash Flow	5,231,787	(6,983,983)	3,015,330	(8,611,302)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property, plant and equipment *	(377,200)	(534,921)	(328,026)	(487,353)
Disposal of a subsidiary company net of cash**	(6,560)	–	1	–
Proceeds from disposal of property, plant and equipment	79,242	664,900	60,291	601,851
Interest received	339	63,817	339	63,817
Net Investing Cash Flow	(304,179)	193,796	(267,395)	178,315

CASH FLOW STATEMENTS (Cont'd)

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
CASH FLOW FROM FINANCING ACTIVITIES:				
Repayments of short term borrowings	(1,755,171)	(3,758,719)	(559,171)	(3,002,719)
Proceeds from issuance of shares	-	24,276,983	-	24,276,983
Payment of shares issue expenses	-	(1,110,545)	-	(1,110,545)
Repayments of term loans	(780,315)	(7,566,842)	-	(6,836,307)
Repayment of hire purchase creditors	(827,727)	(1,301,291)	(539,084)	(917,716)
Interest paid	(651,176)	(1,162,303)	(643,125)	(1,146,558)
Net Financing Cash Flow	(4,014,389)	9,377,283	(1,741,380)	11,263,138
NET CHANGE IN CASH AND CASH EQUIVALENTS	913,219	2,587,096	1,006,555	2,830,151
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	(1,080,414)	(3,667,510)	(1,996,624)	(4,826,775)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	(167,195)	(1,080,414)	(990,069)	(1,996,624)
ANALYSIS OF CASH AND CASH EQUIVALENTS:				
Fixed deposits	-	103,710	-	-
Cash and bank balances	1,129,106	916,697	254,118	104,197
Bank overdrafts	(1,296,301)	(2,100,821)	(1,244,187)	(2,100,821)
	(167,195)	(1,080,414)	(990,069)	(1,996,624)

Group

- * During the financial year, the Group acquired property, plant and equipment amounting to RM527,200/- (2004 : RM1,083,754/-) of which RM178,000/- (2004 : RM582,672/-) were acquired under hire purchase instalment plans. Cash payments amounting to RM28,000/- (2004 : RM33,839/-) were made towards the hire purchase.

Company

- * During the financial year, the Company acquired property, plant and equipment amounting to RM478,026/- (2004 : RM537,755/-) of which RM178,000/- (2004 : RM55,579/-) were acquired under hire purchase instalment plans. Cash payments amounting to RM28,000/- (2004 : RM5,177/-) were made towards the hire purchase.

Group
2005
RM

**** SUMMARY OF EFFECTS ON DISPOSAL OF INTEREST IN A SUBSIDIARY COMPANY**

Net assets disposed of:

Amount due from customer for construction contracts

1,297,726

Payables

(430,764)

Cash and bank balances

6,561

Tax payable

(1,076,482)

Net liabilities disposed

(202,959)

Gain on disposal

202,960

Total consideration received from disposal

1

Net of cash:

Cash and bank balances disposed

(6,561)

Net cash outflow from disposal of a subsidiary company

(6,560)

On 3rd August 2005, the Company disposed of the entire equity interest in Satria Potensi Sdn. Bhd. for a total consideration of RM1/-.

1. GENERAL INFORMATION

The principal activities of the Company are that of a biscuit manufacturer and investment holding. The principal activities of the subsidiary companies are disclosed in Note 4 to the financial statements. There have been no significant changes to the nature of these principal activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Second Board of the Bursa Malaysia Securities Berhad.

The registered office and principal place of business of the Company are both located at No. 12, Jalan Jorak, Kawasan Perindustrian Tongkang Pecah, 83010 Batu Pahat, Johor Darul Takzim.

The number of employees of the Group and of the Company at the end of the financial year were 765 (2004 : 958) and 593 (2004 : 543) respectively.

The financial statements are expressed in Ringgit Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 25th April 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention modified to include the revaluation of certain assets and comply with the provisions of the Companies Act, 1965 and the application accounting standards in Malaysia, unless otherwise indicated in the accounting policies set out below.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiary companies made up to the end of the financial year.

The financial statements of the subsidiary companies are consolidated using the acquisition method of accounting, commencing from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

At the date where control is transferred to the Group, the fair values of the subsidiary company's net assets are determined and these values are reflected in the consolidated financial statements. The difference between the acquisition cost and the fair values of the subsidiary companies' net assets is reflected as goodwill or reserve on consolidation.

Intra group 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.

Minority interest represents the interest of outside members in the operating results and net assets of subsidiary companies.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**(b) Basis of Consolidation (Cont'd)**

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

The financial statements of the parent and its subsidiary companies are all drawn up to the same reporting date.

(c) Goodwill on Consolidation

Goodwill represents the excess of the fair value of purchase consideration of subsidiary and associated companies acquired over the Group's share of the fair values of their identifiable assets and liabilities at the date of acquisition.

The carrying amount of goodwill is reviewed annually and is written down for impairment where it is considered necessary.

(d) Subsidiary Companies

Subsidiary companies are those enterprises in which the Company has power to exercise control over the financial and operating policies so as to obtain benefits from its activities.

Investments in subsidiary companies are stated at cost less impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(u).

(e) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment loss, if any. The policy for the recognition and measurement of impairment loss is in accordance with Note 2(u).

Leasehold properties are amortised over the remaining lease periods ranging from 41 to 99 years. No depreciation is provided on the freehold land as it has infinite useful life. Capital work in progress will be depreciated when the property, plant and equipment are ready for their intended use. Depreciation of other property, plant and equipment is provided on the straight line basis to write off the cost or valuation of each asset to its residual value over their estimated useful life at the following rates:-

Freehold building	2%
Renovation	10%
Plant and machinery	5% - 10%
Office equipment, furniture and fittings and vehicles	10% - 20%

Fully depreciated assets are retained in the accounts until the assets are no longer in use.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**(f) Revaluation of Assets**

The directors have applied the transitional provision of Financial Reporting Standards 116²⁰⁰⁴ Property, Plant and Equipment which allows the assets to be stated at their last revaluation amounts less depreciation. Accordingly these revaluations have not been updated.

Surpluses arising on revaluation are credited to the Revaluation Reserve Account. Any deficit arising from revaluation is charged against the Revaluation Reserve Account to the extent of a previous surplus held in the Revaluation Reserve Account for the same asset. In all other cases, a decrease in carrying amount is charged to income statement.

(g) Borrowing Costs

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

(h) Inventories

Inventories are stated at the lower of cost and net realisable value, cost being determined on the first-in, first-out basis.

Raw materials, packing materials and consumable stores comprise purchase price and carriage costs. Cost of manufactured finished goods and work-in-progress include direct materials, direct labour and an allocation of manufacturing overheads.

(i) Receivables

Receivables are carried at anticipated realisable value. 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.

(j) Payables

Payables are stated at cost which is the fair values of the consideration to be paid in the future, whether or not billed to the Group.

(k) Construction Contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date.

When the outcome of a construction contract cannot be estimated reliably, contract revenue are recognised only to the extent of contract costs incurred that it is probable to be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When costs incurred plus attributable profits or less foreseeable losses, if any, exceed progress billings, the balance is shown as amounts due from customers for contract works. When progress billings exceed costs incurred plus attributable profits or less foreseeable losses, if any, the balance is shown as amounts due to customers for contract works.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**(l) Employee Benefits****(i) Short term employee benefits**

Wages, salaries, social security contribution, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees.

(ii) Post-employment benefits

The Group contributes to the Employees' Provident Fund, the national defined contribution plan. The contributions are charged to the income statement in the period to which they are related. Once the contributions have been paid, the Group has no further payment obligations.

(iii) Equity compensation benefits

The Company's ESOS allows the Group's employees to acquire shares of the Company. No compensation cost or obligation is recognised when the options are exercised, equity is increased by the amount of the proceeds received.

(m) 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.

(n) Hire Purchase

Assets financed by hire purchase arrangements which transfer substantially all the risks and ownership to the Group are capitalised as property, plant and equipment, and the corresponding obligations are treated as liabilities. The assets so capitalised are depreciated in accordance with the accounting policy on property, plant and equipment. Finance charges are charged to the income statements over the period of the respective agreements.

(o) Foreign Currency Translation

Transactions in foreign currencies are converted into Ringgit Malaysia at exchange rates prevailing at transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated into Ringgit Malaysia at the rates ruling at the balance sheet date. All exchange differences are taken to the income statement.

