



Hwa Tai Industries Berhad
(Company No: 19688-V)

ANNUAL REPORT 2008

*Home of Quality HALAL Biscuits ...
Always the **Healthier** Choice!*

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Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Thirty-Fourth Annual General Meeting of the Company will be held at The Hwa Tai Grand Conference Room, Ground Floor, No. 12, Jalan Jorak, Kawasan Perindustrian Tongkang Pecah, 83010 Batu Pahat, Johor Darul Takzim, Malaysia on Saturday, 20 June 2009 at 11.30 a.m.

AGENDA

1. To receive and adopt the Audited Financial Statements for the year ended 31 December 2008 together with the Directors' and Auditors' Reports thereon.
2. To approve payment of Directors' fee for the year ended 31 December 2008.
3. To re-elect the Director, YBhg. Col. (Rtd.) Dato' Ir. Cheng Wah, who retires in accordance with Section 129(6) of the Companies Act, 1965.
4. To re-elect the Director, Mr. Soo Chung Yee, who retires in accordance with the Company's Articles of Association.
5. To appoint Auditors and authorise the Directors to fix their remuneration.
6. To transact any other business appropriate to an Annual General Meeting.
7. As SPECIAL BUSINESS, to consider and, if thought fit, pass the following resolution:-

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

"That, subject to the Companies Act, 1965 and the Articles of Association of the Company and approvals from the Securities Commission and 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
28 May 2009

NOTES:

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

EXPLANATORY STATEMENT TO THE SPECIAL BUSINESS:

ORDINARY RESOLUTION

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

Statement Accompanying Notice of Annual General Meeting

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

1. YBhg. Col. (Rtd.) Dato' Ir. Cheng Wah
2. Mr. Soo Chung Yee

The details of these Directors are set out in the Directors' Profile appearing on pages 5 to 6 of this Annual Report.

Corporate Information

BOARD OF DIRECTORS

Soo Thien Ming @ Soo Thien See (Chairman)
Soo Chung Yee (Group Chief Executive Director)
Col. (Rtd.) Dato' Ir. Cheng Wah
Mohamed Razif Bin Tan Sri Abdul Aziz
Soo Wei Chian
Lim Keng Kee

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.: 607-415 1688
Fax No.: 607-415 1135

CORPORATE OFFICE

No. 8, Jalan 1/1
Taman Industri Selesa Jaya
43300 Balakong
Selangor Darul Ehsan
Malaysia
Tel. No.: 603-8961 0900
Fax No.: 603-8961 1501

SHARE REGISTRAR

PFA Registration Services Sdn Bhd
Level 17, The Garden North Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur
Malaysia
Tel. No.: 603-2264 3883
Fax No.: 603-2282 1886

AUDITORS

Baker Tilly Monteiro Heng
Chartered Accountants
Monteiro & Heng Chambers
No. 22, Jalan Tun Sambanthan 3
50470 Kuala Lumpur
Malaysia

PRINCIPAL BANKERS

RHB Bank Berhad
Bank Muamalat Malaysia Berhad
AmBank (M) Berhad
Bank Islam Malaysia Berhad
Bangkok Bank Berhad
CIMB 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 61, 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 34 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 and Remuneration Committee.

Mr. Soo has a direct shareholding of 12,372,627 ordinary shares of RM1/- each in the Company as at 30 April 2009. 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 2009.

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

Mr. Soo does not have any conflict of interest with the Company nor any conviction for any offence.

MR. SOO CHUNG YEE

- Non-Independent Executive Director

Mr. Soo Chung Yee, Malaysian, aged 30, is the Group Chief 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 was awarded the Asia Pacific Entrepreneurship Award (Emerging Entrepreneur - Malaysia) in 2007 and the JCI Junior Chamber Entrepreneur Award (Junior Chamber International - Malaysia) in 2008. He also holds several directorships in private companies in Malaysia and abroad.

He is a member of the Remuneration 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 conviction for any offence.

ENCIK MOHAMED RAZIF BIN TAN SRI ABDUL AZIZ

- Independent Non-Executive Director

Encik Mohamed Razif Bin Tan Sri Abdul Aziz, Malaysian, aged 48, 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 and Nomination 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 conviction for any offence.

YBHG. COL. (RTD.) DATO' IR. CHENG WAH

- Independent Non-Executive Director

YBhg. Col. (Rtd.) Dato' Ir. Cheng Wah, Malaysian, aged 70, 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 another listed company, Tamadam 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 has a direct shareholding of 20,000 ordinary shares of RM1/- each in the Company as at 30 April 2009. He does not have any interest in the securities of its subsidiaries.

He does not have any family relationship with any directors and/or major shareholders of the Company. He does not have any conflict of interest with the Company nor any conviction for any offence.

Profile of the Board of Directors (Cont'd)

MR. SOO WEI CHIAN

- Independent Non-Executive Director

Mr. Soo Wei Chian, Malaysian, aged 40, 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 public listed 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, Nomination Committee and Remuneration 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 conviction for any offence.

MR. LIM KENG KEE

- Non-Independent Non-Executive Director

Mr. Lim Keng Kee, Malaysian, aged 47, was appointed to the Board on 14 November 2007. He holds a Masters in Business Administration with distinction from the University of Hull, England. Mr. Lim was Director, Business Development in the Company until 20 January 2009. Prior to that, Mr. Lim was General Manager - Asia Pacific with Thomson Financial BankWatch, the boutique credit rating agency of the Thomson Reuters (NYSE: TOC; TSX: TOC); a leading global provider of integrated information-based solutions to business and professional customers. Mr. Lim has experience in numerous industries including; wood derived industry; insurance; financial services; light structural projects; information technology; event management; and maritime education. Currently, Mr. Lim is involved in the sustainable energy; and the biotechnology industry.

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 conviction for any offence.

DETAILS OF ATTENDANCE OF DIRECTORS AT BOARD MEETINGS DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

During the financial year ended 31 December 2008, 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 | 5 of 5 |
| Col. (Rtd.) Dato' Ir. Cheng Wah | 5 of 5 |
| Mohamed Razif Bin Tan Sri Abdul Aziz | 5 of 5 |
| Soo Wei Chian | 5 of 5 |
| Lim Keng Kee | 5 of 5 |

Audit Committee Report

1. COMPOSITION OF AUDIT COMMITTEE

Col. (Rtd.) Dato' Ir. Cheng Wah (Chairman)
Soo Wei Chian (MIA)
Mohamed Razif Bin Tan Sri Abdul Aziz

Independent Non-Executive Director
Independent Non-Executive Director
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) All Members of the Audit Committee must be Non-Executive Directors, with majority of them being 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; or
 - (iii) Fulfils such other requirements as prescribed or approved by Bursa Malaysia.
2. The Members of the Audit Committee shall elect a Chairman from among their number who shall be an Independent Director.
3. If a Member of the Audit Committee resigns, dies or for any other reason ceases to be a Member with the result that the number of Members is reduced below 3, the Board of Directors shall, within 3 months of that event, appoint such number of new Members as may be required to make up the minimum of 3 Members.
4. The terms of office and performance of the Audit Committee and each of its Members shall be reviewed by the Board of Directors no less than once every 3 years.

MEETINGS

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

Audit Committee Report (Cont'd)

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

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 function or activity and be able to convene meetings with the External Auditor, Internal Auditor or both, excluding the attendance of other members of the Board and employees of the Company, whenever necessary.

The Audit Committee shall be empowered to appoint and remove the Internal Auditor. The internal audit function shall report directly to the Audit Committee.

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

Audit Committee Report (Cont'd)

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

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 2008, five (5) 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) | 5 of 5 |
| Soo Wei Chian | 5 of 5 |
| Mohamed Razif Bin Tan Sri Abdul Aziz | 4 of 5 |
| Lim Keng Kee (Resigned on 1 July 2008) | 3 of 3 |

4. ACTIVITIES OF THE AUDIT COMMITTEE

During the financial year ended 31 December 2008, the activities of the Audit Committee included the following:

- Reviewed and recommended for Board approval the quarterly financial results for public announcement.
- Reviewed and discussed with the External Auditors the audit planning memorandum before commencement of the year end audit.
- Reviewed and discussed the External Auditors' findings during the course of their year end audit and the management's response.
- Reviewed and recommended for Board approval the Group's audited financial year end statement.
- Reviewed the related party transactions that had arisen within the Company and Group.
- Reviewed the internal audit reports.
- Convened meetings with the External Auditor without the attendance of the management. Two of such meetings were held during the financial year.

5. INTERNAL AUDIT

The Internal Audit function involves the implementation of independent and systematic reviews of the processes and guidelines of the Group and the reporting of their application and compliance to the Audit Committee and Board of Directors. The Internal Audit function also involves the reporting of the state of internal control of the various operations within the Group and the extent of compliance with the established policies and procedures and the suggestion of any additional improvement opportunities in the areas of internal control, systems and efficiency improvement.

During the financial year ended 31 December 2008, the following Internal Audit activities which were performed in-house, were carried out:-

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

Statement of Corporate Governance

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 6 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 an Executive Director, 3 Independent Non Executive Directors and another Non Independent Non Executive Director.

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 Director is 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 interest and abstain from participating in the decision making process.

The Board also set up a Management Council to assist the Board in the management of the operations of the Group. 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 and 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, En. Mohamed Razif Bin Tan Sri Abdul Aziz and Mr. Soo Wei Chian. 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.

Statement of Corporate Governance (Cont'd)

BOARD OF DIRECTORS (Cont'd)

D. Appointments to the Board (Cont'd)

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

During the financial year, certain Directors have attended trainings in a various areas to enhance their skills so as to contribute more effectively to the Company. Directors who have not attended any formal training during the financial year, are well-informed of the latest developments on the various relevant rules and regulations as all Directors were updated by the Management, by providing them with reading materials on such new developments.

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, Mr. Soo Chung Yee and Mr. Soo Wei Chian. 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 23(a) to the financial statements.

SHAREHOLDERS

Dialogue between the Group and Investors

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

Statement of Corporate Governance (Cont'd)

SHAREHOLDERS (Cont'd)

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 63 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 under the Statement of Internal Control set out on page 13 of this Annual Report. The Statement of Internal Control had been reviewed by the external auditors.

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 7 to 9 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. Following the expiry of the ESOS on 5 May 2009, the ESOS Committee was consequently abolished.

Statement of Internal Control

BOARD RESPONSIBILITY

The Board of Directors recognises its overall responsibility for maintaining the Group's system of Internal Control and risk management to safeguard shareholders' investment and the Group'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 recognises that risk management should be an integral part of the Group culture and is a continuous on going process of identifying, evaluating, minimising 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 organisation structure with clear lines of reporting, responsibilities and level of authority.
2. There are clear definition of authorisation procedure for major operating functions including purchases, capital expenditures, payment, credit control 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 and monitor the business development, discuss and resolve key operational and management issues and review the financial performance against the business plan and budget for each operating units within the Group.

The 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 Board of Directors and Audit Committee.

5. Adequate financial and operational information systems are in place to capture and present timely and pertinent business information.
6. The Audit Committee reviews the quarterly financial results and yearly audited financial statements prior to the approval by the Board of Directors.
7. The Audit Committee also reviews the internal auditor's reports and monitors the status of the implementation of corrective actions to address internal control weaknesses.
8. 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.
9. The Company was accredited ISO 9002 since 1996 and upgraded to MS ISO 9001:2000 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.
10. 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.
11. 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.

This Statement of Internal Control had been reviewed by the External Auditors.

Directors' Responsibility Statement and Other Information

DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors is required under Paragraph 15.26(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 2008 as set out herein on pages 22 to 62 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 material 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 major shareholders.

Non-Audit Fees

There were no non-audit fees paid to the Auditors, Messrs. Baker Tilly Monteiro Heng or a firm or corporation affiliated to them, 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. The period of the Warrants is five years from the date of issuance of the Warrants and will expire on 2 June 2009. None of the Warrants were exercised during the financial year.

The Company also implemented an Employees' Share Option Scheme ("ESOS") during the financial year 2004. The ESOS was in force for a period of five years from the date of the implementation of the ESOS and expired on 5 May 2009. No ESOS was exercised during the financial year.

Depository Receipt

The Company did not sponsor any depository receipt programme during the financial year.

Variation in Results

There was no material variation between the audited results for the financial year ended 31 December 2008 and the unaudited results previously released for the financial quarter ended 31 December 2008.

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.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, it gives me great pleasure to present the Annual Report and the Audited Financial Statements of Hwa Tai Industries Berhad and its group of companies for the financial year ended 31 December 2008.

BUSINESS ENVIRONMENT

We witnessed a severe global financial crisis in 2008, affecting both the local and international economy.

In the first half of 2008, the Company faced enormous inflationary pressures on raw materials such as flour and packaging materials, and also soaring petroleum prices.

These adversities were compounded by the Melamine scare in Malaysia during the third quarter of 2008 which critically affected the biscuit industry. Although Hwa Tai products were not and are not tainted with Melamine, a testament to the Company's constant commitment towards high quality products, it had negatively impacted on the Company's sales as the crisis hit the whole biscuit industry.

FINANCIAL REVIEW

These events marked a turbulent year. Nevertheless, the Company had managed to sail through these challenges to ensure your interests as stakeholders are protected. I am thus pleased to report the Company's performance for the past year.

The Group recorded a higher turnover of RM80.25 million for 2008, a 13% jump from the previous year. A net profit of RM415,000 was achieved by the Group; the figure, though humble, represents a remarkable improvement from the net loss of RM1.23 million posted in the preceding year.

