



**HARVEST COURT INDUSTRIES BERHAD**  
(Company No. 36998-T)

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ANNUAL REPORT  
2005

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Chairman/Managing Director  
Ng Swee Kiat

Executive Directors  
Ng Ai Cheng  
Ng Chuan Seng @ Ng Teck Huat

Non-Independent Non-Executive Directors  
Ng Swee Keong

Independent Non-Executive Directors  
Yet Kiong Siang  
Sukhinderjit Singh Muker  
Dato' Zainal Bin Md Deros (Appointed on 22.08.2005)

## AUDIT COMMITTEE

Chairman  
Yet Kiong Siang

Members  
Ng Swee Kiat  
Sukhinderjit Singh Muker

## REMUNERATION COMMITTEE

Chairman  
Sukhinderjit Singh Muker

Members  
Ng Swee Kiat  
Yet Kiong Siang

## NOMINATION COMMITTEE

Chairman  
Yet Kiong Siang

Members  
Sukhinderjit Singh Muker

## COMPANY SECRETARIES

Lim Seck Wah (f) (MAICSA 0799845)  
M. Chandrasegaran A/L S. Murugasu (MAICSA 0781031)

## REGISTERED OFFICE

Lot 450, Jalan Papan,  
Pandamaran Industrial Area,  
42000 Port Klang,  
Selangor Darul Ehsan.  
Tel No.: (603) 31652218  
Fax No.: (603) 31681664 / 1336

## SHARE REGISTRAR

MEGA CORPORATE SERVICES SDN. BHD.  
Level 15-2, Faber Imperial Court,  
Jalan Sultan Ismail, 50250 Kuala Lumpur.  
Tel No.: (603) 26924271  
Fax No.: (603) 27325388

## PRINCIPAL BANKERS

Affin Bank Berhad  
United Overseas Bank (Malaysia) Bhd.  
Public Bank Berhad  
RHB Bank Berhad  
Alliance Merchant Bank Berhad

## AUDITORS

Shamsir Jasani Grant Thornton (AF 0737)  
(Member of Grant Thornton International)  
Chartered Accountants

## STOCK EXCHANGE LISTING

Second Board of Bursa Securities  
Bursa Securities refers to Bursa Malaysia  
Securities Berhad  
STOCK CODE: 9342

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN that the Twenty Eighth Annual General Meeting of the Company will be held at the Crystal Room, 2<sup>nd</sup> Floor, Crystal Crown Hotel Harbour View, 217, Persiaran Raja Muda Musa, 42000 Port Klang, Selangor Darul Ehsan on Monday, 26 June 2006 at 10.00 a.m. to transact the following businesses:-**

1. To receive the audited financial statements for the year ended 31<sup>st</sup> December 2005 together with the Directors' and Auditors' Reports thereon. Resolution 1
2. To approve the payment of Directors' Fees for the year ended 31 December 2005. Resolution 2
3. To re-elect the following director retiring pursuant to Section 129(6) of the Companies Act, 1965  
- Mr. Ng Chuan Seng @ Ng Teck Huat Resolution 3
4. To re-elect the following Director retiring pursuant to Article 97 of the Company's Articles of Association:-  
- Madam Ng Ai Cheng Resolution 4
5. To re-elect the following Director retiring pursuant to Article 103 of the Company's Articles of Association:-  
- Dato' Zainal Bin Md Deros Resolution 5
5. To re-appoint Messrs Shamsir Jasani Grant Thornton as Auditors of the Company and to authorise the Directors to fix their remuneration. Resolution 6

**SPECIAL BUSINESSES:-**

To consider and, if thought fit, to pass the following Ordinary Resolutions:-

6. **AUTHORITY TO ISSUE SHARES BY THE COMPANY PURSUANT TO SECTION 132D OF THE COMPANIES ACT, 1965**  
  
"THAT subject to the Companies Act, 1965, and the approval of the relevant government and/or regulatory authorities, the Directors be and are hereby empowered pursuant to Section 132D of the Companies Act, 1965, to issue shares of the Company from time to time upon such terms and conditions and for such purposes and to such person or persons whomsoever as the Directors may deem fit provided that the aggregate number of shares issued pursuant to this resolution shall not exceed 10% of the issued capital of the Company for the time being excluding the number of ordinary shares arising from the exercise of Employees' Share Option Scheme (ESOS), and such authority shall continue to be in force until the conclusion of the next annual general meeting of the Company; and FURTHER THAT the Directors be and are hereby empowered to obtain the approval for the listing and quotation for the additional shares so issued on the Bursa Securities" Resolution 7
7. **PROPOSED SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE FOR RRPT1, RRPT2, RRPT3, RRPT4 AND RRPT5** Resolution 8

# NOTICE OF ANNUAL GENERAL MEETING

## 8. PROPOSED SHAREHOLDERS' MANDATE IN RELATION TO RECURRENT RELATED PARTY TRANSACTIONS FOR RRPT6

Resolution 9

"THAT, approval be hereby given to the Company and/or its subsidiaries ("Group") to enter into and give effect to specific recurrent related party transactions of a revenue or trading nature as set out in Section 3.2 of this Circular to Shareholders dated 2 June 2006 ("Circular") with specified classes of related parties as described in Section 3.1 of the said Circular which are necessary for the Group's day-to-day operations in the ordinary course of businesses on terms not more favourable to the said related parties than those generally available to the public and not detrimental to the minority shareholders of the Company and such approval shall continue to be in force until:-

- (a) the conclusion of the next Annual General Meeting ("AGM") of the Company following this AGM, at which time it will lapse, unless by a resolution passed by shareholders in general meeting, the authority/mandate is renewed;
- (b) the expiration of the period within which the next AGM of the Company is required to be held pursuant to Section 143(1) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
- (c) revoked or varied by resolution passed by the shareholders in a general meeting;

whichever is earlier.