The principal closing rates used at the balance sheet date used are as follows:-

Foreign currencies	2005 RM	2004 RM
1 United States Dollar	3.800	3.800
1 Singapore Dollar	2.050	2.050

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**(p) Income Tax**

The tax expense in the income statement represents the aggregate amount of 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 arising 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 can be utilised.

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.

(q) Revenue Recognition

Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Interest income and rental income are recognised on an accrual basis.

(r) Segmental Information

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. Most segment assets can be directly attributed to the segment on a reasonable basis. Segment assets and liabilities do not include income tax assets and liabilities respectively.

(s) Intersegment Transfers

Segment revenues, expenses and result include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the economic entity at an arm's length transactions. These transfers are eliminated on consolidation.

(t) Financial Instruments

Financial instruments are recognised on the balance sheet when the Group has become a party to the contractual provisions of the instrument. The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**(u) Impairment of Assets**

At the balance sheet date, the carrying values of assets, other than inventories, deferred tax assets and financial assets, are reviewed for impairment to determine whether there is an indication that the assets might be impaired. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of an asset's net selling price and its value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash-generating unit.

An impairment loss is charged to the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of previously recognised revaluation surplus for the same asset.

Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

(v) Cash and Cash Equivalents

Cash and cash equivalents for the purpose of cash flow statement comprise cash in hand, bank balances, demand deposits and other short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are stated net of bank overdrafts which are repayable on demand.

3. PROPERTY, PLANT AND EQUIPMENT

GROUP 2005	Long Leasehold							Total RM
	Properties RM	Plant and Machinery RM	Office Equipment RM	Furniture and Fittings RM	Motor Vehicles RM	Capital Work-in Progress RM		
Cost (except as stated otherwise)	19,767,976	36,558,064	4,715,544	817,984	3,690,509	6,137,190	71,687,267	
	88,866	92,750	58,279	8,355	180,785	98,165	527,200	
	-	(1,600)	(43,267)	-	(200,471)	(107,427)	(352,765)	
At 31st December 2005	19,856,842	36,649,214	4,730,556	826,339	3,670,823	6,127,928	71,861,702	
Accumulated Depreciation								
	3,196,128	19,321,201	2,918,104	547,693	2,305,791	140,872	28,429,789	
	249,015	2,296,926	438,500	39,771	354,547	70,436	3,449,195	
Disposals/write-off	-	(1,600)	(37,626)	-	(175,788)	-	(215,014)	
At 31st December 2005	3,445,143	21,616,527	3,318,978	587,464	2,484,550	211,308	31,663,970	
Impairment Loss								
	2,397,283	-	-	-	-	-	2,397,283	
	1,917,721	-	-	-	-	-	1,917,721	
At 31st December 2005	4,315,004	-	-	-	-	-	4,315,004	
Net Book Value at 31st December 2005	12,096,695	15,032,687	1,411,578	238,875	1,186,273	5,916,620	35,882,728	

3. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

GROUP 2004	Long Leasehold							Total RM
	Properties RM	Plant and Machinery RM	Office Equipment RM	Furniture and Fittings RM	Motor Vehicles RM	Capital Work-in Progress RM		
Cost (except as stated otherwise)								
At 1st January 2004	19,922,271	35,756,897	4,034,015	804,704	3,480,852	7,220,604	71,219,343	
Additions	796	390,543	112,681	13,280	525,311	41,143	1,083,754	
Reclassification	-	423,680	700,877	-	-	(1,124,557)	-	
Disposals/write-off	(155,091)	(13,056)	(132,029)	-	(315,654)	-	(615,830)	
At 31st December 2004	19,767,976	36,558,064	4,715,544	817,984	3,690,509	6,137,190	71,687,267	
Accumulated Depreciation								
At 1st January 2004	3,031,620	17,062,378	2,599,800	495,999	2,060,794	70,436	25,321,027	
Charge for the year	288,952	2,271,172	436,316	51,694	427,897	70,436	3,546,467	
Reclassification	-	-	-	-	-	-	-	
Disposals/write-off	(124,444)	(12,349)	(118,012)	-	(182,900)	-	(437,705)	
At 31st December 2004	3,196,128	19,321,201	2,918,104	547,693	2,305,791	140,872	28,429,789	
Impairment Loss								
At 1st January 2004	-	-	-	-	-	-	-	
Charge for the year	2,397,283	-	-	-	-	-	2,397,283	
At 31st December 2004	2,397,283	-	-	-	-	-	2,397,283	
Net Book Value at 31st December 2004								
	14,174,565	17,236,863	1,797,440	270,291	1,384,718	5,996,318	40,860,195	

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Properties consist of:-

Group 2005	Freehold Land and Buildings RM	Long Leasehold Land and Buildings RM	Short Leasehold Land and Buildings RM	Short Leasehold Land and Buildings (At Valuation) RM	Renovation RM	Total RM
Cost (except as stated otherwise)						
At 1st January 2005	11,111,696	453,897	5,165,516	2,483,176	553,691	19,767,976
Additions	88,866	-	-	-	-	88,866
Disposals	-	-	-	-	-	-
At 31st December 2005	11,200,562	453,897	5,165,516	2,483,176	553,691	19,856,842
Accumulated Depreciation						
At 1st January 2005	484,929	38,997	1,253,150	978,296	440,756	3,196,128
Charge for the year	79,320	4,670	98,671	45,394	20,960	249,015
Disposals	-	-	-	-	-	-
At 31st December 2005	564,249	43,667	1,351,821	1,023,690	461,716	3,445,143
Impairment Loss						
At 1st January 2005	2,397,283	-	-	-	-	2,397,283
Charge for the year	1,917,721	-	-	-	-	1,917,721
At 31st December 2005	4,315,004	-	-	-	-	4,315,004
Net Book Value at 31st December 2005	6,321,309	410,230	3,813,695	1,459,486	91,975	12,096,695

3. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Properties consist of:-

Group 2004	Freehold Land and Buildings RM	Long Leasehold Land and Buildings RM	Short Leasehold Land and Buildings RM	Short Leasehold Land and Buildings (At Valuation) RM	Renovation RM	Total RM
Cost (except as stated otherwise)						
At 1st January 2004	11,111,696	453,897	5,320,607	2,483,176	552,895	19,922,271
Additions	-	-	-	-	796	796
Disposals	-	-	(155,091)	-	-	(155,091)
At 31st December 2004	11,111,696	453,897	5,165,516	2,483,176	553,691	19,767,976
Accumulated Depreciation						
At 1st January 2004	384,335	34,327	1,274,398	932,902	405,658	3,031,620
Charge for the year	100,594	4,670	103,196	45,394	35,098	288,952
Disposals	-	-	(124,444)	-	-	(124,444)
At 31st December 2004	484,929	38,997	1,253,150	978,296	440,756	3,196,128
Impairment Loss						
At 1st January 2004	-	-	-	-	-	-
Charge for the year	2,397,283	-	-	-	-	2,397,283
At 31st December 2004	2,397,283	-	-	-	-	2,397,283
Net Book Value at 31st December 2004	8,229,484	414,900	3,912,366	1,504,880	112,935	14,174,565

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

COMPANY 2005	Properties RM	Plant and Machinery RM	Office Equipment RM	Furniture and Fittings RM	Motor Vehicles RM	Capital Work-in Progress RM	Total RM
Cost (except as stated otherwise)							
At 1st January 2005	13,463,416	34,368,897	2,771,618	495,918	1,059,221	9,262	52,168,332
Additions	88,866	92,750	16,675	3,570	178,000	98,165	478,026
Transfer to subsidiary companies	-	-	-	-	-	(107,427)	(107,427)
Disposals/write-offs	-	-	(29,482)	-	(128,782)	-	(158,264)
At 31st December 2005	13,552,282	34,461,647	2,758,811	499,488	1,108,439	-	52,380,667
Accumulated Depreciation							
At 1st January 2005	1,979,016	17,436,631	1,577,417	283,244	492,064	-	21,768,372
Charge for the year	184,356	2,222,273	299,616	27,983	106,900	-	2,841,128
Transfer to subsidiary companies	-	-	-	-	-	-	-
Disposals/write-offs	-	-	(27,125)	-	(104,099)	-	(131,224)
At 31st December 2005	2,163,372	19,658,904	1,849,908	311,227	494,865	-	24,478,276
Impairment Loss							
At 1st January 2005	-	-	-	-	-	-	-
Charge for the year	1,917,721	-	-	-	-	-	1,917,721
At 31st December 2005	1,917,721	-	-	-	-	-	1,917,721
Net Book Value at 31st December 2005	9,471,189	14,802,743	908,903	188,261	613,574	-	25,984,670

3. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

COMPANY 2004	Properties RM	Plant and Machinery RM	Office Equipment RM	Furniture and Fittings RM	Motor Vehicles RM	Capital Work-in Progress RM	Total RM
Cost (except as stated otherwise)							
At 1st January 2004	14,883,507	33,556,738	2,128,995	483,374	1,347,995	1,092,676	53,493,285
Additions	-	387,255	71,447	11,030	26,880	41,143	537,755
Reclassification	-	423,680	700,877	-	-	(1,124,557)	-
Transfer from/(to) subsidiary companies	665,000	12,400	(42,664)	1,514	-	-	636,250
Adjustments	(1,930,000)	-	-	-	-	-	(1,930,000)
Disposals/write-offs	(155,091)	(11,176)	(87,037)	-	(315,654)	-	(568,958)
At 31st December 2004	13,463,416	34,368,897	2,771,618	495,918	1,059,221	9,262	52,168,332
Accumulated Depreciation							
At 1st January 2004	2,026,355	15,246,543	1,424,444	252,465	556,890	-	19,506,697
Charge for the year	200,105	2,195,921	271,624	29,936	118,078	-	2,815,664
Reclassification	-	-	-	-	-	-	-
Transfer from/(to) subsidiary companies	-	4,636	(42,504)	843	-	-	(37,025)
Adjustments	(123,000)	-	-	-	-	-	(123,000)
Disposals/write-offs	(124,444)	(10,469)	(76,147)	-	(182,904)	-	(393,964)
At 31st December 2004	1,979,016	17,436,631	1,577,417	283,244	492,064	-	21,768,372
Net Book Value at 31st December 2004	11,484,400	16,932,266	1,194,201	212,674	567,157	9,262	30,399,960

3. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Properties consist of:-

COMPANY 2005	Freehold Land and Buildings RM	Short Leasehold Land and Buildings RM	Short Leasehold Land and Buildings (At Valuation) RM	Renovation RM	Total RM
Cost (except as stated otherwise)					
At 1st January 2005	7,614,620	3,494,624	2,183,176	170,996	13,463,416
Additions	88,866	–	–	–	88,866
Disposals/write-off	–	–	–	–	–
At 31st December 2005	7,703,486	3,494,624	2,183,176	170,996	13,552,282
Accumulated Depreciation					
At 1st January 2005	234,913	760,500	870,753	112,850	1,979,016
Charge for the year	71,320	65,294	39,734	8,008	184,356
Disposals/write-off	–	–	–	–	–
At 31st December 2005	306,233	825,794	910,487	120,858	2,163,372
Impairment Loss					
At 1st January 2005	–	–	–	–	–
Charge for the year	1,917,721	–	–	–	1,917,721
At 31st December 2005	1,917,721	–	–	–	1,917,721
Net Book Value at 31st December 2005	5,479,532	2,668,830	1,272,689	50,138	9,471,189

2004

Cost (except as stated otherwise)					
At 1st January 2004	8,879,620	3,649,715	2,183,176	170,996	14,883,507
Additions	–	–	–	–	–
Transfer from a subsidiary company	665,000	–	–	–	665,000
Adjustments	(1,930,000)	–	–	–	(1,930,000)
Disposals/write-off	–	(155,091)	–	–	(155,091)
At 31st December 2004	7,614,620	3,494,624	2,183,176	170,996	13,463,416
Accumulated Depreciation					
At 1st January 2004	276,319	815,124	831,019	103,893	2,026,355
Charge for the year	81,594	69,820	39,734	8,957	200,105
Transfer from a subsidiary company	–	–	–	–	–
Adjustments	(123,000)	–	–	–	(123,000)
Disposals/write-off	–	(124,444)	–	–	(124,444)
At 31st December 2004	234,913	760,500	870,753	112,850	1,979,016
Net Book Value at 31st December 2004	7,379,707	2,734,124	1,312,423	58,146	11,484,400

3. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

- a) The following assets of the Group and of the Company, stated at net book value, have been charged to licensed banks to secure the bank borrowings:-

At Net Book Value	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
Freehold land and buildings	841,777	849,777	–	–
Leasehold land and buildings	374,038	378,288	–	–
Long leasehold land and capital work in-progress	5,916,620	5,996,318	–	–
	7,132,435	7,224,383	–	–

- (b) The net book value of property, plant and equipment of the Group and of the Company includes the following property, plant and equipment acquired under hire purchase instalment plans:-

At Net Book Value	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
Motor vehicles	1,046,015	1,257,340	534,207	535,050
Plant and machinery	2,021,214	2,308,186	2,021,214	2,203,748
Office equipment	724,746	970,950	676,621	906,577
	3,791,975	4,536,476	3,232,042	3,645,375

- (c) Details of independent professional valuations of property, plant and equipment owned by the Group are as follows:-

	Year of Valuation	Description of Property	Revalued Amount RM		
The Company	1983	Short leasehold land	408,000)	Based on professional valuation on open market value basis
The Company	1983	Short leasehold buildings	1,775,176)	
Subsidiary	1985	Short leasehold land	300,000)	
			2,483,176		

3. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

- (d) Had the short term leasehold land and building* been carried at historical cost less accumulated depreciation, the net book values of the short term leasehold land and building* that would have been included in the financial statements at the end of the year are as follows:-

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
Short term leasehold land and buildings *	247,569	255,306	247,569	255,306

* Excluding a short term leasehold land and building belonging to a subsidiary company which was revalued at RM300,000/- in 1985. Details of the original cost of the revalued assets are not available due to the lack of historical records.

Group and Company

As at balance sheet date, certificates of title to the freehold land and buildings with net book values of RM Nil (2004 : RM2,943,337/-) are in the process of being registered in the name of the Company.

4. INVESTMENT IN SUBSIDIARY COMPANIES

	COMPANY	
	2005 RM	2004 RM
Unquoted shares at cost	9,014,675	9,014,675
Less: Impairment loss	(2,427,601)	(2,427,601)
Disposal of a subsidiary company	(1,000,000)	-
	5,587,074	6,587,074

The following information relates to the subsidiaries which are all incorporated in Malaysia:-

Name of Company	Equity Held		Principal Activities
	2005	2004	
Direct subsidiary companies	%	%	
Epro Industries Sdn. Bhd. ("EISB")	100	100	Property holding
Suria Merah Manufactory (Segamat) Sdn. Bhd. ("SMMS")	100	100	Property holding
Hwa Tai Food Industries (Sabah) Sdn. Bhd. ("HTFIS")	100	100	Biscuit manufacturer
Pan Tai Trading Sdn. Bhd. ("PTT")	100	100	Trading
Satria Potensi Sdn. Bhd. ("SPSB")	–	100	Contractor
Hwa Tai Manufacturing Sdn. Bhd. ("HTM")	100	100	Dormant

4. INVESTMENT IN SUBSIDIARY COMPANIES (Cont'd)

The following information relates to the subsidiaries which are all incorporated in Malaysia:-

Name of Company	Equity Held		Principal Activities
	2005 %	2004 %	
Direct subsidiary companies			
* Acetai Corporation Sdn. Bhd. ("Acetai")	90	90	Trading
* Keris Intan Sdn. Bhd. ("KISB")	100	100	Insurance agency
* Hwa Tai (Sarawak) Sdn. Bhd. ("HTSB")	100	100	Dormant
* Hwa Tai Distribution Sdn. Bhd. ("HTDSB")	100	100	Dormant
* Hwa Tai Services Sdn. Bhd. ("HTSSB")	100	100	Dormant
* Absolute Focus Sdn. Bhd. ("AFSB")	100	100	Dormant
Indirect subsidiary companies			
* Anika Bebas Sdn. Bhd. ("ABSB")	100	100	Trading
* Esprit Classic Sdn. Bhd. ("ECSB")	100	100	Trading

* *Subsidiary companies not audited by Monteiro & Heng*

During the financial year, the Company disposed of the entire equity interest in Satria Potensi Sdn. Bhd. for a total consideration of RM1/-.

5. AMOUNTS OWING BY SUBSIDIARY COMPANIES

	COMPANY	
	2005 RM	2004 RM
Amounts owing by subsidiary companies	23,665,702	25,625,918
Less: Allowance for doubtful debts	(200,000)	(200,000)
	23,465,702	25,425,918
Portion due within one year	22,590,399	24,553,791
Portion due after one year	875,303	872,127
	23,465,702	25,425,918
Trade	22,800,275	23,206,233
Non-trade	665,427	2,219,685
	23,465,702	25,425,918

The amounts owing by subsidiary companies are unsecured, interest free and have no fixed terms of repayment.