These achievements were made possible by the Management vigorously working to counter these obstacles by ensuring the implementation of effective marketing programmes, strategic price adjustments, efficient cost management and successful production planning.

CORPORATE DEVELOPMENTS AND AWARDS

The Company's feat in 2008 was recognised and registered when it won the Industry Excellence for Manufacturing awarded by the Malaysia Canada Business Council and also the Malaysia Power Brand 2009 Award.

On the corporate front, the Company's Employees' Share Option Scheme ("ESOS") implemented as an incentive for employees on 6 May 2004 for a duration of five years expired on 5 May 2009. The Company's Warrants 2004/2009 issued on 3 June 2004, which had an exercisable period of five years, will expire on 2 June 2009. The details of the ESOS and Warrants can be found in the Directors' Report of this Annual Report.

CORPORATE SOCIAL RESPONSIBILITY

The Company holds strongly to its policy on being a responsible corporate organisation. We highly believe in contributing to the community in which we associate and to the environment in which we all live. Throughout the year 2008, we have carried out a number of social welfare activities to share with the less fortunate in our society.

Fully supporting the Government's efforts in creating a healthier lifestyle among the population, we constantly strive to improve the nutritional profile of Hwa Tai products. Thus, we had launched a healthier version of snack - D'Lite - unlike most other snacks, D'Lite is baked, not fried. D'Lite is also free from cholesterol and trans fatty acids. Improving and creating healthier products will be our ongoing commitment.

In promoting environmental responsibility, we have endeavoured to use fewer plastic

trays in our packaging and to achieve 'tray-less' packaging in the future. In addition, we have stopped using plastic bags and instead giving out Hwa Tai environmental friendly non-woven bags for customers' grocery shopping.

To ensure everyone in the Group plays a part in building a responsible corporate organisation, our employees are educated to practice good habits on conserving energy and resources.

OUTLOOK AND FUTURE PROSPECTS

The global financial crisis appears to dampen the business landscape in 2009. In recognising the global economic uncertainty, our Malaysian Government had taken swift action to mitigate the impact of this crisis by announcing its stimulus packages. We are grateful for the efforts taken by our Government in preventing the country from sliding into recession and help enhance local economy. We eagerly look forward for the stimulus packages to transform the current economic scenario and boost consumer spending, among other things.

Riding on this support by our Government, we will continue to pursue growth by implementing creative marketing strategies, continued cost efficiency measures, Research & Development (R&D) investments to create innovative products and increased productivity measures. We believe these action plans will help buffer the slower global economic growth and drive our business progressively forward.

ACKNOWLEDGEMENT

On behalf of the Board and Management, I would like to record our profound thanks to our customers, suppliers, distributors, financiers, business associates and governmental and regulatory authorities for the unrelenting support and trust in us.

Strong commendation and heartfelt appreciation go to all personnel of all levels in the Group for their untiring contribution.

Last but not least, our immense gratitude goes out to all shareholders for their confidence and faith in Hwa Tai.

SOO THIEN MING @ SOO THIEN SEE
Chairman

28 May 2009

Directors' Report

The directors hereby submit their report together with the audited financial statements of Hwa Tai Industries Berhad ("the Company") and its subsidiary companies and associated company ("the Group") for the financial year ended 31st December 2008.

PRINCIPAL ACTIVITIES

The principal activities of the Company are that of a biscuit manufacturer and investment holding. The principal activities of the subsidiary companies and the associated company are disclosed in Note 6 and Note 7 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 |
|--------------------------------------|-------------|---------------|
| Profit/(loss) for the financial year | 415,178 | (18,561,814) |
| Attributable to:- | | |
| Equity holders of the Company | 415,178 | (18,561,814) |
| Minority interests | — | — |
| | 415,178 | (18,561,814) |

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 2008.

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 had satisfied themselves that all known bad debts had been written off 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 render the amount written off for bad debts, or the amount of the allowance for doubtful debts, in the financial statements of the Group and the 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.

Directors' Report (Cont'd)

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.

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

The Company has not issued any shares or debentures during the financial year.

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. The ESOS which will expire on 5th May 2009 will not be renewed.

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.

Directors' Report (Cont'd)

EMPLOYEES' SHARE OPTION SCHEME (Cont'd)

(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) employee 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.
- (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.

Directors' Report (Cont'd)

EMPLOYEES' SHARE OPTION SCHEME (Cont'd)

- (e) The Options granted to a grantee under the ESOS is, subject to the provisions of By-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.

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 Over Ordinary Shares of RM1/- each | | | | Exercisable At 31.12.2008 |
|----------------------------|--|---------------------------|-----------|---------|---------------------------------|
| | Exercisable At 1.1.2008 | Additional Exercisable | Exercised | Lapsed | |
| 3,222,000 | 562,800 | — | — | 140,000 | 422,800 |

On 7th April 2009, the Company was 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 granted options in aggregate of 80,000 and above during the financial year are set out below:-

| Total Options Granted | Options Exercisable Over Ordinary Shares of RM1/- each | | | | Exercisable At 31.12.2008 |
|-----------------------------|--|---------------------------|-----------|--------|---------------------------------|
| | Exercisable At 1.1.2008 | Additional Exercisable | Exercised | Lapsed | |
| Chia Seor Boay | 80,000 | 79,000 | — | 79,000 | — |

Directors' Report (Cont'd)

WARRANTS 2004/2009

In the financial year 2004, the Company issued 19,845,000 free detachable warrants. The detachable warrants carry the rights to subscribe for 1 new ordinary share of RM1/- each at the exercise price of RM1.74 within the exercisable period of five (5) years from the date of the issuance of the warrants on 3rd June 2004.

Upon the 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 names of the directors in office since the date of the last report and at the date of this report are:-

Soo Thien Ming @ Soo Thien See
Soo Chung Yee
Col. (Rtd.) Dato' Ir. Cheng Wah
Soo Wei Chian
Mohamed Razif Bin Tan Sri Abdul Aziz
Lim Keng Kee

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, 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 ended 31st December 2008 are as follows:-

| | <u>Number of ordinary shares of RM1/- each</u> | | | |
|---|--|---------------|-------------|--------------------------|
| | <u>At 1.1.2008</u> | <u>Bought</u> | <u>Sold</u> | <u>At 31.12.2008</u> |
| Soo Thien Ming @ Soo Thien See - direct | 12,251,027 | 121,600 | — | 12,372,627 |
| Col. (Rtd.) Dato' Ir. Cheng Wah - direct | 20,000 | — | — | 20,000 |

| | <u>Number of warrants for shares of RM1/- each, exercisable at RM1.74 per share</u> | | | |
|--|---|----------------------------|----------------------------|--------------------------|
| | <u>At 1.1.2008</u> | <u>Offered/ Bought</u> | <u>Exercised/ Sold</u> | <u>At 31.12.2008</u> |
| Soo Thien Ming @ Soo Thien See - direct | 2,977,123 | — | — | 2,977,123 |

Soo Thien Ming @ Soo Thien See is deemed to have an interest in the shares held by the Company in its related corporations by virtue of his controlling interest in the Company.

Other than as stated above, none of the 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' Report (Cont'd)

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.

SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

Significant event during the financial year is disclosed in Note 32 to the financial statements.

AUDITORS

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

On behalf of the Board,

SOO THIEN MING @ SOO THIEN SEE
Director

SOO CHUNG YEE
Director

Kuala Lumpur
14th April 2009

Balance Sheets As at 31 December 2008

| | | | GROUP | | COMPANY |
|--|------|--------------|--------------|--------------|-------------|
| | Note | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| ASSETS | | | | | |
| Non-currents assets | | | | | |
| Property, plant and equipment | 3 | 19,068,970 | 18,920,423 | 17,992,556 | 17,846,041 |
| Investment properties | 4 | 4,133,200 | 4,972,490 | 4,133,200 | 4,972,490 |
| Prepaid land lease payments | 5 | 1,445,006 | 1,484,037 | 737,392 | 754,863 |
| Investment in subsidiary companies | 6 | — | — | 2,671,945 | 5,837,072 |
| Investment in an associate company | 7 | 1,815,109 | 1,803,679 | 1,791,457 | 1,791,457 |
| Amount owing by subsidiary companies | 8 | — | — | 407,869 | 407,869 |
| | | 26,462,285 | 27,180,629 | 27,734,419 | 31,609,792 |
| Current assets | | | | | |
| Inventories | 9 | 6,256,684 | 5,453,951 | 5,568,268 | 4,693,349 |
| Trade and sundry receivables | 10 | 28,760,806 | 29,498,099 | 21,521,694 | 22,981,624 |
| Tax recoverable | | 122,996 | 621,399 | 80,475 | 551,492 |
| Amount owing by subsidiary companies | 8 | — | — | 802,741 | 15,644,637 |
| Fixed deposit place with licensed bank | | 3,750 | — | — | — |
| Cash and bank balances | | 651,092 | 1,875,203 | 255,686 | 1,236,026 |
| | | 35,795,328 | 37,448,652 | 28,228,864 | 45,107,128 |
| Non-current asset held for sale | 11 | — | 365,539 | — | — |
| | | 35,795,328 | 37,814,191 | 28,228,864 | 45,107,128 |
| TOTAL ASSETS | | 62,257,613 | 64,994,820 | 55,963,283 | 76,716,920 |
| EQUITY AND LIABILITIES | | | | | |
| Equity attributable to equity holders of the Company | | | | | |
| Share capital | 12 | 40,042,400 | 40,042,400 | 40,042,400 | 40,042,400 |
| Capital reserve | 13 | 7,664 | 7,664 | 7,664 | 7,664 |
| Accumulated losses | | (25,147,486) | (25,562,664) | (23,831,171) | (5,269,357) |
| Shareholders' funds | | 14,902,578 | 14,487,400 | 16,218,893 | 34,780,707 |
| Minority interest | | — | — | — | — |
| Total Equity | | 14,902,578 | 14,487,400 | 16,218,893 | 34,780,707 |

Balance Sheets (Cont'd)

| | | GROUP | | COMPANY | |
|--------------------------------------|------|-------------------|-------------------|-------------------|-------------------|
| | Note | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Non-currents liabilities | | | | | |
| Hire purchase liabilities | 14 | 1,830,004 | 321,136 | 1,830,004 | 321,136 |
| Term loans | 15 | — | — | — | — |
| Deferred taxation | 16 | 38,862 | — | — | — |
| | | 1,868,866 | 321,136 | 1,830,004 | 321,136 |
| Current liabilities | | | | | |
| Trade and sundry payables | 17 | 21,786,632 | 27,721,341 | 14,022,147 | 19,020,431 |
| Amount owing to a subsidiary company | 18 | — | — | 348,766 | 376,896 |
| Hire purchase liabilities | 14 | 516,244 | 207,606 | 516,244 | 207,606 |
| Provisions | 19 | 1,493,944 | 1,285,847 | 1,493,944 | 1,285,847 |
| Short term borrowings | 20 | 18,630,300 | 17,531,000 | 18,630,300 | 17,531,000 |
| Term loans | 15 | — | 91,129 | — | — |
| Tax payable | | 156,064 | 156,064 | — | — |
| Bank overdrafts | 21 | 2,902,985 | 3,193,297 | 2,902,985 | 3,193,297 |
| | | 45,486,169 | 50,186,284 | 37,914,386 | 41,615,077 |
| Total liabilities | | 47,355,035 | 50,507,420 | 39,744,390 | 41,936,213 |
| TOTAL EQUITY AND LIABILITIES | | 62,257,613 | 64,994,820 | 55,963,283 | 76,716,920 |

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

Income Statements For the year ended 31 December 2008

| | | GROUP | | COMPANY | |
|--|------|---------------------|--------------|---------------------|--------------|
| | Note | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| REVENUE | 22 | 80,245,698 | 71,049,716 | 62,150,391 | 57,007,340 |
| Cost of sales | | (63,838,577) | (61,729,091) | (48,552,481) | (49,857,225) |
| GROSS PROFIT | | 16,407,121 | 9,320,625 | 13,597,910 | 7,150,115 |
| Other operating income | | 559,105 | 2,556,187 | 377,650 | 514,298 |
| Other operating expenses | | | | | |
| - impairment on investment in subsidiary companies | | — | — | (3,165,127) | — |
| - allowance for doubtful debts | | | | | |
| - subsidiary companies | | — | — | (15,936,593) | — |
| - third parties | | (649,088) | (1,623,345) | (133,270) | (315,041) |
| Selling and distribution expenses | | (8,232,948) | (4,702,053) | (7,166,925) | (3,804,136) |
| Administrative expenses | | (6,308,305) | (6,167,808) | (4,908,451) | (4,194,281) |
| OPERATING PROFIT/(LOSS) | 23 | 1,775,885 | (616,394) | (17,334,806) | (649,045) |
| Share of results in an associate company | | 11,430 | 12,222 | — | — |
| Finance costs | 24 | (1,330,138) | (1,288,815) | (1,227,008) | (1,164,640) |
| PROFIT/(LOSS) BEFORE TAXATION | | 457,177 | (1,892,987) | (18,561,814) | (1,813,685) |
| Taxation | 25 | (41,999) | 663,825 | — | 592,779 |
| PROFIT/(LOSS) FOR THE FINANCIAL YEAR | | 415,178 | (1,229,162) | (18,561,814) | (1,220,906) |
| Attributable to: | | | | | |
| Equity holders of the Company | | 415,178 | (1,229,162) | (18,561,814) | (1,220,906) |
| Minority interest | | — | — | — | — |
| | | 415,178 | (1,229,162) | (18,561,814) | (1,220,906) |
| Earning/(loss) per ordinary share (sen) | 26 | | | | |
| - basic | | 1 | (3) | | |
| - diluted | | 1 | (3) | | |