AND THAT, the Directors of the Company be and hereby authorized to complete and to do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the Proposed Mandate."

- 9. To transact any other business of the Company for which due notice shall have been given.

By order of the Board,

LIM SECK WAH (MAICSA 0799845)  
M. CHANDRASEGARAN A/L S. MURUGASU (MAICSA 0781031)  
COMPANY SECRETARIES

Port Klang, Selangor Darul Ehsan  
2nd June 2006

# NOTICE OF ANNUAL GENERAL MEETING

## Notes

1. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote in his/her stead. A proxy or attorney may but does not need to be a member and if the proxy is not a member of the Company, the proxy shall be an advocate or an approved company auditor or a person approved by the Companies Commission of Malaysia.
2. Where a member is an authorised nominee as defined under the Security Industry (Central Depositories) Act, 1991, it may appoint at least one (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.
3. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorized in writing or, if the appointer is a corporation, either under its Common Seal or signed by attorney so authorized.
4. The Form of Proxy must be deposited at the Registered Office of the Company at Lot 450, Jalan Papan, Pandamaran Industrial Area, 42000 Port Klang, Selangor Darul Ehsan not less than 48 hours before the time set for holding the meeting or any adjournment thereof.
5. Explanatory Notes To Special Businesses

### **Resolution Pursuant to Section 132D of the Companies Act, 1965**

The Ordinary Resolution no.7, if duly passed, will empower the Directors to issue and allot shares up to and not exceeding in total ten per centum (10%) of the issued share capital of the Company for the time being for such purposes as they may deem fit from the date of this Annual General Meeting till the next Annual General Meeting of the Company and also to avoid any delay and costs incurred in convening a general meeting. This authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting of the Company.

### **Resolution 8 and 9 – Proposed Shareholders’ Mandate**

The Proposed Shareholders’ Mandate, Ordinary Resolution No.8 to 9, if passed, will mandate the Company and/or its subsidiaries to enter into the recurrent transactions of a revenue or trading nature and with those related parties as specified in Section 3.1 of the Circular to Shareholders dated 2 June 2006. The Proposed Shareholders’ Mandate shall continue to be in force until the date of the next Annual General Meeting of the Company unless earlier revoked or varied by ordinary resolution of the Company in a general meeting and is subject to annual renewal.

# STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

## 1. DIRECTORS WHO ARE STANDING FOR RE-ELECTION AT THE TWENTY EIGHTH ANNUAL GENERAL MEETING OF HARVEST COURT INDUSTRIES BERHAD.

Mr. Ng Chuan Seng @ Ng Teck Huat (Resolution 3)  
Madam Ng Ai Cheng (Resolution 4)  
Dato' Zainal Bin Md Deros (Resolution 5)

Mr. Yet Kiong Siang, the Independent and Non-Executive Director is subject to retire pursuant to Article 97 of the Company's Articles of Association. However, Mr. Yet does not wish to seek for re-election.

## 2. DETAILS OF ATTENDANCE OF DIRECTORS AT BOARD MEETINGS

There were five (5) Board meetings held during the financial year ended 31 December 2005.

Details of Directors' attendance at Board meetings are as follows:-

Name of Director	Attendance
(a) Mr. Ng Swee Kiat	5/5
(b) Madam Ng Ai Cheng	5/5
(c) Mr. Ng Chuan Seng @ Ng Teck Huat	3/5
(d) Mr. Ng Swee Keong	3/5
(e) Mr. Sukhinderjit Singh Muker	5/5
(f) Mr. Yet Kiong Siang	5/5
(g) Dato' Zainal Bin Md Deros	1/2

## 3. DATE, TIME AND PLACE OF THE TWENTY EIGHTH ANNUAL GENERAL MEETING

The Twenty Eighth Annual General Meeting of the Company will be held at the Crystal Room, 2<sup>nd</sup> Floor, Crystal Crown Hotel Harbour View, 217, Persiaran Raja Muda Musa, 42000 Port Klang, Selangor Darul Ehsan on Monday, 26 June 2006 at 10.00 a.m.

## 4. FURTHER DETAILS OF DIRECTORS WHO ARE STANDING FOR RE-ELECTION

Details of Directors who are standing for re-election are set out in the Directors' Profile in this Annual Report.

# DIRECTORS' PROFILE

## 1. NG SWEE KIAT – CHAIRMAN/MANAGING DIRECTOR

Mr. Ng, a Malaysian, aged 51, obtained a degree in Bachelor of Civil Engineering from Monash University, Australia in 1978. Mr. Ng has been involved in the timber trade and has held senior management positions since his graduation for more than 25 years. Mr. Ng plans and charts the expansion programme of the Group, transforming it from a mere sawn timber exporter to a diversified and fully integrated timber product manufacturer.

Mr. Ng was appointed to the Board of Harvest Court Industries Berhad ("HCIB") on 4 July 1980 and appointed as Managing Director of the Group since 1997. On 26 April 2003, Mr. Ng was appointed Chairman of the Group. Presently he is a member of the Audit Committee and Remuneration Committee of HCIB.

Mr. Ng does not hold directorships in any other public companies.

Mr. Ng attended all five Board meetings of HCIB held during the financial year ended 31 December 2005.