6. GOODWILL ON CONSOLIDATION

	GROUP	
	2005 RM	2004 RM
Balance as at 1st January	23,542	2,300,694
Impairment loss	–	(2,277,152)
Balance as at 31st December	23,542	23,542

7. INVENTORIES

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
At Cost				
Raw materials	816,146	903,021	659,640	722,854
Work-in-progress	229,172	244,744	194,542	211,459
Finished goods	2,132,547	1,139,107	2,003,932	1,228,879
Packing materials	2,075,384	2,107,612	1,875,450	1,910,400
Consumable stores	182,610	134,625	182,610	134,625
Trading inventories	1,936,100	7,251,143	–	–
	7,371,959	11,780,252	4,916,174	4,208,217
Less: Allowance for obsolete inventories	(2,458,548)	(400,000)	(749,434)	–
	4,913,411	11,380,252	4,166,740	4,208,217

8. AMOUNT DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

	GROUP	
	2005 RM	2004 RM
Aggregate costs incurred to date	–	48,942,554
Recognised profits less recognised losses	–	21,180,705
	–	70,123,259
Less: Progress billings	–	(68,825,533)
Amount due from customers for construction contracts	–	1,297,726
Construction contract costs recognised as contract expenses during the year	–	–

The amount due from customers for construction contracts in the previous financial year was pertains to a subsidiary company, Satria Potensi Sdn. Bhd., which was disposed during the financial year.

9. TRADE AND SUNDRY RECEIVABLES

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
Trade receivables	27,860,749	28,609,249	12,171,084	6,894,349
Allowance for doubtful debts	(10,839,671)	(4,311,146)	(2,044,733)	(1,396,420)
	17,021,078	24,298,103	10,126,351	5,497,929
Sundry receivables	1,773,946	3,195,913	1,549,252	2,349,518
Allowance for doubtful debts	(665,271)	–	(665,271)	–
	1,108,675	3,195,913	883,981	2,349,518
Deposits	183,015	203,678	54,542	56,535
Prepayments	1,026,461	599,925	914,616	401,007
	19,339,229	28,297,619	11,979,490	8,304,989

The Group and the Company's normal trade credit terms range from 14 to 90 days.

10. TRADE AND SUNDRY PAYABLES

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
Trade payables	17,007,997	16,863,316	14,284,937	11,002,176
Sundry payables	1,796,534	1,150,753	614,965	678,922
Accruals	2,387,314	1,659,560	2,005,488	1,256,392
Deposits	760,441	15,621	–	–
	21,952,286	19,689,250	16,905,390	12,937,490

The normal credit terms granted to the Group and the Company range from 30 to 120 days.

Included in deposits of the Group is an amount of RM750,000/- (2004 : RM Nil) represents deposit received in relation to the disposal of property as disclosed in Note 32(c).

11. AMOUNT OWING TO A SUBSIDIARY COMPANY

The amount owing to a subsidiary company is non-trade in nature, unsecured, interest free and has no fixed term of repayment.

12. HIRE PURCHASE LIABILITIES

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
Minimum hire purchase payments				
- not later than one year	741,138	1,147,765	498,566	806,300
- later than one year and not later than five years	601,737	949,661	332,403	437,754
Future interest charges	1,342,875 (117,588)	2,097,426 (194,412)	830,969 (66,330)	1,244,054 (90,331)
Present value of hire purchase liabilities	1,225,287	1,903,014	764,639	1,153,723
Current	668,655	1,027,077	454,863	738,434
Non-current	556,632	875,937	309,776	415,289
	1,225,287	1,903,014	764,639	1,153,723

The effective interest rates range from 8.30% to 13.10% (2004 : 8.30% to 13.10%) per annum. Interest rates are fixed at the inception of the hire purchase arrangements.

The hire purchase liabilities are effectively secured on the rights of the assets under hire purchase.

13. PROVISIONS

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
Balance at 1st January	360,337	829,122	125,000	135,794
Charged to income statement	2,169,991	902,189	900,601	155,007
Utilised during the year	(1,855,018)	(1,370,974)	(634,100)	(165,801)
Balance at 31st December	675,310	360,337	391,501	125,000

Provisions are in respect of advertisement and freight charges. The provision is recognised for expected expenses based on the quotation received and the Company's past experience on the level of advertisement and freight charges.

14. SHORT TERM BORROWINGS

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
Short term loans	18,175,000	19,930,171	14,459,000	15,018,171
Revolving credits	2,000,000	2,000,000	2,000,000	2,000,000
	20,175,000	21,930,171	16,459,000	17,018,171

GROUP

The short term borrowings of a subsidiary company are secured over a first legal charge over a piece of long term leasehold land of the subsidiary company and corporate guarantees of the Company.

COMPANY

The short term borrowings of the Company are granted on the undertaking that the Company will not pledge or execute any charges on its assets, other than those assets under hire purchase.

Effective interest rate as at balance sheets date was 3.92% (2004 : 3.68%).

15. TERM LOANS

	GROUP	
	2005 RM	2004 RM
Term loans	2,349,982	3,130,297
Portion due within one year	(987,868)	(987,868)
Portion due after one year	1,362,114	2,142,429

GROUP

The term loans of a subsidiary company are secured by the creation of a first legal charge over the subsidiary company's freehold and leasehold land and buildings and capital work-in-progress as stated in Note 3(a) to the financial statements, and are also jointly and severally guaranteed by certain former directors of the subsidiary company. The term loans bear interest at rates ranging from 1.25% to 1.75% (2004 : 1.25% to 1.75%) per annum above the base lending rate of the commercial banks.

15. TERM LOANS (Cont'd)

The terms of repayment of the loans are as follows:-

	GROUP	
	2005 RM	2004 RM
Within the next twelve months (included under current liabilities)	987,868	987,868
After the next twelve months (included under long term liabilities)		
- not later than two years	987,868	987,868
- later than two years but not later than five years	374,246	1,154,561
	1,362,114	2,142,429
	2,349,982	3,130,297

The effective interest rate as at the balance sheets date range from 7.25% to 7.50% (2004 : 7.25% to 7.50%) per annum.

16. BANK OVERDRAFTS**GROUP**

The bank overdraft of a subsidiary company is secured over a piece of long leasehold land of the subsidiary company and corporate guarantee by the Company.

COMPANY

The bank overdrafts of the Company are granted on the undertaking that the Company will not pledge or execute any charges on its assets, other than those assets under hire purchase.

The effective interest rate as at the balance sheets date range from 7.00% to 8.50% (2004 : 7.00% to 8.50%) per annum.

17. SHARE CAPITAL

	GROUP AND COMPANY		GROUP AND COMPANY	
	2005	2004	2005	2004
	Number of ordinary shares		RM	RM
Ordinary shares of RM1/- each				
Authorised	1,000,000,000	1,000,000,000	1,000,000,000	1,000,000,000
Issued and fully paid:				
At beginning of the financial year	40,042,400	13,230,000	40,042,400	13,230,000
Issued during the financial year	-	26,812,400	-	26,812,400
At end of the financial year	40,042,400	40,042,400	40,042,400	40,042,400

18. CAPITAL RESERVE

	GROUP AND COMPANY	
	2005 RM	2004 RM
Non-distributable		
At beginning and end of the financial year	7,664	7,664
The capital reserve comprises:		
Surplus arising from revaluation of leasehold land and building	1,757,664	1,757,664
Bonus issue in 1983	(1,750,000)	(1,750,000)
	7,664	7,664

19. DEFERRED TAXATION

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
Balance at 1st January	17,250	21,647	–	–
Transfer to income statement (Note 25)	4,176	(4,397)	–	–
Balance at 31st December	21,426	17,250	–	–
Temporary differences between net book value and corresponding tax written down value	21,426	17,250	–	–

20. REVENUE

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
Sales of trading goods	19,795,485	31,656,707	–	–
Sales of manufactured goods	62,719,578	60,420,412	57,086,419	54,226,408
	82,515,063	92,077,119	57,086,419	54,226,408