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

Statements of Changes in Equity

For the year ended 31 December 2008

GROUP

| | Attributable to Equity Holders of the Company | | | | Total RM |
|-------------------------------|---|--------------------------------------|-----------------------|----------------------|-------------------|
| | Share Capital RM | Non-distributable Capital Reserve RM | Accumulated Losses RM | Minority Interest RM | |
| At 1st January 2007 | 40,042,400 | 7,664 | (24,333,502) | – | 15,716,562 |
| Loss for the financial year | – | – | (1,229,162) | – | (1,229,162) |
| At 31st December 2007 | 40,042,400 | 7,664 | (25,562,664) | – | 14,487,400 |
| Profit for the financial year | – | – | 415,178 | – | 415,178 |
| At 31st December 2008 | 40,042,400 | 7,664 | (25,147,486) | – | 14,902,578 |

COMPANY

| | Share Capital RM | Non-distributable Capital Reserve RM | Accumulated Losses RM | Total RM |
|-----------------------------|-------------------|--------------------------------------|-----------------------|-------------------|
| | | | | |
| At 1st January 2007 | 40,042,400 | 7,664 | (4,048,451) | 36,001,613 |
| Loss for the financial year | – | – | (1,220,906) | (1,220,906) |
| At 31st December 2007 | 40,042,400 | 7,664 | (5,269,357) | 34,780,707 |
| Loss for the financial year | – | – | (18,561,814) | (18,561,814) |
| At 31st December 2008 | 40,042,400 | 7,664 | (23,831,171) | 16,218,893 |

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

Cash Flow Statements

For the year ended 31 December 2008

| | GROUP | | COMPANY | |
|---|-------------|-------------|--------------|-------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Profit/(loss) before taxation | 457,177 | (1,892,987) | (18,561,814) | (1,813,685) |
| Adjustments for: | | | | |
| Allowance for doubtful debts | 649,088 | 1,623,345 | 16,069,863 | 315,041 |
| Allowance for doubtful debts no longer required | (49,158) | (32,482) | — | — |
| Allowance for inventories obsolescence no longer required | — | (916,466) | — | — |
| Amortisation of prepaid land lease payments | 39,031 | 39,031 | 17,471 | 17,471 |
| Bad debts written off | — | 11,301 | — | — |
| Bad debts recovered | — | (17,063) | — | — |
| Depreciation | | | | |
| - property, plant and equipment | 2,094,794 | 2,278,387 | 1,919,289 | 1,984,804 |
| - investment properties | 51,103 | 63,235 | 51,103 | 58,986 |
| Loss/(gain) on disposal of property, plant and equipment | 28,714 | (826,154) | 8,169 | (465) |
| Impairment loss on investment in subsidiary companies | — | — | 3,165,127 | — |
| Gain on disposal of investment properties | (106,813) | (22,207) | (106,813) | (22,207) |
| Gain on disposal of non-current assets held for sale | (104,461) | — | — | — |
| Interest income | (8,804) | (1,611) | (7,049) | (1,611) |
| Interest expenses | 1,330,138 | 1,288,815 | 1,227,008 | 1,164,640 |
| Property, plant and equipment written off | 2,240 | 54,474 | — | — |
| Provision for advertising and promotion expenses | 4,878,880 | 1,745,332 | 4,878,880 | 1,745,332 |
| Share of results in an associate company | (11,430) | (12,222) | — | — |
| Gain on unrealised foreign exchange | (81,450) | — | (81,450) | — |
| | 9,169,049 | 3,382,728 | 8,579,784 | 3,448,306 |
| Changes In Working Capital: | | | | |
| Inventories | (802,733) | (129,422) | (874,919) | (1,005,875) |
| Receivables | 218,813 | (8,991,570) | 1,408,110 | (8,319,173) |
| Payables | (5,934,709) | 7,506,154 | (4,998,284) | 5,799,115 |
| Balances with subsidiary companies | — | — | (1,294,243) | 1,362,852 |
| Utilisation of provision for advertising and promotion expenses | (4,670,783) | (1,280,555) | (4,670,783) | (992,657) |
| | (2,020,363) | 487,335 | (1,850,335) | 292,568 |
| Interest paid | (1,282,994) | (202,901) | (1,181,101) | (202,901) |
| Tax paid | — | (36,528) | — | (26,576) |
| Tax refund | 495,266 | — | 471,017 | — |
| Net Operating Cash Flow | (2,808,091) | 247,906 | (2,560,419) | 63,091 |

Cash Flow Statements (Cont'd)

| | GROUP | | COMPANY | |
|--|-------------|-------------|-------------|-------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Purchase of property, plant and equipment * | (403,378) | (519,140) | (201,255) | (375,638) |
| Purchase of investment properties | – | (260,000) | – | (260,000) |
| Proceeds from disposal of non-current assets held for sale | 470,000 | – | – | – |
| Investment in an associate | – | (1,791,457) | – | (1,791,457) |
| Proceeds from disposal of property, plant and equipment | 194,542 | 1,985,930 | 192,741 | 38,722 |
| Proceeds from disposal of investment properties | 895,000 | 265,000 | 895,000 | 265,000 |
| Interest received | 8,804 | 1,611 | 7,049 | 1,611 |
| Net Investing Cash Flow | 1,164,968 | (318,056) | 893,535 | (2,121,762) |
| CASH FLOW FROM FINANCING ACTIVITIES: | | | | |
| Repayment of short term borrowings | 1,099,300 | 1,978,650 | 1,099,300 | 3,812,167 |
| Net advances from/(repayment to) subsidiary companies | – | – | 171,416 | (660,681) |
| Repayment of term loans | (91,129) | (244,600) | – | – |
| Repayment of hire purchase liabilities | (247,953) | (413,844) | (247,953) | (197,053) |
| Interest paid | (47,144) | (1,085,914) | (45,907) | (961,739) |
| Net Financing Cash Flow | 713,074 | 234,292 | 976,856 | 1,992,694 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (930,049) | 164,142 | (690,028) | (65,977) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR | (1,318,094) | (1,482,236) | (1,957,271) | (1,891,294) |
| CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR | (2,248,143) | (1,318,094) | (2,647,299) | (1,957,271) |
| ANALYSIS OF CASH AND CASH EQUIVALENTS: | | | | |
| Cash and bank balances | 651,092 | 1,875,203 | 255,686 | 1,236,026 |
| Fixed deposit | 3,750 | – | – | – |
| Bank overdrafts | (2,902,985) | (3,193,297) | (2,902,985) | (3,193,297) |
| | (2,248,143) | (1,318,094) | (2,647,299) | (1,957,271) |

Group and Company

* In financial year 2008, the Group and the Company acquired property, plant and equipment amounting to RM2,468,837/- and RM2,266,714/- respectively of which RM2,194,704/- were acquired under hire purchase instalment plans. Cash payments amounting to RM129,245/- were made towards the hire purchase arrangement.

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

Notes to the Financial Statements

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 6 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 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 14th April 2009.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements of the Group and of the Company have been prepared in accordance with the Financial Reporting Standards ("FRS") and the provisions of the Companies Act, 1965 in Malaysia. At the beginning of the current financial year, the Group and the Company adopted FRSs, Amendment to FRS and Issues Committee Interpretation ("IC Int") which are mandatory for the current financial year as disclosed in Note 2.3 to the financial statements.

The financial statements of the Group and of the Company have also been prepared under the historical cost convention modified to include the revaluation of certain assets.

The preparation of financial statements requires the directors to make certain accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reported financial year. It also requires directors to exercise their judgments in the process of applying the Group's accounting policies. Although these estimates and judgments are based on the directors' best knowledge of current events and action, actual results may differ.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.4 to the financial statements.

2.2 Summary of Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary companies made up to the end of the financial year. The financial statements of the parent and its subsidiary companies are all drawn up to the same reporting date.

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

Acquisitions of subsidiary companies are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. The accounting policy on goodwill is set out in Note 2.2(c) to the financial statements.

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.2 Summary of Significant Accounting Policies (Cont'd)

(a) Basis of Consolidation (Cont'd)

Any excess of the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in income statement.

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. Uniform accounting policies are adopted in the consolidated financial statement for like transactions and events in similar circumstances.

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 the balance of goodwill.

Minority interest represents the portion of profit or loss and net assets in subsidiary companies not held by the Group. It is measured at the minorities' share of the fair value of the subsidiary companies' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiary companies equity since then.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary company, the excess and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary company subsequently reports profits, the Group's interest is allocated all such profit until the minority's share of losses previously absorbed by the Group has been recovered.

(b) Subsidiaries Companies

Subsidiary companies are entities in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

An investment in subsidiary companies, which is eliminated on consolidation, is stated in the Company's separate financial statements at cost less impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(t) to the financial statements. On disposal of such an investment, the difference between the net disposal proceeds and its carrying amount is recognised in the income statement.

(c) Goodwill on Consolidation

Goodwill arising on acquisition represents the excess of cost of business combination over the Group's share of the net fair values of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is stated at cost less impairment losses, if any. The policy for recognition and measurement of impairment losses is in accordance with Note 2.2(t) to the financial statements.

Goodwill is not amortised but is reviewed for impairment, annually or more frequently for impairment in value and is written down where it is considered necessary. Gain or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arise.

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.2 Summary of Significant Accounting Policies (Cont'd)

(d) Associate Company

Associate company is an entity in which the Group exercises influence, but which it does not control, generally accompanying a shareholding of between 20% and 50% of the voting rights, and that is neither a subsidiary company nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the associated companies but not the power to exercise control over those policies.

Investment in associate company is accounted for in the consolidated financial statements using the equity method of accounting and is initially recognised at cost. The Group's investment in associate company includes goodwill identified on acquisition, net of any accumulated impairment loss. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(t).

Under the equity method, the investment in associate company is carried in the consolidated balance sheet at cost adjusted for post acquisition changes in the Group's share of net assets of the associated company. The Group's share of the net profit or loss of the associate company is recognised in the consolidated income statement. Where there has been a change that is recognised directly in the equity of the associate company, the Group recognises its share of such changes.

When the Group's share of losses in an associate company equals or exceeds its interest in the associate company, including any other unsecured receivables, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate company.

Goodwill relating to an associate company is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate company's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate company's profit or loss in the period in which the investment is acquired.

On disposal of such investment, the difference between net disposal proceed and the carrying amount of the investment in an associate company is reflected as a gain or loss on disposal in the consolidated income statement.

The results of the associate company, Shan Dong Yingerle Hwa Tai Food Industry Co. Ltd. ("the associate company"), is accounted for in the consolidated financial statements based on the unaudited financial statements of the associate company made up from 1st January 2008 to 31st December 2008 and is prepared using accounting policies that conform to those used by the Group for like transactions in similar circumstances.

(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 of recognition of impairment losses is in accordance with Note 2.2(t) to the financial statements. Cost includes expenditure that are directly attributable to the acquisition of the asset. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.2 Summary of Significant Accounting Policies (Cont'd)

(e) Property, Plant and Equipment and Depreciation (Cont'd)

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% |

The residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposals proceeds and the net carrying amount, if any, is recognised in the income statement.

(f) Revaluation of Assets

The directors have applied the transitional provision of Financial Reporting Standards 116 Property, Plant and Equipment which allows the assets to be stated at their last revaluation amounts less depreciation.

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) Investment Properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of investment properties are provided on the straight line basis to write off the cost of investment properties to their residual value over their estimated useful lives of the investment properties. The estimated useful lives of the investment property is as follows:-

| | |
|----------|----|
| Building | 2% |
|----------|----|

No depreciation is provided on the freehold land as it has indefinite useful life.

Investment properties are derecognised when either they have been disposed off or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from their disposals. Any gains or losses on the retirement or disposal of investment properties are recognised in income statements in the year in which they arise.

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.2 Summary of Significant Accounting Policies (Cont'd)

(h) Inventories

Inventories are stated at the lower of cost and net realisable value, cost being determined on the first-in, first-out basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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 values. In estimating the realisable values, an allowance is made for doubtful receivables based on a review of all outstanding amounts as at the balance sheet date. Bad debts are written off to the income statement during the financial year when they are identified.

(j) Payables

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

(k) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases, with the following exceptions:-

- Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and
- Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

(ii) Finance Leases

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

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

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2.2(e) to the financial statements.

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.2 Summary of Significant Accounting Policies (Cont'd)

(k) Leases (Cont'd)

(iii) Operating Leases

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and is amortised on a straight-line basis over the lease terms.

(l) 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.

(m) 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, an equity-settled, share-based compensation plan, allows the Group's employees to acquire shares of the Company. The Group has applied FRS2 in accordance with its transitional provisions which allow no compensation cost or obligation is recognised for ESOS granted before 31st December 2004. When the options are exercised, equity is increased by the amount of the proceeds received.

(n) 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.

(o) Foreign Currencies

(i) Functional and presentation currency

The separate financial statements of each entity in the Group are measured using the functional currency which is the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.2 Summary of Significant Accounting Policies (Cont'd)

(o) Foreign Currencies (Cont'd)

(ii) Foreign currency transactions and translations

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries are recorded on initial recognition in the functional currencies at exchange rate approximately those ruling at the 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.