Mr. Ng holds 379,000 shares in HCIB and he also has an indirect interest of 7,822,200 shares in HCIB by virtue of his interest in Harvest Court Holdings (M) Sdn. Bhd., a substantial shareholder of HCIB and his family members' shareholding in HCIB. He is a son to Mr. Ng Chuan Seng @ Ng Teck Huat and a sibling to Mr. Ng Swee Keong and Madam Ng Ai Cheng. He has no conflict of interest with HCIB and has no convictions for offences within the past ten years except for traffic offences.

## 2. NG AI CHENG – EXECUTIVE DIRECTOR

Madam Ng, a Malaysian, aged 53, obtained a degree in Bachelor of Computer Science from University of Wellington, New Zealand in 1977. Madam Ng has established her own business dealing in computers and software products for the past 15 years. She was appointed to the Board of HCIB on 18 December 1993. Madam Ng had been in the timber trade for more than 7 years.

Madam Ng does not hold directorships in any other public companies.

Madam Ng attended all five Board meetings of HCIB held during the financial year ended 31 December 2005.

Madam Ng holds 214,100 shares in HCIB and she also has an indirect interest of 7,987,100 shares in HCIB by virtue of her interest in Harvest Court Holdings (M) Sdn. Bhd., a substantial shareholder of HCIB and her family members' shareholding in HCIB. She is a daughter to Mr. Ng Chuan Seng @ Ng Teck Huat and a sibling to Mr. Ng Swee Kiat and Mr. Ng Swee Keong. She has no conflict of interest with HCIB and has no convictions for offences within the past ten years except for traffic offences.

## 3. NG CHUAN SENG @ NG TECK HUAT – EXECUTIVE DIRECTOR

Mr. Ng, a Malaysian, aged 77, has more than 50 years of experience in the timber trade. He had been a timber logger, sawmiller, jetty operator and a seasoned timber downstream product manufacturer. As the most senior director in the Group, Mr. Ng has been a great source of inspiration by virtue of his vast invaluable experience to the management team. Mr. Ng was appointed as Chairman of HCIB on 28 June 1993. However, he relinquished this position on 31 December 2002. On 24 November 2003, Mr. Ng was re-designated as an Executive Director of the Company.

Mr. Ng does not hold directorships in any other public companies.

Mr. Ng attended three out of the five Board meetings of HCIB held during the financial year ended 31 December 2005.

Mr. Ng holds 218,400 shares in HCIB and he also has an indirect interest of 7,982,800 shares in HCIB by virtue of his interest in Harvest Court Holdings (M) Sdn. Bhd., a substantial shareholder of HCIB and his family members' shareholding in HCIB. He is the father to Mr. Ng Swee Kiat, Mr. Ng Swee Keong and Madam Ng Ai Cheng. He has no conflict of interest with HCIB and has no convictions for offences within the past ten years except for traffic offences.



# DIRECTORS' PROFILE

## 4. NG SWEE KEONG – NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Ng, a Malaysian, aged 48, obtained a degree in Bachelor of Science (Electrical and Electronics Engineering) from the University of Birmingham, United Kingdom in 1982. Mr. Ng has been in the timber trade for more than 20 years.

Mr. Ng was appointed as an Executive Director of HCIB on 25 March 1983 and was re-designated as a Non-Independent Non-Executive Director since 20 September 2005.

Mr. Ng does not hold directorships in any other public companies.

Mr. Ng attended three out of the five Board meetings of HCIB held during the financial year ended 31 December 2005.

Mr. Ng holds 612,000 shares in HCIB and he also has an indirect interest of 7,589,200 shares in HCIB by virtue of his interest in Harvest Court Holdings (M) Sdn. Bhd., a substantial shareholder of HCIB and his family members' shareholding in HCIB. He is a son to Mr. Ng Chuan Seng @ Ng Teck Huat and a sibling to Mr. Ng Swee Kiat and Madam Ng Ai Cheng. He has no conflict of interest with HCIB and has no convictions for offences within the past ten years except for traffic offences.

## 5. SUKHINDERJIT SINGH MUKER – INDEPENDENT/NON-EXECUTIVE DIRECTOR

Mr. Muker, a Malaysian, aged 59, was appointed to the Board of HCIB on 18 July 1994. Mr. Muker obtained a degree of Bachelor of Laws (Hons) from the University of London, England in 1972 and was conferred the degree of an Utter Barrister by the Honourable Society of Grays Inn, England in 1973. He has been in active practice with the firm of Messrs Lovelace & Hastings since being called to the Malaysian Bar in 1974.

Mr. Muker is presently the Chairman of the Remuneration Committee and a Member of the Nomination Committee and Audit Committee of HCIB.

Mr. Muker is a Director of Southern Acids (M) Berhad, Pahanco Corporation Berhad (both listed on the Bursa Securities), Bell Foundation Berhad and Kwok Hock Chin Foundation Berhad.

Mr. Muker attended all five Board meetings of HCIB held during the financial year ended 31 December 2005.

Mr. Muker holds 10,000 shares in HCIB. Mr. Muker has no family relationship with other directors or major shareholders of HCIB. He has no conflict of interest with HCIB and has no convictions for offences within the past ten years except for traffic offences.

## 6. YET KIONG SIANG – INDEPENDENT/NON-EXECUTIVE DIRECTOR

Mr. Yet, a Malaysian, aged 48, is a Fellow Member of the Chartered Association of Certified Accountants United Kingdom, a Member of the Malaysian Institute of Accountants and an Associate Member of the Institute of Internal Auditors Malaysia. He is an Auditor by profession. He joined Khoo Teng Kiat & Co. as an Audit Trainee in 1983 and progressed rapidly within the firm. Mr. Yet is currently the proprietor of Khoo Teng Kiat & Co. He has about 20 years of experience in the field of auditing, taxation, management consultancy and corporate advisory services.