21. OPERATING (LOSS)/PROFIT

Operating (loss)/profit has been arrived at:-

	GROUP		COMPANY	
	2005	2004	2005	2004
	RM	RM	RM	RM
After charging:-				
Allowance for doubtful debts	8,016,639	1,423,405	1,313,584	55,104
Allowance for inventory obsolescence	2,458,548	400,000	749,434	-
Audit fee				
- current year	96,450	101,250	60,000	60,000
- (over)/underaccrual in prior year	(3,247)	(2,510)	-	2,000
Directors' remuneration				
• Directors of the Company				
- fees				
- current year	47,501	70,000	47,501	70,000
- underaccrual in prior year	57,500	-	57,500	-
- other emoluments	1,012,492	1,344,561	1,012,492	1,344,561
• Directors of subsidiary companies				
- other emoluments	72,600	72,600	-	-
Depreciation	3,449,195	3,546,467	2,841,128	2,815,664
Hire of vehicles	423,183	700,045	123,666	158,784
Loss on inventories	-	179,398	-	179,398
Loss on foreign exchange				
- realised	72,947	-	72,325	-
- unrealised	31,000	-	31,000	-
Provision for expenses	2,169,991	902,189	900,601	155,007
Property, plant and equipment written off	109,060	950	-	269
Rental of premises	315,310	332,981	104,400	90,800
Staff costs:				
- bonus	659,951	413,084	243,634	239,122
- Employees' Providend Fund	826,345	993,918	435,875	408,676
- SOCSO	102,802	118,908	54,995	50,660
- salaries, wages and allowances	7,543,867	8,414,899	4,040,969	3,730,776
- other staff related expenses	404,900	429,137	182,068	145,924
And crediting:-				
Allowance for doubtful debts no longer required	-	-	-	313,996
Gain on disposal of property, plant and equipment	50,551	487,725	33,251	426,924
Interest income	339	63,817	339	63,817
Realised gain on foreign exchange	-	89,267	-	88,823
Rental income	-	-	64,200	64,200

21. OPERATING (LOSS)/PROFIT (Cont'd)

Details of Directors' remuneration including the estimated monetary value of benefits-in-kind are as follows:-

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
Executive Directors				
Directors' fees	28,750	30,000	28,750	30,000
Salaries	529,677	791,559	529,677	791,559
Bonuses	32,895	287,178	32,895	287,178
Compensation for loss of office	250,000	–	250,000	–
Benefits-in-kind	73,510	96,442	73,510	96,442
	914,832	1,205,179	914,832	1,205,179
Non-Executive Directors				
Directors' fees	76,251	40,000	76,251	40,000
Allowances	199,920	255,840	199,920	255,840
Bonuses	–	9,984	–	9,984
Benefits-in-kind	23,179	600	23,179	600
	299,350	306,424	299,350	306,424
Grand Total				
Directors' fees	105,001	70,000	105,001	70,000
Salaries	529,677	791,559	529,677	791,559
Allowances	199,920	255,840	199,920	255,840
Bonuses	32,895	297,162	32,895	297,162
Compensation for loss of office	250,000	–	250,000	–
Benefits-in-kind	96,689	97,042	96,689	97,042
	1,214,182	1,511,603	1,214,182	1,511,603

21. OPERATING (LOSS)/PROFIT (Cont'd)

The number of Directors of the Company whose total remuneration fall within the respective ranges, were as follows:-

	Number of Directors			
	2005		2004	
	Executive Director	Non-Executive Director	Executive Director	Non-Executive Director
Ranges of Remuneration (RM)				
RM0 - RM50,000	-	9	-	3
RM50,001 - RM100,000	1	-	1	-
RM100,001 - RM150,000	1	-	-	2
RM150,001 - RM200,000	-	1	-	-
RM200,001 - RM250,000	-	-	-	-
RM250,001 - RM300,000	1	-	1	-
RM300,001 - RM350,000	-	-	-	-
RM350,001 - RM400,000	-	-	1	-
RM400,001 - RM450,000	-	-	-	-
RM450,001 - RM500,000	1	-	-	-
RM500,001 - RM550,000	-	-	1	-
	4	10	4	5

22. FINANCE COSTS

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
Interest expenses				
- short term loans	725,618	863,994	554,848	579,578
- bank overdrafts	291,458	336,831	281,537	328,544
- hire purchase	141,101	215,161	88,277	139,258
- term loans	208,426	694,969	-	427,722
- others	33	-	-	-
	1,366,636	2,110,955	924,662	1,475,102

23. LOSS FROM INVESTING ACTIVITIES

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
Impairment loss on properties	1,917,721	2,397,283	1,917,721	–
(Gain)/loss on disposal of a subsidiary company	(202,960)	–	999,999	–
Impairment loss on:				
- investment in subsidiary company	–	–	–	2,277,152
- goodwill	–	2,277,152	–	–
	1,714,761	4,674,435	2,917,720	2,277,152

24. CORPORATE EXERCISE EXPENSES

	GROUP AND COMPANY	
	2005 RM	2004 RM
Expenses for raising capital	–	999,962

25. TAXATION

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
Income tax				
- underaccrual in prior year	(16,469)	–	(16,469)	–
Deferred taxation (Note 19)				
- current year	(17,709)	4,427	–	–
- over/(under)accrual in prior year	13,533	(30)	–	–
	(20,645)	4,397	(16,469)	–

25. TAXATION (Cont'd)

A reconciliation of income tax expense applicable to loss before taxation at the statutory income tax rate to income tax expense at the average effective income tax rate of the Group and Company is as follows:-

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
Loss before taxation	(18,985,027)	(10,893,816)	(5,938,764)	(4,567,278)
Tax at applicable tax rate of 28%	5,315,808	3,050,268	1,662,854	1,278,838
Tax effects arising from				
- double deduction expenses	–	8,328	–	8,189
- non-taxable income	66,139	25,557	9,310	25,557
- non-deductible expenses	(3,696,456)	(2,411,462)	(1,658,540)	(1,312,584)
- reversal of deferred tax assets not recognised in the financial statements	(1,100,923)	(668,264)	(240,042)	–
- others	(602,277)	–	226,418	–
- (under)/over accrual in prior year	(2,936)	(30)	(16,469)	–
Tax expense for the year	(20,645)	4,397	(16,469)	–

Deferred tax assets have not been recognised for the following items:-

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
Unabsorbed capital allowances	1,199,448	3,726,848	–	857,292
Unutilised tax losses	12,060,236	5,611,631	–	–
Unabsorbed building allowances	41,061	30,400	–	–
	13,300,745	9,368,879	–	857,292
Potential deferred tax assets not recognised (at 28%)	3,724,209	2,623,286	–	240,042

The unabsorbed capital allowances and unutilised tax losses do not expire under the current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits.

26. LOSS PER ORDINARY SHARE**(a) Basic loss per ordinary share**

The basic loss per ordinary share for the financial year has been calculated based on Group's loss after taxation and minority interest divided by the weighted average number of ordinary shares in issue during the financial year.

	GROUP	
	2005 RM	2004 RM
Loss attributable to shareholders	(19,005,672)	(10,864,171)
Weighted average number of ordinary shares in issue	40,042,400	36,978,662
Basis loss per ordinary share (sen)	(47)	(29)

(b) Diluted loss per ordinary share

The diluted loss per ordinary share for the financial year have not been disclosed as their effects on the basic earnings per share are anti-dilutive.

27. SIGNIFICANT RELATED PARTY TRANSACTIONS

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
<i>Transactions with subsidiary companies</i>				
Sales to subsidiary companies				
- Acetai	-	-	15,594,591	23,829,604
- HTFIS	-	-	-	309,632
- PTT	-	-	884,252	927,193
Rental income from a subsidiary company				
- HTFIS	-	-	64,200	64,200
Rental of premises paid to subsidiary companies				
- Acetai	-	-	36,000	36,000
- EISB	-	-	24,000	24,000
- SMMS	-	-	24,000	24,000
Management fees, administration fee and rental received/receivable from subsidiary companies				
- Acetai	-	-	347,700	335,400
- PTT	-	-	24,000	24,000
- EISB	-	-	12,000	12,000
- SMMS	-	-	12,000	12,000
Sales commission paid to a subsidiary company				
- PTT	-	-	74,784	89,124
Transfer of property, plant and equipment from a subsidiary company				
- at net book value, SPSB	-	-	-	665,000

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27. SIGNIFICANT RELATED PARTY TRANSACTIONS (Cont'd)

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
<i>Transactions with subsidiary companies (Cont'd)</i>				
Transfer of property, plant and equipment to subsidiary companies				
- at net book value, PTT	-	-	-	145
- at net book value, Acetai	-	-	107,427	-
<i>Transaction with a firm in which a director is a partner</i>				
Rental of premises paid to Soo Thien Ming & Nasrah, a firm in which a director is a partner	36,000	36,000	21,600	21,600
Legal and professional fees paid to Soo Thien Ming & Nasrah, a firm in which a director is a partner	116,473	63,065	30,260	32,800

The directors are of the opinion that the above transactions have been entered into in the normal course of business and have been established on negotiated basis.