Non monetary items are measured in term of historical cost in a foreign currency or translated using the exchange rates as at the date of the initial transaction. Non monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

(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 credit can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at time of the transaction, affects neither accounting profit nor taxable profit.

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

(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, rental income and commission income are recognised on an accrual basis.

(r) Non-current Asset Held for Sale

Non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when sale is highly probable and the asset is available for immediate sale in its present condition subject only to terms that are usual and customary.

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with applicable FRSS. On initial classification as held for sale, non-current asset is measured in accordance with FRS 5 that is at the lower of carrying amount and fair value less costs to sell. Any differences are included in income statement.

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.2 Summary of Significant Accounting Policies (Cont'd)

(s) 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.

(t) Impairment of Assets

The carrying amounts of assets other than inventories, deferred tax assets and non-current assets held for sale, are reviewed at each balance sheet date to determine whether there is any indication of impairment.

If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised, unless it reverses an impairment loss on a revalued asset, in which case it is credited directly to revaluation surplus. Where an impairment loss on the same revalued asset was previously recognised in the income statement, a reversal of that impairment loss is also recognised in the income statement.

(u) Cash and Cash Equivalents

For the purpose of cash flow statement, cash and cash equivalents 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.

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.2 Summary of Significant Accounting Policies (Cont'd)

(v) Segmental Information

Segment reporting is presented for enhanced assessment of the Group's risks and returns. The primary reporting segment information is in respect of business segments as the Group's risk and rates of return are affected predominantly by the products or services it produces or provides. No segment information on the basis of geographical segments is presented as the Group operates predominantly in Malaysia.

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

Segment revenue, expense 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.

Segment capital expenditure is the total cost incurred during the financial year to acquire segment assets that are expected to be used for more than one year.

2.3 Adoption of FRSs, Amendment to FRS and Issues Committee Interpretations ("IC Int")

(a) FRSs, Amendment to FRS and IC Int Adopted

During the financial year, the Group and the Company adopted the following FRSs, Amendment to FRS and IC Int which are effective for the current financial year:-

| | |
|----------------------|--|
| FRS 107 | : Cash Flow Statements |
| FRS 111 | : Construction Contracts |
| FRS 112 | : Income Taxes |
| FRS 118 | : Revenue |
| FRS 120 | : Accounting for Governments Grants and Disclosure of Government Assistance |
| Amendment To FRS 121 | : The Effects of Changes in Foreign Exchange Rates - Net Investment in Foreign Operation |
| FRS 134 | : Interim Financial Reporting |
| FRS 137 | : Provisions, Contingent Liabilities and Contingent Assets |
| IC Int 1 | : Changes in Existing Decommissioning, Restoration & Similar Liabilities |
| IC Int 2 | : Members' Shares in Co-Operative Entities & Similar Instruments |
| IC Int 5 | : Rights to Interests arising from Decommissioning, Restoration & Environmental Rehabilitation Funds |
| IC Int 6 | : Liabilities arising from Participating in a Specific Market-Waste Electrical & Electronics Equipment |
| IC Int 7 | : Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies |
| IC Int 8 | : Scope of FRS 2 |

The adoption of the above FRSs, Amendment to FRS and IC Int did not result in any substantial changes in the Group's and the Company's accounting policies and did not have any material impact on the results and the financial positions of the Group and of the Company.

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.3 Adoption of FRSs, Amendment to FRS and Issues Committee Interpretations ("IC Int") (Cont'd)

(b) Standards and Interpretations Issued but Not Yet Effective

The Group and the Company have not adopted the following FRSs and IC Int that have been issued as at the date of authorisation of these financial statements but are not yet effective for the Group and the Company.

| | Effective for financial periods beginning on or after |
|---|--|
| FRS 4 : Insurance Contracts | 1st January 2010 |
| FRS 7 : Financial Instruments Disclosures | 1st January 2010 |
| FRS 8 : Operating Segments | 1st July 2009 |
| FRS 139 : Financial Instruments: Recognition and Measurements | 1st January 2010 |
| IC Int 9 : Reassessment of Embedded Derivatives | 1st January 2010 |
| IC Int 10 : Interim Financial Reporting and Impairment | 1st January 2010 |

Other than FRS 139, the directors do not anticipate that the application of the above FRSs and IC Int, when they are effective, will have any material impact on the results and the financial position of the Group and the Company.

The Group and the Company are exempted from disclosing the possible impact, if any, to the financial statements upon the initial application of FRS 139.

2.4 Significant Accounting Estimates and Judgments

(a) Key Sources of Estimation and Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as stated below:-

(i) Useful lives of property, plant and equipment

The Group and the Company estimates the useful lives of property, plant and equipment based on period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectation differs from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of useful lives of property, plant and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the non-current assets.

(ii) Allowance for doubtful debts

The Group and the Company make allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analysed historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgment to evaluate the adequacy of the allowance of doubtful debts of receivables. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

(iii) Allowance for Inventories

Reviews are made periodically by management on damaged, obsolete and slow-moving inventories. These reviews require judgement and estimates. Possible changes in these estimates can result in revisions to the valuation of inventories.

Notes to the Financial Statements (Cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

2.4 Significant Accounting Estimates and Judgments (Cont'd)

(a) Key Sources of Estimation and Uncertainty (Cont'd)

(iv) Income Taxes

The Group and the Company recognised liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters are different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provision in the financial year in which such determination is made.

(v) Contingent liabilities

Determination of the treatment of contingent liabilities in the financial statements is based on the management's view of the expected outcome of the applicable contingency.

(b) Critical Judgments Made In Applying Accounting Policies

There are no critical judgments made by the management in the process of applying the Group's accounting policies that have significant effect on the amounts recognised in the financial statements.

3. PROPERTY, PLANT AND EQUIPMENT

| GROUP 2008 | 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 2008 | 9,574,331 | 37,259,819 | 3,646,152 | 637,608 | 1,447,693 | – | 52,565,603 |
| Additions | – | 467,476 | 65,536 | – | – | 1,935,825 | 2,468,837 |
| Disposals/write-off | (36,603) | (272,248) | (225,185) | (11,953) | – | – | (545,989) |
| At 31st December 2008 | 9,537,728 | 37,455,047 | 3,486,503 | 625,655 | 1,447,693 | 1,935,825 | 54,488,451 |
| Accumulated Depreciation | | | | | | | |
| At 1st January 2008 | 2,565,505 | 24,331,375 | 2,957,317 | 448,857 | 944,843 | – | 31,247,897 |
| Charge for the financial year | 182,511 | 1,456,324 | 290,454 | 34,469 | 131,036 | – | 2,094,794 |
| Disposals/write-off | (36,127) | (84,252) | (188,337) | (11,777) | – | – | (320,493) |
| At 31st December 2008 | 2,711,889 | 25,703,447 | 3,059,434 | 471,549 | 1,075,879 | – | 33,022,198 |
| Impairment Loss | | | | | | | |
| At 1st January 2008 | 2,397,283 | – | – | – | – | – | 2,397,283 |
| Charge for the financial year | – | – | – | – | – | – | – |
| At 31st December 2008 | 2,397,283 | – | – | – | – | – | 2,397,283 |
| Net Book Value at 31st December 2008 | 4,428,556 | 11,751,600 | 427,069 | 154,106 | 371,814 | 1,935,825 | 19,068,970 |

Notes to the Financial Statements (Cont'd)

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

| GROUP 2007 | Properties RM | Plant and Machinery RM | Office Equipment RM | Furniture and Fittings RM | Motor Vehicles RM | Total RM |
|---|------------------|---------------------------------|---------------------------|------------------------------------|-------------------------|-------------|
| Cost (except as stated otherwise) | | | | | | |
| At 1st January 2007 | 10,608,277 | 37,246,842 | 4,782,894 | 831,139 | 2,154,696 | 55,623,848 |
| Transfer from investment properties | 224,109 | — | — | — | — | 224,109 |
| Additions | 1,660 | 329,540 | 155,306 | 30,934 | 1,700 | 519,140 |
| Disposals/write-off | (1,259,715) | (316,563) | (1,292,048) | (224,465) | (708,703) | (3,801,494) |
| At 31st December 2007 | 9,574,331 | 37,259,819 | 3,646,152 | 637,608 | 1,447,693 | 52,565,603 |
| Accumulated Depreciation | | | | | | |
| At 1st January 2007 | 2,785,188 | 23,125,771 | 3,707,260 | 624,118 | 1,312,237 | 31,554,574 |
| Transfer from investment properties | 2,180 | — | — | — | — | 2,180 |
| Charge for the financial year | 199,739 | 1,513,718 | 362,313 | 38,020 | 164,597 | 2,278,387 |
| Disposals/write-off | (421,602) | (308,114) | (1,112,256) | (213,281) | (531,991) | (2,587,244) |
| At 31st December 2007 | 2,565,505 | 24,331,375 | 2,957,317 | 448,857 | 944,843 | 31,247,897 |
| Impairment Loss | | | | | | |
| At 1st January 2007 | 2,397,283 | — | — | — | — | 2,397,283 |
| Charge for the financial year | — | — | — | — | — | — |
| At 31st December 2007 | 2,397,283 | — | — | — | — | 2,397,283 |
| Net Book Value at 31st December 2007 | 4,611,543 | 12,928,444 | 688,835 | 188,751 | 502,850 | 18,920,423 |

Properties consist of:-

| GROUP 2008 | Freehold Land and Buildings RM | Short Leasehold Buildings RM | Short Leasehold Buildings (At Valuation) RM | Renovation RM | Total RM |
|--|---|---------------------------------------|---|------------------|-------------|
| Cost (except as stated otherwise) | | | | | |
| At 1st January 2008 | 2,699,798 | 4,873,928 | 1,775,176 | 225,429 | 9,574,331 |
| Additions | — | — | — | — | — |
| Disposals | — | — | — | (36,603) | (36,603) |
| At 31st December 2008 | 2,699,798 | 4,873,928 | 1,775,176 | 188,826 | 9,537,728 |
| Accumulated Depreciation | | | | | |
| At 1st January 2008 | 170,000 | 1,409,626 | 804,468 | 181,411 | 2,565,505 |
| Charge for the financial year | — | 147,136 | 26,836 | 8,539 | 182,511 |
| Disposals | — | — | — | (36,127) | (36,127) |
| At 31st December 2008 | 170,000 | 1,556,762 | 831,304 | 153,823 | 2,711,889 |

Notes to the Financial Statements (Cont'd)

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

Properties consist of:- (Cont'd)

| GROUP 2008 (Cont'd) | Freehold Land and Buildings RM | Short Leasehold Buildings RM | Short Leasehold Buildings (At Valuation) RM | Renovation RM | Total RM |
|---|---|---|--|--------------------------|---------------------|
| Impairment Loss | | | | | |
| At 1st January 2008 | 2,397,283 | – | – | – | 2,397,283 |
| Charge for the financial year | – | – | – | – | – |
| At 31st December 2008 | 2,397,283 | – | – | – | 2,397,283 |
| Net Book Value at 31st December 2008 | 132,515 | 3,317,166 | 943,872 | 35,003 | 4,428,556 |
| 2007 | | | | | |
| Cost (except as stated otherwise) | | | | | |
| At 1st January 2007 | 3,629,591 | 4,649,819 | 1,775,176 | 553,691 | 10,608,277 |
| Transfer from investment properties | – | 224,109 | – | – | 224,109 |
| Additions | – | – | – | 1,660 | 1,660 |
| Disposals | (929,793) | – | – | (329,922) | (1,259,715) |
| At 31st December 2007 | 2,699,798 | 4,873,928 | 1,775,176 | 225,429 | 9,574,331 |
| Accumulated Depreciation | | | | | |
| At 1st January 2007 | 266,016 | 1,266,204 | 772,160 | 480,808 | 2,785,188 |
| Transfer from investment properties | – | 2,180 | – | – | 2,180 |
| Charge for the financial year | 8,000 | 141,242 | 32,308 | 18,189 | 199,739 |
| Disposals | (104,016) | – | – | (317,586) | (421,602) |
| At 31st December 2007 | 170,000 | 1,409,626 | 804,468 | 181,411 | 2,565,505 |
| Impairment Loss | | | | | |
| At 1st January 2007 | 2,397,283 | – | – | – | 2,397,283 |
| Charge for the financial year | – | – | – | – | – |
| At 31st December 2007 | 2,397,283 | – | – | – | 2,397,283 |
| Net Book Value at 31st December 2007 | 132,515 | 3,464,302 | 970,708 | 44,018 | 4,611,543 |

Notes to the Financial Statements (Cont'd)