Mr. Yet was appointed to the Board of HCIB as an Independent Non-Executive director on 18 July 1994. He is presently the Chairman of the Audit Committee as well as the Nomination Committee of HCIB. He was appointed as a member to Remuneration Committee since 26 May 2004.

Mr. Yet does not hold directorships in any other public companies.

Mr. Yet attended all five Board meetings of HCIB held during the financial year ended 31 December 2005.

Mr. Yet does not hold any shares in HCIB and its subsidiaries. Mr. Yet has no family relationship with other directors or major shareholders of HCIB. He has no conflict of interest with HCIB and has no convictions for offences within the past ten years except for traffic offences.

## DIRECTORS' PROFILE

### 7. DATO' ZAINAL BIN MD DEROS – INDEPENDENT/NON-EXECUTIVE DIRECTOR

Dato' Zainal, a Malaysian, aged 60, is a Ketua Bahagian Klang, Ahli Majlis MPK and ahli perniagaan dalam bidang perniagaan, trading, hartanah dan lain-lain. He was a Adun Selat Klang, Senator (Ahli Dewan Negara) and Naib Ketua Pemuda Bhg. P. Klang.

Dato' Zainal was appointed to the Board of HCIB as an Independent Non-Executive Director on 22 August 2005.

Dato' Zainal is a Director of Perbadanan Kemajuan Negeri Selangor Berhad.

Dato' Zainal attended one out of the two Board meetings of HCIB since he was appointed on 22 August 2005 during the financial year ended 31 December 2005.

Dato' Zainal does not hold any shares in HCIB and its subsidiaries. Dato' Zainal has no family relationship with other directors or major shareholders of HCIB. He has no conflict of interest with HCIB and has no convictions for offences within the past ten years except for traffic offences.

# CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Harvest Court Industries Berhad, it is my pleasure to present the Annual Report and the Audited Financial Statements of the Group and of the Company for the year ended 31 December 2005.

## 1. FINANCIAL PERFORMANCE

For the financial year ended 31 December 2005, the Group recorded a turnover of RM28.83 million, 23.50% lower than that of the previous financial year. The lower turnover was due to lower sale to Middle East countries.

The Group recorded a loss after tax of RM5.66 million for the financial year ended 31 December 2005 compared to a loss of RM5.4 million for the previous financial year. The loss was due to lower sale, higher construction cost, finance cost and corporate expenses.

## 2. CORPORATE EXERCISE PROPOSAL

The Company, via its appointed Adviser, Public Merchant Bank Berhad, had submitted to the Securities Commission ("SC") on 9 August 2005 the following proposed Corporate Exercise:-

- a) Proposed acquisition of four (4) parcels of land
- b) Proposed acquisition of machineries
- c) Proposed private placement of up to 15,000,000 ordinary shares of RM1.00 each in the Company to investors to be identified
- d) Proposed special issue of up to 5,000,000 ordinary shares of RM1.00 each in the Company to Bumiputera investors to be identified
- e) Proposed increase in authorized share capital

However, the proposed Corporate Exercise was rejected by SC on 17 November 2005 and the appeal on the same also rejected by SC on 22 February 2006.

Currently, the Company has appointed Covenant Equity Consultant Sdn. Bhd. to undertake the role of adviser to submit a new corporate proposal for corporate and debt restructuring purposes. The new corporate proposal will be fine tuned and finalized upon completion of the financial and viability assessment and receipt of feedback after discussions with the lenders and major creditors:-

- a) Capital reduction
- b) Capital raising
- c) Debt restructuring and settlement via a combination of cash payment and issuance of securities; and
- d) Acquisition of suitable assets/business which are currently being identified

## 3. INDUSTRY TREND AND DEVELOPMENT

Malaysia is currently the largest exporter of logs and sawn timber and a major exporter of other products such as plywood, veneer and other wood based panels, wooden furniture, builders' carpentry and joineries and mouldings. The Malaysian timber industry has successfully developed and diversified into downstream activities with strong support from the Government and the implementation of the First and Second Industrial Master Plans (1986-1995 and 1996-2005).

To sustain the industry, the Government encouraged local manufacturers to source their supply of raw materials from other resource-rich countries; import semi-finished products to add value and subsequently export them and to improve on quality, product design, marketing and distribution.

Meanwhile, the property market is faced with an oversupply of industrial premises as well as a supply and demand mismatch in certain areas. Overall, the industry is still in a sluggish state although market sentiments are beginning to recover and it is expected to strengthen with renewed confidence in the market.

# CHAIRMAN'S STATEMENT

## 4. OPERATION OVERVIEW

The Group's timber division remains the major contributor to the Group's performance in 2005 and is expected to continue to do so in 2006.

## 5. PROSPECTS

Barring unforeseen circumstances, it is envisaged that the Malaysian economy will register a mild economic growth this year to be driven by the manufacturing and service sectors. Moreover, the Group expects improvements in sales and profitability in the coming quarters due to favourable developments in the Middle East. As such the Group is confident to achieve better results in the current year.

## 6. DIRECTORATE

Mr. Ng Swee Keong was re-designated from Executive Director to Non-Independent Non-Executive Director w.e.f. 20 September 2005.

## 7. APPRECIATION

On behalf of the Board of Directors, I wish to express my appreciation to the management and staff of the Group for their dedication and commitment in discharging their duties. I would like to thank all the Directors for their counsel and support during the year.

To our shareholders, valued customers, bankers, business associates, suppliers and government agencies, I express my sincere appreciation for their confidence and continuous support to the Group.