28. CONTINGENT LIABILITIES

As at 31st December 2005, the Group and the Company are contingently liable for the following:-

	GROUP		COMPANY	
	2005 RM	2004 RM	2005 RM	2004 RM
Unsecured				
Bank guarantees issued in favour of third parties	212,250	202,250	212,250	202,250
Corporate guarantees issued in favour of third parties for facilities granted to a subsidiary company to the extent of RM4,000,000/- (2004 : RM4,027,000/-)	-	-	-	2,663,691
Corporate guarantees issued to financial institutions for credit facilities granted to a subsidiary company to the extent of RM13,316,313/- (2004 : RM13,752,583/-)	-	-	4,146,352	5,577,500
	212,250	202,250	4,358,602	8,443,441

29. CAPITAL COMMITMENT

	GROUP AND COMPANY	
	2005 RM	2004 RM
Authorised capital expenditure contracted but not provided for in the financial statements		
- property, plant and equipment	-	246,240
Approved capital expenditure not contracted for and not provided for in the financial statements		
- development of Seri Kembangan land	-	6,700,000

30. SEGMENTAL INFORMATION

The Group's operation comprise the following business segments:-

Manufacturing : Manufacture of biscuit products
 Trading : Trading of confectioneries
 Others : Investment holding, construction and insurance agency

Primary Reporting - Business Segments

	MANUFACTURING		TRADING		OTHERS		TOTAL		ELIMINATION		CONSOLIDATED	
	2005 RM	2004 RM	2005 RM	2004 RM	2005 RM	2004 RM	2005 RM	2004 RM	2005 RM	2004 RM	2005 RM	2004 RM
REVENUE												
External sales	45,211,084	35,353,983	37,303,979	56,723,136	-	-	82,515,063	92,077,119	-	-	82,515,063	92,077,119
Inter - segment sales	17,508,494	25,066,429	403,009	675,416	48,000	48,000	17,959,503	25,789,845	17,959,503	25,789,845	-	-
	62,719,578	60,420,412	37,706,988	57,398,552	48,000	48,000	100,474,566	117,866,964	17,959,503	25,789,845	82,515,063	92,077,119
RESULTS												
Segment results	(2,706,988)	(936,264)	(13,740,072)	(3,246,192)	(35,634)	(45,686)	(16,482,694)	(4,228,142)	(330,433)	(224,473)	(16,152,261)	(4,003,669)
Other operating income	659,311	1,253,825	186,166	256,363	-	-	845,477	1,510,188	596,846	614,983	248,631	895,205
Finance cost (net)	(932,713)	(1,490,847)	(433,923)	(620,108)	-	-	(1,366,636)	(2,110,955)	-	-	(1,366,636)	(2,110,955)
Corporate exercise expenses	-	-	-	-	-	(999,962)	-	(999,962)	-	-	-	(999,962)
Gain/(loss) on disposal of a subsidiary	(999,999)	-	-	-	-	-	(999,999)	-	(1,202,959)	-	202,960	-
Impairment loss on - properties	(1,917,721)	-	-	-	-	(2,397,283)	(1,917,721)	(2,397,283)	-	-	(1,917,721)	(2,397,283)
- goodwill	-	-	-	-	-	(2,277,152)	-	(2,277,152)	-	-	-	(2,277,152)
(Loss)/profit before taxation	(5,898,110)	(1,173,286)	(13,987,829)	(3,609,937)	(35,634)	(5,720,083)	(19,921,573)	(10,503,306)	(936,546)	390,510	(18,985,027)	(10,893,816)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30. SEGMENTAL INFORMATION (Cont'd)

	MANUFACTURING		TRADING		OTHERS		TOTAL		ELIMINATION		CONSOLIDATED	
	2005 RM	2004 RM	2005 RM	2004 RM	2005 RM	2004 RM	2005 RM	2004 RM	2005 RM	2004 RM	2005 RM	2004 RM
OTHER INFORMATION												
Segment assets	45,054,562	46,142,069	15,157,535	34,123,166	1,058,560	2,741,839	61,270,657	83,007,074	(6,183)	(150,875)	61,264,474	82,856,199
Total assets	45,054,562	46,142,069	15,157,535	34,123,166	1,058,560	2,741,839	61,270,657	83,007,074	(6,183)	(150,875)	61,264,474	82,856,199
Segment liabilities	36,530,285	34,229,687	11,133,965	14,791,865	16,916	99,338	47,681,166	49,120,890	(7,000)	(7,000)	47,674,166	49,113,890
Total liabilities	36,530,285	34,229,687	11,133,965	14,791,865	16,916	99,338	47,681,166	49,120,890	(7,000)	(7,000)	47,674,166	49,113,890
Capital expenditure	478,971	555,861	155,656	1,127,118	-	-	634,627	1,682,979	(107,427)	(599,225)	527,200	1,083,754
Depreciation and amortisation	2,961,706	2,938,013	457,932	567,898	29,557	40,556	3,449,195	3,546,467	-	-	3,449,195	3,546,467

(a) The activities of the Group are carried out in Malaysia and as such segment reporting by geographical locations is not presents.

(b) Inter-segment pricing is determined on an arm's length basis under terms, conditions and prices not materially different from transactions with unrelated parties.

31. FINANCIAL INSTRUMENTS**(a) Financial Risk Management and Objectives**

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its credit, foreign currency, liquidity and interest rate risks.

(i) Credit risk

The management has a credit policy in place to monitor and minimise the exposure of default. Trade receivables are monitored on an ongoing basis.

As at balance sheet date, there were no significant concentrations of credit risk in the Group. The maximum exposure to credit risk for the Group is represented by the carrying amount of each financial instrument.

(ii) Foreign currency risk

The Group incurs foreign currency risk on transactions that are denominated in a currency other than Ringgit Malaysia. Exposures to foreign currency risks are monitored on an ongoing basis.

The net unhedged financial assets of the Group and Company that are not denominated in their functional currencies are as follows:

	GROUP AND COMPANY	
	Singapore Dollar RM	United States Dollar RM
As at 31st December 2005		
Financial Assets		
Trade and sundry receivables	534,783	2,002,226
Cash and bank balances	589	31,601
	535,372	2,033,827
As at 31st December 2004		
Financial Assets		
Trade and sundry receivables	251,814	109,124
Cash and bank balances	546	4,142
	252,360	113,266

31. FINANCIAL INSTRUMENTS (Cont'd)**(a) Financial Risk Management and Objectives (Cont'd)****(iii) Liquidity risk**

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all financing, repayment and funding needs are met.

(iv) Interest rate risk

The Group's primary interest rate risk relates to interest-bearing debt as at 31st December 2005. The investments in financial assets are mainly short term in nature and they are not held for speculative purposes.

The Group actively reviews its debt portfolio, taking into account the nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

The information on maturity dates and effective interest rate of financial assets and liabilities are disclosed in their respective notes.

(b) Fair Values**(i) Recognised financial instruments**

The fair values of financial assets and financial liabilities approximate their respective carrying values on the balance sheets of the Group and of the Company, except for amounts owing by/to subsidiary companies.

It is not practical to estimate the fair values of the amounts owing by/to subsidiary companies due principally to either lack of fixed repayment terms entered by the parties involved or incurring excessive costs. However, the Group does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would be eventually received or settled.

(ii) Unrecognised financial instruments

There are no fair values for financial instruments not recognised in the balance sheet as at 31st December 2005 that are required to be disclosed.

32. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

- (a) On 28th February 2005, the Board of Directors announced that the Company proposes to undertake a private placement of new shares in the Company, representing up to 10% of the issued and paid-up share capital of the Company.

The Securities Commission ("SC") had approved the proposed placement on 23rd June 2005.

On 13th December 2005, the Company has obtained the approval of the SC for an extension of six months up to 22nd June 2006 to implement the proposed placement.

- (b) On 3rd August 2005, the Company completed the disposal of 1,000,000 ordinary shares of RM1.00 each, representing an equity interest of 100% of the share capital of Satria Potensi Sdn. Bhd., for a cash consideration of RM1.00.
- (c) On 12th December 2005, a 90% owned subsidiary company of the Company, namely Acetai Corporation Sdn. Bhd. had entered into a sale and purchase agreement with UPA Machinery Sdn. Bhd. for the sale of leasehold land held under H.S.(M) 13714, No. P.T. 3476, Mukim Petaling, Tempat Seri Kembangan, Negeri Selangor Darul Ehsan for a total cash consideration of RM7,489,605/-. However, the requisite consent for the transfer of ownership of the said property has been obtained on 31st March 2006. As such, the said transaction will be reflected in the next financial year end.