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

| COMPANY 2008 | 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 2008 | 6,055,662 | 35,056,672 | 2,803,502 | 495,460 | 1,015,553 | – | 45,426,849 |
| Additions | – | 279,781 | 51,108 | – | – | 1,935,825 | 2,266,714 |
| Disposals/write-offs | – | (272,248) | (82,597) | – | – | – | (354,845) |
| At 31st December 2008 | 6,055,662 | 35,064,205 | 2,772,013 | 495,460 | 1,015,553 | 1,935,825 | 47,338,718 |
| Accumulated Depreciation | | | | | | | |
| At 1st January 2008 | 2,011,285 | 22,227,997 | 2,348,019 | 361,622 | 631,885 | – | 27,580,808 |
| Charge for the financial year | 162,721 | 1,409,460 | 219,586 | 26,404 | 101,118 | – | 1,919,289 |
| Disposals/write-offs | – | (84,252) | (69,683) | – | – | – | (153,935) |
| At 31st December 2008 | 2,174,006 | 23,553,205 | 2,497,922 | 388,026 | 733,003 | – | 29,346,162 |
| Net Book Value at 31st December 2008 | 3,881,656 | 11,511,000 | 274,091 | 107,434 | 282,550 | 1,935,825 | 17,992,556 |
| COMPANY 2007 | Properties RM | Plant and Machinery RM | Office Equipment RM | Furniture and Fittings RM | Motor Vehicles RM | | Total RM |
| Cost (except as stated otherwise) | | | | | | | |
| At 1st January 2007 | 3,107,405 | 35,057,695 | 2,783,162 | 495,310 | 1,108,439 | | 42,552,011 |
| Transfer from investment properties | 2,948,257 | – | – | – | – | | 2,948,257 |
| Additions | – | 315,540 | 58,248 | 150 | 1,700 | | 375,638 |
| Disposals/write-offs | – | (316,563) | (37,908) | – | (94,586) | | (449,057) |
| At 31st December 2007 | 6,055,662 | 35,056,672 | 2,803,502 | 495,460 | 1,015,553 | | 45,426,849 |
| Accumulated Depreciation | | | | | | | |
| At 1st January 2007 | 1,084,369 | 21,094,681 | 2,123,431 | 334,731 | 605,709 | | 25,242,921 |
| Transfer from investment properties | 763,883 | – | – | – | – | | 763,883 |
| Charge for the financial year | 163,033 | 1,441,430 | 252,393 | 26,891 | 101,057 | | 1,984,804 |
| Disposals/write-offs | – | (308,114) | (27,805) | – | (74,881) | | (410,800) |
| At 31st December 2007 | 2,011,285 | 22,227,997 | 2,348,019 | 361,622 | 631,885 | | 27,580,808 |
| Net Book Value at 31st December 2007 | 4,044,377 | 12,828,675 | 455,483 | 133,838 | 383,668 | | 17,846,041 |

Notes to the Financial Statements (Cont'd)

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

Properties consist of:-

| COMPANY 2008 | Freehold Land RM | Short Leasehold Buildings RM | Short Leasehold Buildings (At Valuation) RM | Renovation RM | Total RM |
|---|------------------------|---------------------------------------|---|------------------|-------------|
| Cost (except as stated otherwise) | | | | | |
| At 1st January 2008 | 132,515 | 3,976,975 | 1,775,176 | 170,996 | 6,055,662 |
| Additions | — | — | — | — | — |
| Disposals | — | — | — | — | — |
| At 31st December 2008 | 132,515 | 3,976,975 | 1,775,176 | 170,996 | 6,055,662 |
| Accumulated Depreciation | | | | | |
| At 1st January 2008 | — | 1,072,439 | 804,468 | 134,378 | 2,011,285 |
| Charge for the financial year | — | 129,240 | 26,836 | 6,645 | 162,721 |
| Disposals | — | — | — | — | — |
| At 31st December 2008 | — | 1,201,679 | 831,304 | 141,023 | 2,174,006 |
| Net Book Value at 31st December 2008 | 132,515 | 2,775,296 | 943,872 | 29,973 | 3,881,656 |
| 2007 | | | | | |
| Cost (except as stated otherwise) | | | | | |
| At 1st January 2007 | 132,515 | 1,028,718 | 1,775,176 | 170,996 | 3,107,405 |
| Transfer from investment properties | — | 2,948,257 | — | — | 2,948,257 |
| Additions | — | — | — | — | — |
| Disposals | — | — | — | — | — |
| At 31st December 2007 | 132,515 | 3,976,975 | 1,775,176 | 170,996 | 6,055,662 |
| Accumulated Depreciation | | | | | |
| At 1st January 2007 | — | 185,211 | 772,160 | 126,998 | 1,084,369 |
| Transfer from investment properties | — | 763,883 | — | — | 763,883 |
| Charge for the financial year | — | 123,345 | 32,308 | 7,380 | 163,033 |
| Disposals | — | — | — | — | — |
| At 31st December 2007 | — | 1,072,439 | 804,468 | 134,378 | 2,011,285 |
| Net Book Value at 31st December 2007 | 132,515 | 2,904,536 | 970,708 | 36,618 | 4,044,377 |

Notes to the Financial Statements (Cont'd)

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

- (a) 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:-

| | GROUP AND COMPANY | |
|--------------------------|-------------------|----------------|
| | 2008 RM | 2007 RM |
| At Net Book Value | | |
| Motor vehicles | 117,183 | 134,983 |
| Plant and machinery | 527,603 | 736,930 |
| Office equipment | 26,495 | 10,358 |
| | 671,281 | 882,271 |

- (b) 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 | |

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

| | GROUP AND COMPANY | |
|-------------------------------|-------------------|------------|
| | 2008 RM | 2007 RM |
| Short term leasehold building | 224,358 | 232,095 |

Notes to the Financial Statements (Cont'd)

4. INVESTMENT PROPERTIES

| GROUP | 2008 | | 2007 | | |
|---------------------------------|--------------------------------|-------------|--------------------------------|---------------------------------|-----------|
| | Freehold Land and Buildings RM | Total RM | Freehold Land and Buildings RM | Leasehold Land and Buildings RM | Total RM |
| Cost | | | | | |
| At 1st January | 7,169,008 | 7,169,008 | 7,262,056 | 886,345 | 8,148,401 |
| Transfer to | | | | | |
| - property, plant and equipment | — | — | — | (224,109) | (224,109) |
| - prepaid land lease payments | — | — | — | (250,000) | (250,000) |
| Reclassified as held for sale | — | — | — | (412,236) | (412,236) |
| Additions | — | — | 260,000 | — | 260,000 |
| Disposals | (1,639,109) | (1,639,109) | (353,048) | — | (353,048) |
| At 31st December | 5,529,899 | 5,529,899 | 7,169,008 | — | 7,169,008 |
| Accumulated Depreciation | | | | | |
| At 1st January | 364,490 | 364,490 | 337,711 | 47,353 | 385,064 |
| Transfer to | | | | | |
| - property, plant and equipment | — | — | — | (2,180) | (2,180) |
| - prepaid land lease payments | — | — | — | (2,725) | (2,725) |
| Reclassified as held for sale | — | — | — | (46,697) | (46,697) |
| Additions | 51,103 | 51,103 | 58,986 | 4,249 | 63,235 |
| Disposals | (111,813) | (111,813) | (32,207) | — | (32,207) |
| At 31st December | 303,780 | 303,780 | 364,490 | — | 364,490 |
| Impairment Loss | | | | | |
| At 1st January | 1,832,028 | 1,832,028 | 1,910,076 | — | 1,910,076 |
| Charge for the financial year | — | — | — | — | — |
| Disposals | (739,109) | (739,109) | (78,048) | — | (78,048) |
| At 31st December | 1,092,919 | 1,092,919 | 1,832,028 | — | 1,832,028 |
| Net Book Value at 31st December | 4,133,200 | 4,133,200 | 4,972,490 | — | 4,972,490 |

Notes to the Financial Statements (Cont'd)

4. INVESTMENT PROPERTIES (Cont'd)

| COMPANY | 2008 | | 2007 | | |
|--|--------------------------------|------------------|--------------------------------|---------------------------------|------------------|
| | Freehold Land and Buildings RM | Total RM | Freehold Land and Buildings RM | Leasehold Land and Buildings RM | Total RM |
| Cost | | | | | |
| At 1st January | 7,169,008 | 7,169,008 | 7,262,056 | 3,198,257 | 10,460,313 |
| Transfer to:- | | | | | |
| - property, plant and equipment | — | — | — | (2,948,257) | (2,948,257) |
| - prepaid land lease payments | — | — | — | (250,000) | (250,000) |
| Additions | — | — | 260,000 | — | 260,000 |
| Disposals | (1,639,109) | (1,639,109) | (353,048) | — | (353,048) |
| At 31st December | 5,529,899 | 5,529,899 | 7,169,008 | — | 7,169,008 |
| Accumulated Depreciation | | | | | |
| At 1st January | 364,490 | 364,490 | 337,711 | 766,608 | 1,104,319 |
| Transfers to:- | | | | | |
| - property, plant and equipment | — | — | — | (763,883) | (763,883) |
| - prepaid land lease payments | — | — | — | (2,725) | (2,725) |
| Charge for the year | 51,103 | 51,103 | 58,986 | — | 58,986 |
| Disposals | (111,813) | (111,813) | (32,207) | — | (32,207) |
| At 31st December | 303,780 | 303,780 | 364,490 | — | 364,490 |
| Impairment Loss | | | | | |
| At 1st January | 1,832,028 | 1,832,028 | 1,910,076 | — | 1,910,076 |
| Charge for the year | — | — | — | — | — |
| Disposals | (739,109) | (739,109) | (78,048) | — | (78,048) |
| At 31st December | 1,092,919 | 1,092,919 | 1,832,028 | — | 1,832,028 |
| Net Book Value at 31st December | 4,133,200 | 4,133,200 | 4,972,490 | — | 4,972,490 |

Group and Company

The fair values for the investment properties of the Group and the Company on 31st December 2008 are RM4,581,630/- (2007 : RM5,469,446/-) respectively. The fair values of the investment properties are estimated by the directors of the Company based on the open market value basis.

Direct operating expenses incurred by the Group and the Company on the investment properties during the financial year amounted to RM8,713/- (2007 : RM14,498/-) respectively.

Notes to the Financial Statements (Cont'd)

5. PREPAID LAND LEASE PAYMENTS

| | GROUP | | COMPANY | |
|-------------------------------------|------------|------------|------------|------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| At 1st January | 1,484,037 | 1,275,793 | 754,863 | 525,059 |
| Transfer from investment properties | – | 247,275 | – | 247,275 |
| Amortisation for the financial year | (39,031) | (39,031) | (17,471) | (17,471) |
| | 1,445,006 | 1,484,037 | 737,392 | 754,863 |
| Analysed as:- | | | | |
| Short term leasehold land | 1,445,006 | 1,484,037 | 737,392 | 754,863 |

6. INVESTMENT IN SUBSIDIARY COMPANIES

| | COMPANY | |
|-------------------------|-------------|-------------|
| | 2008 RM | 2007 RM |
| Unquoted shares at cost | 8,264,673 | 8,264,673 |
| Less: Impairment loss | (5,592,728) | (2,427,601) |
| | 2,671,945 | 5,837,072 |

The details of the subsidiaries which are all incorporated in Malaysia are as follows:-

| Name of Company | Equity Held | | Principal Activities |
|--|-------------|-----------|----------------------|
| | 2008 % | 2007 % | |
| 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 |
| Hwa Tai Manufacturing Sdn. Bhd. ("HTM") | 100 | 100 | Dormant |
| * Acetai Corporation Sdn. Bhd. ("Acetai") | 90 | 90 | Trading |
| * Keris Intan Sdn. Bhd. ("KISB") | 100 | 100 | Dormant |
| * Hwa Tai (Sarawak) Sdn. Bhd. ("HTSB") | 100 | 100 | Dormant |
| * Hwa Tai Distribution Sdn. Bhd. ("HTDSB") | 100 | 100 | Trading |
| * Hwa Tai Services Sdn. Bhd. ("HTSSB") | 100 | 100 | Dormant |
| * Absolute Focus Sdn. Bhd. ("AFSB") | 100 | 100 | Dormant |
| Indirect subsidiary companies | | | |
| * Anika Bebas Sdn. Bhd. ("ABS") | 100 | 100 | Trading |
| * Esprit Classic Sdn. Bhd. ("ECSB") | 100 | 100 | Trading |

* Subsidiary companies not audited by Baker Tilly Monteiro Heng

Notes to the Financial Statements (Cont'd)

7. INVESTMENT IN AN ASSOCIATE COMPANY

| | GROUP | | COMPANY | |
|---|------------------|------------|------------------|------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Unquoted shares - at cost | 1,791,457 | 1,791,457 | 1,791,457 | 1,791,457 |
| Share of post acquisition retained profits | 23,652 | 12,222 | — | — |
| | 1,815,109 | 1,803,679 | 1,791,457 | 1,791,457 |
| Represented by:- | | | | |
| Share of net assets of an associate company | 2,145,102 | 2,133,672 | — | — |
| Discount on acquisition | (329,993) | (329,993) | — | — |
| | 1,815,109 | 1,803,679 | — | — |

The details of the associate company which is incorporated in People's Republic of China is as follows:-

| Name of Company | Issue Share Capital Number of shares | Effective Equity Holdings | | Principal Activity |
|--|---|------------------------------|-----------|---|
| | | 2008 % | 2007 % | |
| Shan Dong Yingerle Hwa Tai Food Industry Co. Ltd. | 1,050,000,000 | 48 | 48 | Dealers, importers and exporters of biscuit, cake and baby products |

The summarised financial information of the associate company is as follows:-

| | GROUP AND COMPANY | |
|-----------------------------|-------------------|------------|
| | 2008 RM | 2007 RM |
| Assets and Liability | | |
| Current assets | 1,492,028 | 1,550,321 |
| Non-current assets | 6,873,758 | 6,299,453 |
| Total assets | 8,365,786 | 7,849,774 |
| Current liabilities | 3,896,822 | 3,404,623 |
| Total liability | 3,896,822 | 3,404,623 |

The Group's share of the revenue and expenses of the associate is as follows:

| | | |
|-------------------------------|-----------|---------|
| Revenue | 2,242,496 | 794,489 |
| Profit for the financial year | 11,430 | 12,222 |

Notes to the Financial Statements (Cont'd)

8. AMOUNT OWING BY SUBSIDIARY COMPANIES

| | COMPANY | |
|--------------------------------------|--------------|------------|
| | 2008 RM | 2007 RM |
| Amount owing by subsidiary companies | 17,347,202 | 16,252,506 |
| Less: Allowance for doubtful debts | (16,136,592) | (200,000) |
| | 1,210,610 | 16,052,506 |
| Portion due within one year | 802,741 | 15,644,637 |
| Portion due after one year | 407,869 | 407,869 |
| | 1,210,610 | 16,052,506 |
| Trade | — | 14,642,350 |
| Non-trade | 1,210,610 | 1,410,156 |
| | 1,210,610 | 16,052,506 |

The amount owing by subsidiary companies is unsecured, interest free and has no fixed term of repayment.