Ng Swee Kiat  
Chairman/Managing Director

Date : 2nd June 2006  
Port Klang, Selangor Darul Ehsan

# CORPORATE GOVERNANCE STATEMENT

## COMPANY'S CORPORATE GOVERNANCE INITIATIVE

The Group is committed to the maintenance of high standards of corporate governance by supporting and implementing the prescriptions of the principles and best practices set out in parts 1 and 2 respectively of the Malaysian Code of Corporate Governance ("the Code"). This aims to ensure the Board's effectiveness in protecting and enhancing the shareholders' value of the Group. The Board is pleased to provide the following statement which outlines the main corporate governance practices that were in place throughout the financial year.

### A. DIRECTORS

#### 1. Board Balance

The Board assumes responsibility for effective stewardship and control of the Group and its members have established terms of reference to assist in discharge of their responsibilities.

The Board comprises seven directors, three are executive directors, one non-independent non-executive director and three are independent non-executive directors. The Company is in compliance with Paragraph 15.02 of the Bursa Securities Listing Requirements whereby 1/3 of its Board members are independent directors. The profile of each Director is presented separately in the Annual Report.

#### 2. Supply of information

The Board is supplied with relevant information and reports on financial, regulatory and audit matters by way of Board papers for informed decision making and meaningful discharge of its duties. There are no formal guidelines concerning the contents, presentation and delivery of papers to the Board for each Board Meeting.

To fulfill the responsibilities as set out above, all Directors have direct access to the advice and services of the Company Secretary as well as to independent professional advice, including the External Auditors.

Where applicable, the Board will establish a formal schedule of matters to clearly detail out matters that require the Board's deliberation and approvals.

#### 3. Appointment to the Board

As recommended by the Code, the Nomination Committee was established on 5 December 2001, comprising exclusively of Non-Executive Directors, with the responsibilities of proposing new nominees for the Board and assessing Directors on an ongoing basis. The appointment of new Directors is the responsibility of the full Board after considering the recommendations of the Nomination Committee.

#### 4. Directors' Training

In compliance with the Bursa Securities Listing Requirements, the existing six members have completed the Mandatory Accreditation Programme ("MAP") conducted by the Research Institute of Investment Analysts Malaysia, an affiliate company of Bursa Securities. The director, Dato' Zainal Bin Md Deros who was appointed on 22 August 2005 is making the arrangement to attend the MAP. The Board attends the Continuing Education Programme ("CEP") from time to time to equip themselves with the knowledge to discharge their duties more effectively.

All Directors have attended the relevant directors' training programmes to equip themselves with the knowledge during the financial year, except for Mr. Sukhinderjit Singh Muker who is a Practitioner Lawyer and Dato' Zainal Bin Md Deros who was appointed on 22nd August 2005.

As for the Director, Mr. Ng Chuan Seng @ Ng Teck Huat, he has registered for a 1 day seminar. However, the seminar was cancelled due to the poor response.

The Board of Directors is aware on the importance of the continuous training programme and will decide for the appropriate courses for the board members as and when the needs arise.

# CORPORATE GOVERNANCE STATEMENT

## 5. Re-election

The procedure for re-election of directors by rotation is set out in the Articles No. 97 and 103 of the Company's Articles of Association ("the Articles"). Pursuant to the Articles, all Directors who are appointed by the Board are subject to re-election by shareholders at the first meeting after their appointment. The Articles also provide that at least one third of the remaining Directors are subject to re-election by rotation at each Annual General Meeting and retiring directors can offer themselves for re-election. Bursa Securities Listing Requirements provide that each Director, including the Managing Director must retire from office at least once in every three years but shall be eligible for re-election. Directors over seventy (70) years of age are subject for re-appointment annually in accordance with Section 129(6) of the Companies Act, 1965. The details of the retiring Directors are set out in the Directors' Profile in the Annual Report.

## B. DIRECTORS' REMUNERATION

### 1. Procedures

The fees of Directors including non-executive directors if any, have to be endorsed by the Board and approved for by the shareholders of the Company at the Annual General Meeting.

### 2. Disclosure

The aggregate remuneration of Directors for the financial year ended 31 December 2005 is as follow:-

	<b>Salaries &amp; Other Emoluments (RM)</b>
Executive Directors	637,440
Non-Executive Directors	35,600
Total:	<u>673,040</u>

The number of Directors whose remuneration fall into the following bands is as follows:-

<b>Range of Remuneration (RM)</b>	<b>Executive</b>	<b>Non-Executive</b>
50,000 and below	-	3
50,001 – 100,000	-	-
100,001 – 150,000	2	-
150,001 – 200,000	1	-
200,001 – 250,000	1	-

### 3. Remuneration Committee

The Remuneration Committee is responsible to assist the Board to discharge its duty in remunerating each individual director. The members of Remuneration Committee are as follows:-

Chairman:	Sukhinderjit Singh Muker	Independent Non-Executive Director
Members:	Yet Kiong Siang	Independent Non-Executive Director
	Ng Swee Kiat	Chairman/Managing Director

No Remuneration Committee Meeting was held during the year 2005.

# CORPORATE GOVERNANCE STATEMENT

## C. COMMUNICATION BETWEEN THE COMPANY AND ITS SHAREHOLDERS AND INVESTORS

The Group values regular communication with its shareholders and investors.

The Company reaches out to its shareholders through the issuance of Annual Reports, Explanatory Circulars and updates on the Company is provided through the quarterly reports and various announcements made throughout the year. Shareholders and investors could also obtain general information of the Company through its website.