We, **SOO THIEN MING @ SOO THIEN SEE** and **WONG CHEE KHEEN**, being two of the directors of Hwa Tai Industries Berhad, do hereby state that, in the opinion of the directors, the financial statements set out on pages 29 to 68 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31st December 2005 and of the results and cash flows of the Group and of the Company for the year ended on that date in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia.

On behalf of the Board,

SOO THIEN MING @ SOO THIEN SEE

Director

WONG CHEE KHEEN

Director

Kuala Lumpur

25 April 2006

STATUTORY DECLARATION

I, **WONG CHEE KHEEN**, being the director primarily responsible for the financial management of Hwa Tai Industries Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 29 to 68 are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

WONG CHEE KHEEN

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur in the Federal Territory on 25 April 2006.

Before me,

MOHD RADZI BIN YASIN (W327)

Commissioner for Oaths

We have audited the financial statements set out on pages 29 to 68.

These financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility towards any other person for the content of this report.

We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:-

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:-
 - (i) the state of affairs of the Group and of the Company as at 31st December 2005 and of the results and cash flows of the Group and of the Company for the year ended on that date; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company;

and

- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and its subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

We have considered the financial statements and the auditors' reports thereon of the subsidiary companies of which we have not acted as auditors, as indicated in Note 4 to the financial statements.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations as required by us for those purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Companies Act, 1965.

MONTEIRO & HENG

No. AF 0117

Chartered Accountants

HENG JI KENG

No. 578/05/06 (J/PH)

Partner

Kuala Lumpur

25 April 2006

Class of securities	: Ordinary shares of RM1/- each fully paid.
	: Warrants 2004/2009.
Authorised share capital	: RM1,000,000,000/-
Issued and fully paid-up share capital	: RM40,042,400/-
Number of warrants issued	: 19,845,000 exercisable into 19,845,000 new ordinary shares of RM1/- each at an exercise price of RM1.74 each
Voting rights	: Registered shareholders are entitled to one vote per ordinary share held at all general meetings.
	: Registered warrant-holders are not entitled to any voting rights in any general meeting.

ANALYSIS OF SHAREHOLDINGS

As at 30 April 2006

SIZE OF SHAREHOLDINGS

Range of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Shareholdings
Less than 100	158	3.23	3,306	0.01
100 - 1,000	1,212	24.74	1,121,962	2.80
1,001 - 10,000	3,049	62.25	12,637,905	31.56
10,001 - 100,000	459	9.37	10,549,000	26.35
100,001 - less than 5% of issued shares	18	0.37	6,475,900	16.17
5% and above of issued shares	2	0.04	9,254,327	23.11
Total	4,898	100.00	40,042,400	100.00

THIRTY LARGEST SHAREHOLDERS

Name of Shareholders as per Register of Members	No. of Shares	% of Shareholdings
1. Soo Thien See @ Soo Thien Ming	5,867,137	14.66
2. Public Nominees (Tempatan) Sdn Bhd (A/C Soo Thien See @ Soo Thien Ming)	3,854,390	9.63
3. DB (Malaysia) Nominee (Asing) Sdn Bhd (A/C Deutsche Bank AG London)	1,835,400	4.58
4. PM Nominees (Tempatan) Sdn Bhd (A/C Gelombang Sinar Sdn Bhd)	988,000	2.47
5. HSBC Nominees (Asing) Sdn Bhd (A/C BNP Paribas Arbitrage (Hong Kong) Limited)	627,400	1.57
6. Mayban Nominees (Tempatan) Sdn Bhd (A/C Siaw Kit Leong)	435,000	1.09
7. ECM Libra Securities Nominees (Tempatan) Sdn Bhd (A/C Ea Chaw Giap)	318,700	0.80
8. Lee Thye @ Lee Chooi Yoke	310,000	0.77
9. Purnama Pelangi Sdn Bhd	234,600	0.59
10. Tan Tiong Cheng	179,000	0.45
11. Kenanga Nominees (Tempatan) Sdn Bhd (A/C Kong Tiong Kian)	150,000	0.37

THIRTY LARGEST SHAREHOLDERS (Cont'd)

Name of Shareholders as per Register of Members	No. of Shares	% of Shareholdings
12. Tan Ah Hoon	144,000	0.36
13. Teo Shu Min	130,300	0.33
14. Che Wan Mohd Zuhaimi Bin Che Wan Hussain	123,000	0.31
15. Yap Shing @ Yap Sue Kim	109,000	0.27
16. Saw Ah Kee	108,000	0.27
17. Zainal Mokhtar Bin Abdul Hamid	107,000	0.27
18. Mayban Securities Nominees (Tempatan) Sdn Bhd (A/C Raja Zainal Abidin Bin Raja Hussin)	106,300	0.27
19. Fong Cheng Ban	103,000	0.26
20. RHB Capital Nominees (Tempatan) Sdn Bhd (A/C Ng Thiew Kim)	100,000	0.25
21. Halim Securities Sdn Bhd (In Creditors' Voluntary Liquidation)	98,000	0.24
22. Cheng Yean Yun @ Tay Yan Hoon	95,000	0.24
23. Lim Soh Bee	90,000	0.22
24. Siaw Kit Leong	90,000	0.22
25. Tong Fong Realty Sdn Bhd	90,000	0.22
26. Tan Hua Teck @ Tang Wah Teck	84,000	0.21
27. Lim Boon Liat	81,600	0.20
28. Olive Lim Swee Lian	81,000	0.20
29. Chan Lee Yuen	80,000	0.20
30. Hee Lin Ruey Jean	71,000	0.18
Total	16,690,827	41.70

SUBSTANTIAL SHAREHOLDERS

According to the Register of Substantial Shareholders required to be kept under Section 69L of the Companies Act, 1965, the following are the substantial shareholders of the Company:

Name of Substantial Shareholder	Direct Interest (A)	%	Indirect Interest (B)	%	Total Interest (A) + (B)	%
Soo Thien Ming @ Soo Thien See	9,748,327	24.35	–	–	9,748,327	24.35

ANALYSIS OF WARRANT-HOLDINGS

As at 30 April 2006

SIZE OF WARRANT-HOLDINGS

Range of Warrant-holdings	No. of Warrant-holders	% of Warrant-holders	No. of Warrant	% of Warrant-holdings
Less than 100	222	8.00	5,506	0.03
100 - 1,000	222	8.00	106,265	0.53
1,001 - 10,000	2,055	74.05	6,456,765	32.54
10,001 - 100,000	257	9.26	6,574,775	33.13
100,001 - less than 5% of issued Warrants	18	0.65	4,320,694	21.77
5% and above of issued Warrants	1	0.04	2,380,995	12.00
Total	2,775	100.00	19,845,000	100.00

THIRTY LARGEST WARRANT-HOLDERS

Name of Warrant-holders as per Register of Warrant-holders	No. of Warrants	% of Warrant-holdings
1. Public Nominees (Tempatan) Sdn Bhd (A/C Soo Thien See @ Soo Thien Ming)	2,380,995	12.00
2. PM Securities Sdn Bhd (A/C IVT [DRAM])	786,866	3.97
3. Soo Thien See @ Soo Thien Ming	596,128	3.00
4. Yong Chee Foong	404,000	2.04
5. Chong Chan Kong	300,000	1.51
6. Doris Law Chiew Jen	297,500	1.50
7. Ngu Shang Shang	288,800	1.46
8. Mayban Nominees (Tempatan) Sdn Bhd (A/C Siaw Kit Leong)	217,500	1.10
9. Wong Teik Poh	196,900	0.99
10. Mayban Securities Nominees (Tempatan) Sdn Bhd (A/C Ea Sew Kiat)	196,000	0.99
11. Saw Ah Kee	160,200	0.81
12. Leong Hon Wah	121,000	0.61
13. Law Ah Lek @ Low Hun Siong	112,100	0.56
14. Khoh Swee Hoe	110,000	0.55
15. Saw Guat Ngoh	110,000	0.55
16. Chew Kim Soi	108,000	0.54
17. Teng Hock Heng	107,700	0.54
18. Lau Fui Seng	105,000	0.53
19. RHB Capital Nominees (Tempatan) Sdn Bhd (A/C Chuo Hock Kwong)	103,000	0.52
20. Dea Chee Thai	100,000	0.50

THIRTY LARGEST WARRANT-HOLDERS (Cont'd)