9. INVENTORIES

| | GROUP | | COMPANY | |
|--|------------|------------|------------|------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| At Cost | | | | |
| Raw materials | 1,787,914 | 1,004,711 | 1,591,805 | 848,381 |
| Work-in-progress | 135,736 | 252,639 | 103,560 | 185,314 |
| Finished goods | 1,803,004 | 1,735,410 | 1,535,803 | 1,413,945 |
| Packing materials | 2,382,391 | 2,251,177 | 2,189,461 | 2,066,879 |
| Consumable stores | 213,823 | 288,464 | 213,823 | 245,014 |
| | 6,322,868 | 5,532,401 | 5,634,452 | 4,759,533 |
| Less: Allowance for obsolete inventories | (66,184) | (78,450) | (66,184) | (66,184) |
| | 6,256,684 | 5,453,951 | 5,568,268 | 4,693,349 |

The allowance for obsolete inventories is stated net of obsolete inventories written off during the financial year amounting to RM12,266/- (2007 : RM967,086/-).

Notes to the Financial Statements (Cont'd)

10. TRADE AND SUNDRY RECEIVABLES

| | GROUP | | COMPANY | |
|------------------------------|--------------------|-------------|--------------------|-------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Trade receivables | 36,193,673 | 37,022,031 | 22,921,286 | 24,150,950 |
| Allowance for doubtful debts | (9,222,941) | (9,812,266) | (1,887,537) | (1,754,267) |
| | 26,970,732 | 27,209,765 | 21,033,749 | 22,396,683 |
| Sundry receivables | 2,120,542 | 2,623,105 | 830,321 | 969,801 |
| Allowance for doubtful debts | (863,371) | (860,679) | (752,890) | (752,890) |
| | 1,257,171 | 1,762,426 | 77,431 | 216,911 |
| Deposits | 174,489 | 426,266 | 71,227 | 69,037 |
| Prepayments | 358,414 | 99,642 | 339,287 | 298,993 |
| | 28,760,806 | 29,498,099 | 21,521,694 | 22,981,624 |

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

The currency exposure profile of trade receivables is as follows:-

| | GROUP | | COMPANY | |
|------------------|-------------------|------------|-------------------|------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Ringgit Malaysia | 23,894,363 | 24,343,516 | 17,957,380 | 19,530,434 |
| US Dollar | 2,698,396 | 2,666,926 | 2,698,396 | 2,666,926 |
| Singapore Dollar | 377,973 | 199,323 | 377,973 | 199,323 |
| | 26,970,732 | 27,209,765 | 21,033,749 | 22,396,683 |

In the financial year ended 2007, deposits of the Group and the Company totalling RM19,000/- represent deposits paid towards the purchase of machinery costing RM157,000/-. The balance of the purchase consideration is disclosed as a capital commitment in Note 29 to the financial statements.

The allowance for doubtful debts of the Group and of the Company is net of bad debts written off amounting to RM1,186,563/- (2007 : RM475,272/-) and RM Nil (2007 : RM446,205/-).

11. NON-CURRENT ASSET HELD FOR SALE

On 12th September 2007, Acetai Corporation Sdn. Bhd. ("Acetai"), a subsidiary company of the Company, had entered into an agreement to dispose of its leasehold land and building located in the State of Perak for a cash consideration of RM470,000/-.

The disposal of the said property was completed on 31st March 2008.

Notes to the Financial Statements (Cont'd)

12. SHARE CAPITAL

| | GROUP AND COMPANY | | | |
|--|--|---------------|---------------|---------------|
| | Number of ordinary shares of RM1/- each | | Amount | |
| | 2008 Unit | 2007 Unit | 2008 RM | 2007 RM |
| Authorised: | | | | |
| At the beginning/end of the financial year | 1,000,000,000 | 1,000,000,000 | 1,000,000,000 | 1,000,000,000 |
| Issued and fully paid: | | | | |
| At the beginning/end of the financial year | 40,042,400 | 40,042,400 | 40,042,400 | 40,042,400 |

13. CAPITAL RESERVE

| | GROUP AND COMPANY | |
|--|-------------------|------------|
| | 2008 RM | 2007 RM |
| Non-distributable | | |
| At beginning/end of the financial year | 7,664 | 7,664 |
| The capital reserve comprises surplus arising from the revaluation of leasehold building and prepaid land lease payments | 7,664 | 7,664 |

14. HIRE PURCHASE LIABILITIES

| | GROUP AND COMPANY | |
|---|------------------------|---------------------|
| | 2008 RM | 2007 RM |
| Minimum hire purchase payments | | |
| - not later than one year | 680,150 | 240,233 |
| - later than one year and not later than five years | 2,149,827 | 348,152 |
| Future interest charges | 2,829,977 (483,729) | 588,385 (59,643) |
| Present value of hire purchase liabilities | 2,346,248 | 528,742 |
| Current | 516,244 | 207,606 |
| Non-current | 1,830,004 | 321,136 |
| | 2,346,248 | 528,742 |

The effective interest rate ranges from 3.80% to 4.75% (2007 : 5.41% 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.

Notes to the Financial Statements (Cont'd)

15. TERM LOANS

| | GROUP | |
|-----------------------------|------------|------------|
| | 2008 RM | 2007 RM |
| Term loans | – | 91,129 |
| Portion due within one year | – | (91,129) |
| Portion due after one year | – | – |

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

| | | |
|--|---|--------|
| Within the next twelve months (included under current liabilities) | – | 91,129 |
|--|---|--------|

The effective interest rate as at the balance sheet date ranges from 8.00% to 8.50% (2007 : 8.00% to 8.50%) per annum.

16. DEFERRED TAXATION

| | GROUP | | COMPANY | |
|--|------------|------------|------------|------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Balance at 1st January | – | 664,566 | – | 593,573 |
| Transfer from income statement - current year (Note 25) | 38,862 | (664,566) | – | (593,573) |
| Balance at 31st December | 38,862 | – | – | – |

The component of deferred tax liabilities during the financial year is as follows:-

| | GROUP | | COMPANY | |
|--|------------|------------|------------|------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Temporary differences between net book values and corresponding tax written down values | 38,862 | – | – | – |

17. TRADE AND SUNDRY PAYABLES

| | GROUP | | COMPANY | |
|-----------------|------------|------------|------------|------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Trade payables | 15,609,207 | 20,535,081 | 9,256,747 | 14,717,082 |
| Sundry payables | 3,844,116 | 4,905,455 | 3,041,860 | 3,003,630 |
| Accruals | 2,166,793 | 2,114,789 | 1,557,024 | 1,133,703 |
| Deposits | 166,516 | 166,016 | 166,516 | 166,016 |
| | 21,786,632 | 27,721,341 | 14,022,147 | 19,020,431 |

Notes to the Financial Statements (Cont'd)

17. TRADE AND SUNDRY PAYABLES (Cont'd)

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

Included in sundry payables of the Group and the Company is an amount of RM2,150,000/- (2007 : RM2,400,000/-) owing to a director which is unsecured and has no fixed term of repayment.

18. 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.

19. PROVISIONS

| | GROUP | | COMPANY | |
|-----------------------------|-------------|-------------|-------------|------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Balance at 1st January | 1,285,847 | 821,070 | 1,285,847 | 533,172 |
| Charged to income statement | 4,878,880 | 1,745,332 | 4,878,880 | 1,745,332 |
| Utilised during the year | (4,670,783) | (1,280,555) | (4,670,783) | (992,657) |
| Balance at 31st December | 1,493,944 | 1,285,847 | 1,493,944 | 1,285,847 |

Provisions are in respect of advertising and promotion expenses. The provision is recognised for expected expenses based on the budget and quotation received and the Company's past experience as to the level of advertising and promotion expenses.

20. SHORT TERM BORROWINGS

| | GROUP AND COMPANY | |
|---------------------|-------------------|------------|
| | 2008 RM | 2007 RM |
| Bankers' acceptance | 18,630,300 | 17,531,000 |

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 rates as at balance sheet date range from 5.02% to 6.25% (2007 : 5.02% to 6.25%) per annum.

21. BANK OVERDRAFTS

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 rates as at the balance sheet date range from 8.00% to 9.25% (2007 : 8.00% to 9.25%) per annum.

Notes to the Financial Statements (Cont'd)

22. REVENUE

| | GROUP | | COMPANY | |
|-----------------------------|------------|------------|------------|------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Sales of trading goods | 11,621,276 | 14,796,636 | – | – |
| Sales of manufactured goods | 68,624,422 | 56,253,080 | 62,150,391 | 57,007,340 |
| | 80,245,698 | 71,049,716 | 62,150,391 | 57,007,340 |

23. OPERATING PROFIT/(LOSS)

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

| | GROUP | | COMPANY | |
|---|------------|------------|------------|------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| After charging:- | | | | |
| Allowance for doubtful debts | 649,088 | 1,623,345 | 16,069,863 | 315,041 |
| Amortisation of prepaid land lease payments | 39,031 | 39,031 | 17,471 | 17,471 |
| Audit fee | | | | |
| - current year | 94,200 | 101,245 | 60,000 | 60,000 |
| - overaccrual in prior year | (4,178) | – | (5,500) | – |
| Bad debt written off | – | 11,301 | – | – |
| Directors' remunerations | | | | |
| • Directors of the Company | | | | |
| - salaries, bonuses and allowances | 647,215 | 495,261 | 568,565 | 495,261 |
| - fees | 70,000 | 70,000 | 70,000 | 70,000 |
| - other emoluments | 51,286 | 43,764 | 51,286 | 43,764 |
| - benefit in kind | – | 1,767 | – | 1,767 |
| • Directors of subsidiary companies | | | | |
| - other emoluments | 78,650 | 72,600 | – | – |
| Depreciation | | | | |
| - property, plant and equipment | 2,094,794 | 2,278,387 | 1,919,289 | 1,984,804 |
| - investment properties | 51,103 | 63,235 | 51,103 | 58,986 |
| Impairment loss of investment in subsidiary companies | – | – | 3,165,127 | – |
| Hire of vehicles | 284,011 | 168,129 | 284,011 | 166,694 |
| Loss on disposal of property, plant and equipment | 28,714 | – | 8,169 | – |
| Provision for advertising and promotion expenses | 4,878,880 | 1,745,332 | 4,878,880 | 1,745,332 |
| Property, plant and equipment written off | 2,240 | 54,474 | – | – |
| Realised loss on foreign exchange | – | 8,228 | – | – |
| Rental of premises | 212,000 | 322,925 | 66,000 | 46,725 |
| Research and development | 1,794 | 2,380 | 1,794 | 2,380 |
| Staff costs: | | | | |
| - bonus | 289,965 | 136,564 | 279,238 | 105,141 |
| - Employees' Provident Fund | 670,242 | 772,328 | 565,889 | 624,696 |
| - SOCSO | 86,709 | 101,849 | 73,340 | 82,608 |
| - salaries, wages and allowances | 7,053,328 | 8,682,948 | 6,006,906 | 7,216,440 |
| - other staff related expenses | 244,121 | 318,327 | 190,621 | 254,435 |

Notes to the Financial Statements (Cont'd)

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

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

| | GROUP | | COMPANY | |
|---|------------|------------|------------|------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| And crediting:- | | | | |
| Allowance for doubtful debts no longer required | 49,158 | 32,482 | — | — |
| Allowance for inventories obsolescence no longer required | — | 916,466 | — | — |
| Bad debts recovered | — | 17,063 | — | — |
| Gain on disposal of property, plant and equipment | — | 826,154 | — | 465 |
| Gain on disposal of investment properties | 106,813 | 22,207 | 106,813 | 22,207 |
| Gain on disposal of non-current assets held for sale | 104,461 | — | — | — |
| Interest income | 8,804 | 1,611 | 7,049 | 1,611 |
| Rental income | 30,807 | 238,884 | — | — |
| Gain on foreign exchange | | | | |
| - unrealised | 81,450 | — | 81,450 | — |
| - realised | 103,201 | 338,495 | 103,201 | 338,495 |