Currently, the General Meetings are the principal forum for dialogues with the shareholders and investors. At each General Meeting, the Board presents the progress and performance of the Group and/or Corporate Proposals of the Company and shareholders are encouraged to participate in the question and answer sessions. Informal discussion between the Directors, senior management staff and the shareholders and investors are always active before and after the General Meetings.

## D. ACCOUNTABILITY AND AUDIT

### 1. Financial Reporting

In presenting the annual financial statements and quarterly announcements to shareholders, the aim of the directors is to present a balanced and comprehensible assessment of the Group's position and prospects. The Audit Committee assists the Board to ensure accuracy and adequacy of all annual and quarterly financial reports, audited and unaudited for disclosure. The Statement by the Board pursuant to Paragraph 15.27 (a) of the Bursa Securities Listing Requirements on its responsibilities in preparing the financial statements is set out in Section E below.

### 2. Internal Controls

The Board acknowledges its overall responsibility for maintaining a system of internal controls, which provides reasonable assessment of effective and efficient operations, internal controls and compliance with laws and regulations. The system provides reasonable but not absolute assurance against material misstatements, losses, fraud and irregularities.

### 3. Relationship with Auditors

The External Auditors, Messrs Shamsir Jasani Grant Thornton have to report to members of the Company of their findings which are included as part of the Company's financial reports with respect to each year's audit on statutory financial statements. In doing so, the Company has established a transparent arrangement with the auditors to meet their professional requirements. From time to time, the auditors will highlight to the Audit Committee and the Board of Directors on matters that require the Board's attention.

## E. STATEMENT OF DIRECTORS' RESPONSIBILITY IN RESPECT OF THE AUDITED FINANCIAL STATEMENTS

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which have been made out in accordance with the applicable approved accounting standards so as to give a true and fair view of the state of affairs of the Group and Company at the end of the financial year and of the results and cash flows of the Group and Company for the financial year.

The Directors are satisfied that in preparing the financial statements of the Group for the financial year ended 31 December 2005, the Group has used the appropriate accounting policies and applied them consistently and supported by reasonable and prudent judgments and estimates. The Directors also consider that all applicable approved accounting standards have been complied with and further confirm that the financial statements have been prepared on a going concern basis.

The Directors are responsible for ensuring that the Company keeps proper accounting records with reasonable accuracy of the financial position of the Company. The Directors are to ensure that the financial statements comply with mandatory provisions of the Companies Act, 1965, the MASB Standard and the Listing Requirements. The Directors are also responsible for taking such reasonable steps to safeguard the assets of the Group and to minimise fraud and other irregularities.

# CORPORATE GOVERNANCE STATEMENT

## F. COMPLIANCE STATEMENT

The Group has complied throughout the financial year ended 31 December 2005, with the principles and best practices as set out in parts 1 and 2 respectively of the Code.

At present, the roles of the Managing Director and Chairman are combined because the Managing Director has the necessary skill, knowledge, expertise and experience and the Directors are confident that he is competent to hold the position of the Chairman of the Company. Although the roles are combined, there is a strong independent element on the Board representation as the Board consists of two other Executive Directors, one non-independent non-executive director and three Independent Non-Executive Directors.



# AUDIT COMMITTEE'S REPORT

## 1. COMPOSITION

Chairman

Mr. Yet Kiong Siang – Independent Non-Executive Director

Members

Mr. Ng Swee Kiat – Chairman/Managing Director

Mr. Sukhinderjit Singh Muker – Independent Non-Executive Director

## 2. TERMS OF REFERENCE

### 2.1 Members

2.1.1 The Board shall appoint the Committee comprising of at least three (3) directors, a majority of whom shall be independent non-executive directors of the Board. At least one member of the audit committee must be:-

- A member of the Malaysian Institute of Accountants, or
- If he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and; either
  - (i) he must have passed the examination specified in Part I of the 1<sup>st</sup> Schedule of the Accountants Act, 1967; or
  - (ii) he must be a member of one of the associations of accountants specified in Part II of the 1<sup>st</sup> Schedule of the Accountants Act, 1967.

2.1.2 The Chairman of the Audit Committee should be an Independent Non-Executive director and be elected amongst the members of the Committee.

### 2.2 Responsibilities and Duties

2.2.1 To review the following and report to the Board:-

- (a) with the external auditors, the audit plan, their evaluation of the system of internal controls and their audit report;
- (b) the assistance given by the employees of the Company to the external auditors;
- (c) adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its works;
- (d) the internal audit programme, progressive reports, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendation of the internal audit function.
- (e) the quarterly results and year end financial statements prior to the approval by the Board, focusing particularly on:-
  - changes in or implementation of major accounting policy changes significant and unusual events;
  - the going concern assumption; and compliance with accounting standards and other legal requirements
- (f) 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.

2.2.2 To consider the appointment of the external auditors, the audit fee and any questions of resignation or dismissal and whether there is reasonable (supported ground) to believe that the Company's external auditors are not suitable for re-appointment;

# AUDIT COMMITTEE'S REPORT

## 2. TERMS OF REFERENCE (cont'd)

### 2.2 Responsibilities and Duties (cont'd)

- 2.2.3 To discuss with the external auditors before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- 2.2.4 To discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss;
- 2.2.5 To review the external auditors' management letter and management's response;
- 2.2.6 To do the following where an internal audit functions exists:-
- Review the adequacy of the scope, functions and resources of the internal audit function, and that it has the necessary authority to carry out its work;
  - Review the internal audit programme and results of the internal audit process and where necessary ensure that appropriate action is taken in the recommendations of the internal audit function;
  - Review any appraisal or assessment of the performance of members of the internal audit function;
  - Approve any appointment or termination of senior staff members and provide the resigning staff members an opportunity to submit his reason for resigning.
- 2.2.7 To consider the major findings of internal investigations and management's response.
- 2.2.8 To verify the allocation of options to the eligible employees pursuant to the Company's Employee Share Option Scheme at the end of each financial year;
- 2.2.9 To consider other topics as defined by the Board.