Name of Warrant-holders as per Register of Warrant-holders	No. of Warrants	% of Warrant-holdings
21. Eng Kim Heong	95,000	0.48
22. Ahn Sdn Bhd	91,000	0.46
23. Inter-Pacific Equity Nominees (Tempatan) Sdn Bhd (A/C Teng Hock Heng)	90,000	0.45
24. Baharudin Bin Bidin	78,400	0.40
25. Mok Foong Moi	77,100	0.39
26. Low Bah Chu	75,100	0.38
27. Chong Hon Choi	75,000	0.38
28. Tan Eng Kiong	74,000	0.37
29. Tan Ee Hung	73,000	0.37
30. Tan Ah Hoon	72,000	0.36
Total	7,602,289	38.31

DIRECTORS' INTEREST IN SECURITIES

As at 30 April 2006

According to the registers required to be kept under Section 134 of the Companies Act, 1965, the directors' interest in the ordinary shares and warrants of the Company are as follows:-

ORDINARY SHARES OF RM1/- EACH

Name of Director	Number of shares held Direct (%)	Number of shares held Indirect (%)	Total Interest (%)
Soo Thien Ming @ Soo Thien See	9,748,327 (24.35)	–	9,748,327 (24.35)
Raja Zainal Abidin Bin Raja Hussin	126,300 (0.32)	–	126,300 (0.32)

WARRANTS 2004/2009

Name of Director	Number of warrants held Direct (%)	Number of warrants held Indirect (%)	Total Interest (%)
Soo Thien Ming @ Soo Thien See	2,977,123 (15.00)	–	2,977,123 (15.00)
Raja Zainal Abidin Bin Raja Hussin	45,750 (0.23)	–	45,750 (0.23)

Soo Thien Ming @ Soo Thien See is deemed to have an interest in the equity holdings held by the Company in its subsidiaries by virtue of his controlling interest in the Company.

Other than as disclosed above, none of the other directors hold any share, warrant or option in the Company or its related companies.

LIST OF GROUP PROPERTIES HELD AS AT 31 DECEMBER 2005

75

	Location	Land Area (Sq. ft)	Built Up Area (Sq. ft)	Tenure	Description	Date of Acquisition/ Revaluation (R) (Year)	Date of Expiry (Year)	Estimated Age of Building (Years)	Net Book Value (RM'000)
1	Lot No. PTD 1098 & 1099 at Mukim Linau, Tongkang Pecah Industrial Estate, District of Batu Pahat, Johor Darul Takzim	87,120	56,150	Leasehold	Factory land & Industrial buildings (Own Occupation)	1983 (R)	2037	28	1,625
2	Lot No. PT 1731 at Mukim Linau, Tongkang Pecah Industrial Estate, District of Batu Pahat, Johor Darul Takzim	43,560	23,745	Leasehold	Factory land & Industrial buildings (Own Occupation)	1985 (R)	2039	23	428
3	Lot No. PTD 1171 at Mukim Linau, Tongkang Pecah Industrial Estate, District of Batu Pahat, Johor Darul Takzim	43,560	19,670	Leasehold	Factory land & Industrial buildings (Own Occupation)	1978	2038	26	553
4	Lot No. PTD 881 at Mukim Linau, Tongkang Pecah Industrial Estate, District of Batu Pahat, Johor Darul Takzim	21,780	6,600	Leasehold	Factory land & Industrial buildings (Own Occupation)	1991	2035	26	300
5	Lot No. PTD 7028 & 7029 at Mukim Linau, District of Batu Pahat, Johor Darul Takzim	1,540 (per unit)	1,540 (per unit)	Freehold	2 units single storey terrace houses (Own Occupation)	1991	–	13	133
6	Lot No. PTD 40 & 41 Lot Kawi Light Industrial Estate, District of Kota Kinabalu, Sabah	121,908	49,237	Leasehold	Factory land & Industrial buildings (Own Occupation)	1989	2042	14	2,404

LIST OF GROUP PROPERTIES (Cont'd)

	Location	Land Area (Sq. ft)	Built Up Area (Sq. ft)	Tenure	Description	Date of Acquisition/ Revaluation (R) (Year)	Date of Expiry (Year)	Estimated Age of Building (Years)	Net Book Value (RM'000)
7	Lot No. PT 25809 at Mukim of Kajang, District of Ulu Langat, Selangor Darul Ehsan	4,000	6,680	Freehold	2 1/2 storey terrace factory (Own Occupation)	1992	–	12	421
8	Lot No. PT 25810 at Mukim of Kajang, District of Ulu Langat, Selangor Darul Ehsan	4,000	5,880	Freehold	2 1/2 storey terrace factory (Own Occupation)	1992	–	12	421
9	Lot No. PT 3476 at Mukim Petaling, Tempat Seri Kembangan, Selangor Darul Ehsan	176,226	N/A	Leasehold	Vacant industrial land	2001	2089	N/A	5,916
10	Lot No. PT. 133946 at Mukim of Hulu Kinta, District of Kinta, Perak Darul Ridzuan	7,276	5,220	Leasehold	1 1/2 storey detached factory (Own Occupation)	1996	2094	10	374
11	Lot No. PT 1137 Bandar Dataran Segar at Village of Lukut, District of Port Dickson, Negeri Sembilan Darul Khusus	3,176	9,540	Freehold	1 unit 3 storey shop office (Vacant)	1999	–	7	550
12	Lot No. PT 1561 Bandar Dataran Segar at Village of Lukut, District of Port Dickson, Negeri Sembilan Darul Khusus	2,545	7,645	Freehold	1 unit 3 storey shop office (Vacant)	2000	–	7	408
13	Lot No. PT 1135 Bandar Dataran Segar at Village of Lukut, District of Port Dickson, Negeri Sembilan Darul Khusus	1,990	5,977	Freehold	1 unit 3 storey shop office (Vacant)	1999	–	7	320

	Location	Land Area (Sq. ft)	Built Up Area (Sq. ft)	Tenure	Description	Date of Acquisition/ Revaluation (R) (Year)	Date of Expiry (Year)	Estimated Age of Building (Years)	Net Book Value (RM'000)
14	Lot No. PT 1136 Bandar Dataran Segar at Village of Lukut District of Port Dickson, Negeri Sembilan Darul Khusus	1,908	5,737	Freehold	1 unit 3 storey shop office (Vacant)	1999	–	7	310
15	Lot No. PT 1126, 1130 - 1134, 1562, 1564 - 1571 Bandar Dataran Segar at Village of Lukut, District of Port Dickson, Negeri Sembilan Darul Khusus	1,540 (per unit)	4,613 (per unit)	Freehold	15 units 3 storey shop office (Vacant)	1999	–	7	3,760

**HWA TAI INDUSTRIES BERHAD**

Company No. : 19688-V

FORM OF PROXY

I / We, _____
 of _____
 being a member of HWA TAI INDUSTRIES BERHAD, hereby appoint _____
 of _____
 or failing him _____
 of _____ or failing him,
 the Chairman of the Meeting, as my / our proxy, to vote for me / us and on my / our behalf at the Thirty-First Annual General Meeting of the Company to be held on 26 June 2006 and at any adjournment thereof in the manner indicated below in respect of the following Resolutions:-

Resolutions relating to:	For	Against
1. The adoption of Financial Statements and Reports		
2. The payment of Directors' fees		
3. The re-election of Directors:- Soo Thien Ming @ Soo Thien See		
Wong Chee Kheen		
Col. (Rtd.) Dato' Ir. Cheng Wah		
Soo Wei Chian		
Noorhamimah Binti Mohd. Baseri		
Mohamed Razif Bin Tan Sri Abdul Aziz		
4. Appointment of Auditors and their remuneration		
5. Ordinary Resolution No. 1		
6. Ordinary Resolution No. 2		

Please indicate with (X) how you wish your vote to be cast.

No. of Shares Held

Date: _____

Signature: _____

NOTES:

- (1) A member of the Company entitled to attend and vote at the meeting is entitled to appoint more than 2 proxies to attend and vote in his stead. A proxy need not be a member of the Company.
- (2) Where a member appoints 2 or more proxies, the appointments shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.
- (3) 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 such securities account.
- (4) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its Common Seal or signed by an officer or attorney so authorised.
- (5) 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 set for holding the meeting or any adjournment thereof.

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Postage

THE SECRETARY
HWA TAI INDUSTRIES BERHAD
NO. 12, JALAN JORAK
KAWASAN PERINDUSTRIAN TONGKANG PECAH
83010 BATU PAHAT
JOHOR DARUL TAKZIM
MALAYSIA

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