(a) Directors' remuneration

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

| | GROUP | | COMPANY | |
|--------------------------------|------------|------------|------------|------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Executive Directors | | | | |
| Directors' fees | 20,000 | 10,000 | 20,000 | 10,000 |
| Salaries | 399,565 | 312,761 | 399,565 | 312,761 |
| Bonuses | — | 27,000 | — | 27,000 |
| Allowances | 29,000 | 26,500 | 29,000 | 26,500 |
| Other emoluments | 51,286 | 43,764 | 51,286 | 43,764 |
| Benefits-in-kind | — | 1,767 | — | 1,767 |
| | 499,851 | 421,792 | 499,851 | 421,792 |
| Non-Executive Directors | | | | |
| Directors' fees | 50,000 | 60,000 | 50,000 | 60,000 |
| Allowances | 218,650 | 201,600 | 140,000 | 129,000 |
| | 268,650 | 261,600 | 190,000 | 189,000 |
| Grand Total | | | | |
| Directors' fees | 70,000 | 70,000 | 70,000 | 70,000 |
| Salaries | 399,565 | 312,761 | 399,565 | 312,761 |
| Bonuses | — | 27,000 | — | 27,000 |
| Allowances | 247,650 | 228,100 | 169,000 | 155,500 |
| Other emoluments | 51,286 | 43,764 | 51,286 | 43,764 |
| Benefits-in-kind | — | 1,767 | — | 1,767 |
| | 768,501 | 683,392 | 689,851 | 610,792 |

Notes to the Financial Statements (Cont'd)

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

(a) Directors' remuneration (Cont'd)

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

| | 2008 | | 2007 | |
|-----------------------------|--------------------|------------------------|--------------------|------------------------|
| | Executive Director | Non-Executive Director | Executive Director | Non-Executive Director |
| Ranges of Remuneration (RM) | | | | |
| RM0 - RM50,000 | – | 3 | – | 6 |
| RM100,001 - RM150,000 | – | 1 | 1 | – |
| RM150,001 - RM200,000 | 1 | – | – | 1 |
| RM250,001 - RM300,000 | – | – | 1 | – |
| RM300,001 - RM350,000 | 1 | – | – | – |
| | 2 | 4 | 2 | 7 |

(b) Key Management Personnel

| | GROUP | | COMPANY | |
|---|-----------|-----------|-----------|-----------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Directors' remuneration (Note 23(a)) | 768,501 | 683,392 | 689,851 | 610,792 |
| Other key management personnel | | | | |
| - salaries, bonus and other emoluments | 774,142 | 658,747 | 632,900 | 481,195 |
| - Defined contribution plan (Employees' Provident Fund) | 94,777 | 80,405 | 78,661 | 57,036 |
| | 1,637,420 | 1,422,544 | 1,401,412 | 1,149,023 |

24. FINANCE COSTS

| | GROUP | | COMPANY | |
|-------------------|-----------|-----------|-----------|-----------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Interest expenses | | | | |
| - trade financing | 1,131,294 | 979,425 | 1,029,401 | 912,725 |
| - bank overdrafts | 151,700 | 202,901 | 151,700 | 202,901 |
| - hire purchase | 45,907 | 54,405 | 45,907 | 49,014 |
| - term loans | 1,237 | 20,120 | – | – |
| - others | – | 31,964 | – | – |
| | 1,330,138 | 1,288,815 | 1,227,008 | 1,164,640 |

Notes to the Financial Statements (Cont'd)

25. TAXATION

| | GROUP | | COMPANY | |
|------------------------------|------------|------------|------------|------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Income tax | | | | |
| - current year | (3,060) | (400) | — | (400) |
| - underaccrual in prior year | (77) | (341) | — | (394) |
| Deferred taxation (Note 16) | | | | |
| - current year | (38,862) | 308,359 | — | 297,357 |
| - overaccrual in prior year | — | 356,207 | — | 296,216 |
| | (38,862) | 664,566 | — | 593,573 |
| | (41,999) | 663,825 | — | 592,779 |

Income tax is calculated at the statutory rate of 26% (2007 : 27%) of the estimated taxable profit for the year. The income tax rate applicable to small and medium scale enterprises ("SME") incorporated in Malaysia with a paid-up capital of RM2.5 million and below is subject to the statutory tax rate of 20% on chargeable income of up to RM500,000/-. For chargeable income in excess of RM500,000/, the statutory tax rate of 26% is still applicable.

The statutory rate will be reduced to 25% from the current year's rate of 26% for the Year of Assessment 2009.

A reconciliation of income tax expense applicable to profit/(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 | |
|--|------------|-------------|--------------|-------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Profit/(loss) before taxation | 457,177 | (1,892,987) | (18,561,814) | (1,813,685) |
| Tax at applicable tax rate of 26% (2007 : 27%) | (118,866) | 511,106 | 4,826,071 | 489,695 |
| Tax effects arising from | | | | |
| - non-taxable income | 80,428 | 266,379 | 48,571 | 7,182 |
| - non-deductible expenses | (115,692) | (158,215) | (946,955) | (84,863) |
| - reversal/(origination) of deferred tax assets not recognised in the financial statements | 91,697 | (273,530) | (3,776,622) | (95,945) |
| - deferred tax liabilities/(assets) recognised at different tax rates | 19,593 | (37,781) | (151,065) | (19,112) |
| - overaccrual in prior year | 841 | 355,866 | — | 295,822 |
| Tax expense for the financial year | (41,999) | 663,825 | — | 592,779 |

Notes to the Financial Statements (Cont'd)

25. TAXATION (Cont'd)

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

| | GROUP | | COMPANY | |
|---|------------|------------|------------|------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Deductible temporary differences | – | – | 13,881,196 | – |
| Unabsorbed capital allowances | 761,306 | 857,812 | – | – |
| Unabsorbed industrial building allowances | 76,414 | 76,414 | – | – |
| Unabsorbed reinvestment allowances | 4,653,399 | 5,349,799 | 6,775,092 | 5,549,799 |
| Unutilised tax losses | 20,639,993 | 20,213,876 | – | – |
| | 26,131,112 | 26,497,901 | 20,656,288 | 5,549,799 |
| Potential deferred tax assets not recognised at 25% | 6,532,778 | 6,624,475 | 5,164,072 | 1,387,450 |

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 Group can utilise the benefits.

26. EARNINGS/(LOSS) PER ORDINARY SHARE

(a) Basic earnings/(loss) per ordinary share

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

| | GROUP | |
|---|------------|-------------|
| | 2008 RM | 2007 RM |
| Profit/(loss) attributable to shareholders | 415,178 | (1,229,162) |
| Weighted average number of ordinary shares in issue | 40,042,400 | 40,042,400 |
| Basic earnings/(loss) per ordinary share (sen) | 1 | (3) |

(b) Diluted earnings/(loss) per share

No calculation is made on the diluted earnings per share in respect of the current financial year as their effects on the basic earnings per share are anti-dilutive.

27. SIGNIFICANT RELATED PARTY TRANSACTIONS

| | GROUP | | COMPANY | |
|---|------------|------------|------------|------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| <i>Transactions with subsidiary companies</i> | | | | |
| Sales to subsidiary companies | | | | |
| - Acetai | – | – | – | 114,680 |
| - HTDSB | – | – | 9,736,017 | 7,153,328 |

Notes to the Financial Statements (Cont'd)

27. SIGNIFICANT RELATED PARTY TRANSACTIONS (Cont'd)

| | GROUP | | COMPANY | |
|--|------------|------------|------------|------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| <i>Transactions with subsidiary companies (Cont'd)</i> | | | | |
| Management fees, administration fee and rental received/receivable from subsidiary companies | | | | |
| - Acetai | — | — | — | 3,600 |
| - HTD | — | — | 3,600 | — |
| - PTT | — | — | 1,200 | 1,200 |
| - EISB | — | — | 13,200 | 13,200 |
| - HTFIS | — | — | 1,200 | 1,200 |
| - SMMS | — | — | 13,200 | 13,200 |
| <i>Transactions with a firm in which a director is a partner</i> | | | | |
| Rental of premises paid to Soo Thien Ming & Nashrah, a firm in which a director is a partner | 36,000 | 21,600 | — | 21,600 |
| Legal and consultancy fees paid to Soo Thien Ming & Nashrah, a firm in which a director is a partner | 40,683 | 49,404 | 6,000 | 9,150 |
| <i>Transactions with a company in which a director has interest</i> | | | | |
| Consultancy services rendered by a company in which a director has interest | 28,000 | 30,000 | 28,000 | 30,000 |

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 2008, the Group and the Company are contingently liable for the following:-

| | GROUP | | COMPANY | |
|---|------------|------------|------------|------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| Unsecured | | | | |
| Bank guarantees issued in favour of third parties | 325,000 | 299,250 | 325,000 | 299,250 |
| Corporate guarantees issued to financial institutions for credit facilities granted to a subsidiary company to the extent of RM2,000,000/- (2007 : RM5,542,172/-) | — | — | 440,144 | 303,478 |
| | 325,000 | 299,250 | 765,144 | 602,728 |

29. CAPITAL COMMITMENT

| | GROUP AND COMPANY | |
|--|-------------------|------------|
| | 2008 RM | 2007 RM |
| Authorised capital expenditure contracted but not provided for in the financial statements | | |
| - property, plant and equipment | — | 138,000 |

Notes to the Financial Statements (Cont'd)

30. SEGMENTAL INFORMATION

Primary Reporting - Business Segments

| | MANUFACTURING | | TRADING | | OTHERS | | TOTAL | | ELIMINATION | | CONSOLIDATED | |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|------------|------------|-------------------|-------------------|------------------|------------------|-------------------|-------------------|
| | 2008 RM | 2007 RM | 2008 RM | 2007 RM | 2008 RM | 2007 RM | 2008 RM | 2007 RM | 2008 RM | 2007 RM | 2008 RM | 2007 RM |
| REVENUE | | | | | | | | | | | | |
| External sales | 68,624,422 | 56,253,080 | 11,621,276 | 14,796,636 | — | — | 80,245,698 | 71,049,716 | — | — | 80,245,698 | 71,049,716 |
| Inter - segment sales | 9,736,017 | 7,268,008 | — | — | — | — | 9,736,017 | 7,268,008 | 9,736,017 | 7,268,008 | — | — |
| | 78,360,439 | 63,521,088 | 11,621,276 | 14,796,636 | — | — | 89,981,715 | 78,317,724 | 9,736,017 | 7,268,008 | 80,245,698 | 71,049,716 |
| RESULTS | | | | | | | | | | | | |
| Segmental results | 2,092,352 | (753,069) | (161,958) | (739,410) | (86,558) | (76,935) | 1,843,836 | (1,569,414) | 33,462 | 32,400 | 1,877,298 | (1,537,014) |
| Other operating income | 398,229 | 531,856 | 193,805 | 2,053,541 | 533 | 3,190 | 592,567 | 2,588,587 | (33,462) | (32,400) | 559,105 | 2,556,187 |
| Other operating expenses | (19,235,593) | (893,166) | (1,250,694) | (672,390) | — | (57,789) | (20,486,287) | (1,623,345) | 19,837,199 | — | (649,088) | (1,623,345) |
| Finance cost (net) | (1,227,008) | (1,164,683) | (103,130) | (124,132) | — | — | (1,330,138) | (1,288,815) | — | — | (1,330,138) | (1,288,815) |
| Profit/(loss) before taxation | (17,972,020) | (2,279,062) | (1,321,977) | 517,609 | (86,025) | (131,534) | (19,380,022) | (1,892,987) | 19,837,199 | — | 457,177 | (1,892,987) |

30. SEGMENTAL INFORMATION (Cont'd)

Other Information

| | MANUFACTURING | | TRADING | | OTHERS | | TOTAL | | ELIMINATION | | CONSOLIDATED | |
|-------------------------------|---------------|------------|-----------|-----------|---------|---------|------------|------------|-------------|---------|--------------|------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | RM | RM | RM | RM | RM | RM | RM | RM | RM | RM | RM | RM |
| Segmental assets | 54,298,689 | 56,828,010 | 6,917,049 | 6,600,137 | 925,879 | 952,274 | 62,141,617 | 64,380,421 | (7,000) | (7,000) | 62,134,617 | 64,373,421 |
| Total assets | 54,406,983 | 57,429,484 | 6,931,303 | 6,614,391 | 926,327 | 957,945 | 62,264,613 | 65,001,820 | (7,000) | (7,000) | 62,257,613 | 64,994,820 |
| Segmental liabilities | 40,123,614 | 42,737,028 | 7,025,641 | 7,601,423 | 17,854 | 19,905 | 47,167,109 | 50,358,356 | (7,000) | (7,000) | 47,160,109 | 50,351,356 |
| Total liabilities | 40,162,476 | 42,737,028 | 7,025,641 | 7,601,423 | 173,918 | 175,969 | 47,362,035 | 50,514,420 | (7,000) | (7,000) | 47,355,035 | 50,507,420 |
| Capital expenditure | 2,458,457 | 669,277 | 10,380 | 109,863 | – | – | 2,468,837 | 779,140 | – | – | 2,468,837 | 779,140 |
| Depreciation and amortisation | 2,082,018 | 2,179,687 | 73,353 | 171,408 | 29,557 | 29,558 | 2,184,928 | 2,380,653 | – | – | 2,184,928 | 2,380,653 |

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

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

Notes to the Financial Statements (Cont'd)

Notes to the Financial Statements (Cont'd)

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.

(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 2008. 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.

The carrying amounts of financial assets and liabilities maturing within 12 months are approximate to their fair values due to the relatively short term of maturity of these financial instruments.

(ii) Unrecognised financial instruments

There are no unrecognised financial instruments in the balance sheet as at 31st December 2008.

32. SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

During the financial year, the Company had entered into an agreement to dispose off three units of its investment properties for a total consideration of RM895,000/- in cash in the State of Negeri Sembilan.

The disposal of the abovementioned investment properties was completed during the financial year.