### 2.3 Rights and Authority of the Audit Committee

- 2.3.1 The Company must ensure that whenever necessary and reasonable for the performance of its duties, the Audit Committee shall, in accordance with the procedures to be determined by the Board and at the cost of the Company:-
- have authority to investigate any matter within its terms of reference;
  - have the resource which are required to perform its duties;
  - have full and unrestricted access to any information pertaining to the Company;
  - have direct communication channels with the external auditors and person(s) carrying out internal audit function or activity (if any);
  - be able to obtain independent professional or other advice; and
  - be able to convene meetings with the external auditors, excluding the attendance of the executive member of the Committee whenever deemed necessary.

## 3. MEETINGS

- 3.1 The Committee shall convene at least four (4) regular meetings a year and such additional meetings as the Chairman shall determine. The Chairman shall convene a meeting of the Committee, if so requested by any member of the Committee, the Management of the Group, the internal auditors or the external auditors.
- 3.2 The external auditors shall have the rights to appear and be heard at any meetings of the Committee and appear before the Committee upon request by the Committee.
- 3.3 The Head of Internal Audit and a representative of the external auditors shall attend all meetings of the Committee. Other members of the Board may attend meetings of the Committee upon invitation.
- 3.4 The quorum for any meeting of the Committee shall be three (3) members present in person, the majority of whom present shall be independent Non-Executive directors.

# AUDIT COMMITTEE'S REPORT

## 4. ATTENDANCE OF MEETINGS

During the year ended 31 December 2005, the audit committee held five (5) meetings. Details of the attendance of committee members are as follows:-

Member	Attendance
Mr. Yet Kiong Siang	5/5
Mr. Ng Swee Kiat	5/5
Mr. Sukhinderjit Singh Muker	5/5

## 5. SUMMARY ACTIVITIES OF THE AUDIT COMMITTEE DURING THE YEAR

The activities of the Audit Committee during the financial year ended 31 December 2005 include the following:-

- review the quarterly results and year end financial statements
- review the adequacy of the audit scope and plan of the external auditors
- review reports of the internal and external auditors
- review related party transactions
- review the ESOS offered and exercise
- review the Statement of Internal Control

## 6. INTERNAL AUDIT FUNCTIONS

The Company has outsourced its Independent Internal Audit Division to Messrs IA Capital to ensure the internal audit functions are carried out effectively and professionally.

The role of the internal audit functions is to undertake independent regular and systematic reviews of the system of internal controls so as to provide reasonable assurance that such systems continue to operate satisfactorily and effectively.

The internal audits cover the review of the adequacy of risk management, operational controls, compliance with established procedures, guidelines and statutory requirements.

During the financial year, the following activities were carried out by the internal audit department in discharge of its responsibilities:-

- i) Review the system of internal controls of the various business operating units;
- ii) Recommend improvements to the existing systems of internal controls;
- iii) Follow up on implementation and disposition of audit findings and recommendation;
- iv) Ascertain the extent to which the Company's and the Group's assets are accounted for and safeguarded from losses of all kinds;
- v) Carry out various special assignments requested by the management and or the Audit Committee;
- vi) Identify opportunities to improve the operations of and processes in the Company and the Group.

# STATEMENT OF INTERNAL CONTROLS

The Board of Directors of Harvest Court Industries Berhad acknowledges the importance of the system of internal control and affirms that it is their responsibility to maintain a sound system of internal control to safeguard shareholders' investment and the Group's assets. In this respect the Board is responsible for identifying principal risks, ensuring the implementation of appropriate systems to manage these risks and reviewing the adequacy and integrity of the Group's systems of internal control. However, it should be noted that risk management system and system of internal control are only designed to manage rather than eliminate risks of failure to achieve business objectives. Therefore, these systems can only provide reasonable but not absolute assurance against material misstatements or losses.

The Board has considered the system of internal control during the financial year and some of the key elements are summarized as follows:-

- Duties, responsibilities and reporting line are outlined and communicated to staff through organization charts, appointment letters and internal memo;
- Management meetings are held and attended by the Executive Directors and the heads of departments to review the operations and financial position of the Group;
- The Audit Committee reviews the quarterly financial results, annual report, audited financial statements and internal control issues identified by the External Auditors, Internal Auditors and the management; and
- The internal audit function reviews the adequacy and integrity of the system of internal control. This function was outsourced to an external consultant. The internal audit function reports its findings to the Audit Committee on quarterly basis.

The Board recognizes that the systems of internal control must continuously improve in line with the growth of the Group and evolving business environment. Therefore, the Board would put in place adequate plans, where necessary, to continuously improve the Group's system of internal control.