Notes to the Financial Statements (Cont'd)

33. MATERIAL LITIGATION

On 26th April 2001, Danone Biscuits Manufacturing (M) Sdn. Bhd. ("Danone") filed an action against the Company claiming, inter alia, for a permanent injunction restraining the Company from allegedly infringing Danone's registered "ChipsMore" trademark as against the Company's "ChipsPlus", the passing-off, misappropriating/misleading the general public to suppose the existence of a trade connection or association between the Company and Danone, an order for delivery up and destruction of all the Company's allegedly offending chocolate chip cookies and an inquiry as to damages due to Danone.

The case is still pending in the court.

Statement by Directors

We, **SOO THIEN MING @ SOO THIEN SEE** and **SOO CHUNG YEE**, 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 22 to 62 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 2008 and of the results and cash flows of the Group and of the Company for the financial year ended on that date in accordance with the Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia.

On behalf of the Board,

SOO THIEN MING @ SOO THIEN SEE
Director

SOO CHUNG YEE
Director

Kuala Lumpur
14th April 2009

Statutory Declaration

I, **LEE KIM HONG**, being the officer 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 22 to 62 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.

LEE KIM HONG

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur in the Federal Territory on 14th April 2009.

Before me,

ZULKIFLA MOHD DAHLIM (W541)
Commissioner for Oaths

Independent Auditors' Report

to the Members of Hwa Tai Industries Berhad (Incorporated in Malaysia) (19688-V)

Report on the Financial Statements

We have audited the financial statements of Hwa Tai Industries Berhad, which comprise the balance sheets of the Group and of the Company as at 31st December 2008, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 22 to 62.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31st December 2008 and of their financial performance and cash flows for the financial year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:-

- (a) In our opinion, the accounting and other records and the registers required by the Act 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.
- (b) We have considered the financial statements and the auditors' reports of all the subsidiary companies of which we have not acted as auditors, which are indicated in Note 6 to the financial statements.
- (c) We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the financial statements of the subsidiary companies did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Independent Auditors' Report (Cont'd)

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Baker Tilly Monteiro Heng

No. AF 0117

Chartered Accountants

M. J. Monteiro

No. 828/05/10 (J/PH)

Partner

Kuala Lumpur

14th April 2009

Analysis of Securities Holdings As at 30 April 2009

| | |
|--|--|
| Class of securities | : Ordinary shares of RM1/- each fully paid. |
| | : Warrants 2004/2009 (expiring on 2 June 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 2009

SIZE OF SHAREHOLDINGS

| Range of Shareholdings | No. of Shareholders | % of Shareholders | No. of Shares | % of Shareholdings |
|---|---------------------|-------------------|---------------|--------------------|
| Less than 100 | 160 | 4.08 | 3,438 | 0.01 |
| 100 - 1,000 | 963 | 24.53 | 879,388 | 2.20 |
| 1,001 - 10,000 | 2,383 | 60.70 | 10,089,047 | 25.19 |
| 10,001 - 100,000 | 399 | 10.16 | 9,474,900 | 23.66 |
| 100,001 - less than 5% of issued shares | 19 | 0.48 | 7,756,400 | 19.37 |
| 5% and above of issued shares | 2 | 0.05 | 11,839,227 | 29.57 |
| Total | 3,926 | 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 Ming @ Soo Thien See (A/C 1) | 7,984,837 | 19.94 |
| 2. Public Nominees (Tempatan) Sdn Bhd (A/C Soo Thien Ming @ Soo Thien See) | 3,854,390 | 9.63 |
| 3. London Biscuits Berhad | 1,996,000 | 4.98 |
| 4. PM Nominess (Tempatan) Sdn Bhd (A/C Gelombang Sinar Sdn Bhd) | 988,000 | 2.47 |
| 5. HSBC Nominees (Asing) Sdn Bhd (A/C The Bank Of New York Mellon) | 627,400 | 1.57 |
| 6. Lanjut Bestari Sdn Bhd | 573,900 | 1.43 |
| 7. Soo Thien Ming @ Soo Thien See (A/C 2) | 513,600 | 1.28 |
| 8. Secret Ingredients Sdn Bhd | 478,600 | 1.19 |
| 9. Mayban Nominees (Tempatan) Sdn Bhd (A/C Siaw Kit Leong) | 435,000 | 1.09 |
| 10. Saw Ah Kee | 366,000 | 0.91 |
| 11. AMSEC Nominees (Tempatan) Sdn Bhd (A/C Chong Sim Bee) | 286,600 | 0.71 |
| 12. Teh Leong Kok | 262,500 | 0.65 |
| 13. Tan Tiong Cheng | 179,000 | 0.45 |
| 14. Lee Chooi Eng | 175,400 | 0.44 |

Analysis of Securities Holdings (Cont'd)

THIRTY LARGEST SHAREHOLDERS (Cont'd)

| Name of Shareholders as per Register of Members | No. of Shares | % of Shareholdings |
|---|---------------|--------------------|
| 15. Chai Jee Choon | 153,000 | 0.38 |
| 16. Tan Ah Hoon | 144,000 | 0.36 |
| 17. Che Wan Mohd Zuhaimi Che Wan Hussain | 123,000 | 0.31 |
| 18. Soh Kok Heng | 119,900 | 0.30 |
| 19. Tan Kher Ann | 117,500 | 0.29 |
| 20. Gan Lam Seong | 114,000 | 0.28 |
| 21. Fong Cheng Ban | 103,000 | 0.26 |
| 22. Cheng Yean Yun @ Tay Yan Hoon | 95,000 | 0.24 |
| 23. Lim Soh Bee | 90,000 | 0.23 |
| 24. Siaw Kit Leong | 90,000 | 0.22 |
| 25. Lee Thye @ Lee Chooi Yoke | 89,800 | 0.22 |
| 26. Ang Chee Kean | 88,900 | 0.22 |
| 27. Zainal Mokhtar Bin Abdul Hamid | 86,100 | 0.21 |
| 28. Olive Lim Swee Lian | 81,000 | 0.20 |
| 29. Lim Do Wei | 75,200 | 0.19 |
| 30. Lee Soon Aun @ Lee Eng Soon | 75,000 | 0.19 |
| Total | 20,366,627 | 50.84 |

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 | 12,372,627 | 30.90 | — | — | 12,372,627 | 30.90 |

Analysis of Securities Holdings (Cont'd)

ANALYSIS OF WARRANT-HOLDINGS as at 30 April 2009

SIZE OF WARRANT-HOLDINGS

| Range of Warrant-holdings | No. of Warrant-holders | % of Warrant-holders | No. of Warrant | % of Warrant-holdings |
|---|------------------------|----------------------|----------------|-----------------------|
| Less than 100 | 256 | 11.15 | 7,272 | 0.04 |
| 100 - 1,000 | 172 | 7.49 | 76,205 | 0.38 |
| 1,001 - 10,000 | 1,558 | 67.86 | 5,046,000 | 25.43 |
| 10,001 - 100,000 | 290 | 12.63 | 8,158,700 | 41.11 |
| 100,001 - less than 5% of issued Warrants | 19 | 0.83 | 4,175,828 | 21.04 |
| 5% and above of issued Warrants | 1 | 0.04 | 2,380,995 | 12.00 |
| Total | 2,296 | 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 Ming @ Soo Thien See) | 2,380,995 | 12.00 |
| 2. Soo Thien Ming @ Soo Thien See | 596,128 | 3.00 |
| 3. Wong Kee Onn | 579,500 | 2.92 |
| 4. Ke-Zan Nominees (Tempatan) Sdn Bhd (A/C Teh Kong Siew) | 324,900 | 1.64 |
| 5. See Eau Teong | 299,000 | 1.51 |
| 6. Doris Law Chiew Jen | 297,500 | 1.50 |
| 7. Wong Sien Ngik | 260,100 | 1.31 |
| 8. Chan Li Fong | 219,600 | 1.11 |
| 9. Ahmad Zainnie Bin Abu Hassan | 196,000 | 0.99 |
| 10. HLG Nominee (Tempatan) Sdn Bhd (A/C Reagan Chua Yii Wen) | 190,500 | 0.96 |
| 11. Abdul Aziz Bin Mohd Hassan | 178,200 | 0.90 |
| 12. Public Nominees (Tempatan) Sdn Bhd (A/C Lai Ee Fong) | 136,300 | 0.69 |
| 13. Tan Boon Pi @ Tan Hoy | 135,500 | 0.68 |
| 14. Tan Ah Hoon | 122,000 | 0.61 |
| 15. Teoh Chin Chor | 117,000 | 0.59 |
| 16. Khoh Swee Hoe | 110,000 | 0.55 |
| 17. Teoh Chin Chor | 105,000 | 0.53 |

Analysis of Securities Holdings (Cont'd)

THIRTY LARGEST WARRANT-HOLDERS (Cont'd)

| Name of Warrant-holders as per Register of Warrant-holders | No. of Warrants | % of Warrant-holdings |
|--|-----------------|-----------------------|
| 18. Mohd Hadi Bin Mohamed Anuar | 103,600 | 0.52 |
| 19. Berhanuddin Bin Abdul Rahman | 103,000 | 0.52 |
| 20. Yong Chee Foong | 102,000 | 0.51 |
| 21. Chong Yong Lin | 100,000 | 0.50 |
| 22. Gan Tiong Kiat | 100,000 | 0.50 |
| 23. Lee Ah Yew | 100,000 | 0.50 |
| 24. Manami Kawasaki | 100,000 | 0.50 |
| 25. Sarimah Binti Ngah | 100,000 | 0.50 |
| 26. JF Apex Nominees (Tempatan) Sdn Bhd (A/C Wong Sieh Ming) | 95,000 | 0.48 |
| 27. AHN Sdn Bhd | 91,000 | 0.46 |
| 28. Saw Ah Kee | 90,100 | 0.45 |
| 29. Chan Lee Yuen | 85,000 | 0.43 |
| 30. TCL Nominees (Tempatan) Sdn Bhd (A/C Teh Heng Tian) | 80,400 | 0.40 |
| Total | 7,498,323 | 37.76 |

DIRECTORS' INTEREST IN SECURITIES as at 30 April 2009

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 | 12,372,627 (30.90) | — | 12,372,627 (30.90) |
| Col. (Rtd.) Dato' Ir. Cheng Wah | 20,000 (0.05) | — | 20,000 (0.05) |

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) |

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 2008

| | Location | Land Area (Sq.ft.) | Build up Area (Sq.ft.) | Tenure | Description | Date of Acquisition/ Revaluation (Year) | Date of Expiry (Year) | Estimated Age of Building (Years) | Net Book Value (RM'000) |
|---|--|-----------------------|---------------------------|-----------|---|---|--------------------------|--------------------------------------|----------------------------|
| 1 | Lot No. PTD 1098 & PTD 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 | 31 | 1,894 |
| 2 | Lot No. PTD 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 | 26 | 391 |
| 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 | 29 | 502 |
| 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 | 29 | 280 |
| 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 | — | 16 | 133 |
| 6 | Lot No. PTD 80369 1 Jalan Impian Ria 6, Taman Impian Ria, Skudai, Johor Darul Takzim | 7,476 | 1,592 | Leasehold | 1 unit 2 storey corner house (Vacant) | 2006 | 2097 | 11 | 459 |
| 7 | Lot No. PTD 40 & 41 Lok Kawi Light Industrial Estate, District of Kota Kinabalu, Sabah | 121,908 | 49,237 | Leasehold | Factory land & Industrial buildings (Own Occupation) | 1989 | 2042 | 17 | 2,215 |
| 8 | 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 | — | 10 | 527 |

List of Group Properties (Cont'd)

| | Location | Land Area (Sq.ft.) | Build up Area (Sq.ft.) | Tenure | Description | Date of Acquisition/ Revaluation (Year) | Date of Expiry (Year) | Estimated Age of Building (Years) | Net Book Value (RM'000) |
|----|--|-----------------------|---------------------------|----------|--|---|--------------------------|--------------------------------------|----------------------------|
| 9 | 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 | – | 10 | 390 |
| 10 | 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 | – | 10 | 296 |
| 11 | Lot No. PT 1131,1133, 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 | 11 units 3 storey shop office (Vacant) | 1999 | – | 10 | 2,660 |
| 12 | Lot No. PT 1563 Bandar Dataran Segar at Village of Lukut, District of Port Dickson, Negeri Sembilan Darul Khusus | 1,540 | 4,613 | Freehold | 1 unit 3 storey shop office (Vacant) | 2007 | – | 10 | 260 |

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Hwa Tai Industries Berhad
 华大工业有限公司
 (Company No: 19688-V)

Form of Proxy

I / We, _____
 of _____
 being a member of HWA TAI INDUSTRIES BERHAD, hereby appoint _____
 of _____
 or failing him/her _____
 of _____ or failing him/her
 the Chairman of the Meeting, as my / our proxy, to vote for me / us and on my / our behalf at the Thirty-Fourth Annual General Meeting of the Company to be held on 20 June 2009 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 Director, Col. (Rtd.) Dato' Ir. Cheng Wah | | |
| 4. The re-election of Director, Soo Chung Yee | | |
| 5. Appointment of Auditors and their remuneration | | |
| 6. Ordinary Resolution - Authority to allot and issue shares in general pursuant to Section 132D of the Companies Act, 1965 | | |

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

No. of Shares Held

Signature: _____

Date: _____

NOTES:

- (1) A member of the Company entitled to attend and vote at the meeting is entitled to appoint at least 1 proxy 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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