## OTHER DISCLOSURE REQUIREMENTS

- 1. UTILISATION OF PROCEEDS FROM CORPORATE EXERCISE**  
The Company did not undertake any corporate exercise during the financial year, hence no proceeds were raised therefrom.
- 2. SHARE BUY-BACKS**  
There were no share buy-back arrangements during the financial year.
- 3. OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES**  
Except for the share options granted pursuant to its Employees Share Option Scheme, no other options, warrants or convertible securities were granted, issued or exercised during the financial year.
- 4. AMERICAN DEPOSITORY RECEIPT (ADR/GLOBAL DEPOSITORY RECEIPT (GDR) PROGRAMMES)**  
The Company did not sponsor any ADR or GDR programmes during the financial year.
- 5. IMPOSITION OF SANCTIONS/PENALTIES**  
There were no public imposition of sanctions or penalties imposed on the Company and its subsidiaries, directors or management by the regulatory bodies during the financial year.
- 6. NON-AUDIT FEES**  
Save as disclosed herein, there was no non-audit fees paid to the external auditors by the Group for the financial year ended 31 December 2005, except for RM31,200.00 for professional services on corporate exercise.
- 7. PROFIT ESTIMATE, FORECAST OR PROJECTION**  
The Company did not undertake any profit estimate, forecast or projection for the financial year.
- 8. PROFIT GUARANTEE**  
The Company did not give any form of profit guarantee to any parties during the financial year.
- 9. MATERIAL CONTRACTS AND CONTRACTS RELATING TO LOAN**  
There were no contracts relating to loan and material contracts of the Company and its subsidiaries involving the Directors and substantial shareholders since the end of the previous financial year.
- 10. RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE AND TRADING NATURE**  
Recurrent related party transactions of a revenue and trading nature during the year amounted to RM36,000 with details as stated in Note 30 to the financial statements.
- 11. REVALUATION POLICY ON LANDED PROPERTIES**  
The Group does not adopt a policy on regular revaluation to its landed properties.

# DIRECTORS' REPORT

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

## PRINCIPAL ACTIVITY

The principal activity of the Company is investment holding. The principal activities of its subsidiary companies are disclosed in Note 14 to the financial statements.

There have been no significant changes in the nature of these activities during the year.

## FINANCIAL RESULTS

	Group RM	Company RM
Loss after taxation	(5,661,082)	(1,267,760)
Minority interests	419	-
Net loss for the year	(5,660,663)	(1,267,760)

## DIVIDENDS

There were no dividends proposed, declared or paid by the Company since the end of the previous year.

## RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the year except as disclosed in the Notes to the financial statements.

## SHARES CAPITAL AND DEBENTURES

During the year, the Company increased its issued and paid up ordinary share capital from RM22,098,400 to RM22,669,900 by way of the issuance of 571,500 ordinary shares of RM1 each for cash pursuant to the Company's Employee Share Option Scheme at exercise price of RM1.00 per ordinary share.

The new ordinary shares issued during the year rank pari passu in all respect with the existing ordinary shares of the Company.

There were no debentures issued during the year.

## EMPLOYEE SHARE OPTION SCHEME ("ESOS")

The Company's ESOS is governed by the by-laws which was approved by the shareholders at an Extraordinary General Meeting held on 28 June 2004. The ESOS was implemented on 7 September 2004 and is to be in force for a period of 5 years from the date of implementation.

The salient features of the ESOS are as follows:-

- (a) The ESOS Committee appointed by the Board of Directors to administer the ESOS, may from time to time grant options to eligible employees of the Group to subscribe for new ordinary shares of RM1 each in the Company.
- (b) The eligible of a Director or employee of the Group to participate in the ESOS shall be at the discretion of the ESOS Committee, who shall take into consideration factors such as year of service and performance track record.

# DIRECTORS' REPORT

## EMPLOYEE SHARE OPTION SCHEME ("ESOS") (cont'd)

- (c) The total number of shares to be issued under ESOS shall not exceed in aggregate 15% of the issued share capital of the Company at any point of time during the tenure of the ESOS and out of which not more than 50% of the shares shall be allocated, in aggregate, to Directors and senior management. In addition, not more than 10% of the shares available under the ESOS shall be allocated to any individual Director or employee who, either singly or collectively through his/her associates, holds 20% or more in the issued and paid-up capital of the Company.
- (d) The option price for each share shall be weighted average of the market price as quoted in the Daily Official List issued by Bursa Malaysia Securities Berhad for the 5 market days immediately preceding the date on which the option is granted less, if the ESOS Committee shall so determine a their discretion from time to time, a discount of not more than 10% or the par value of the shares of the Company of RM1.
- (e) The number of outstanding options to subscribe for shares or the option price or both may be adjusted following any issue of additional shares by way of right issues, bonus issues or other capitalisation issue carried out by the Company while an option remain unexercised; and
- (f) The new shares allotted upon any exercise of the option shall rank pari passu in all respects with the existing ordinary shares of the Company except that the new shares so issued will not rank for any rights, dividends, allotments and/or other distributions, the entitlement date of which is prior to the date of allotment of the new ordinary shares.

As at 31 December 2005, the options offered to take up unissued ordinary shares of RM1 each and the option prices are as follows:-

Year of offer	Option price	Number of option over ordinary shares of RM 1 each				At 31.12.2005
		At 1.1.2005	Granted	Exercised	Lapsed	
<b>Existing ESOS</b>						
2005	RM1.00	-	3,118,000	(571,500)	-	2,546,500

## INFORMATION ON THE FINANCIAL STATEMENTS

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps:-

- (a) to ascertain that action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all bad debts had been written off and adequate provision had been made for doubtful debts; and
- (b) to ensure that any current assets which were unlikely to realise in the ordinary course of business including their value as shown in the accounting records of the Group and of the Company have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:-

- (a) which would render the amount of bad debts written off and the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

# DIRECTORS' REPORT

## INFORMATION ON THE FINANCIAL STATEMENTS (cont'd)

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

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

- (a) any charge on the assets of the Group and of the Company which has arisen since the end of the year which secures the liability of any other person; or
- (b) any contingent liability of the Group and of the Company which has arisen since the end of the year.

## SIGNIFICANT EVENTS

Significant events during the year and after the balance sheet date are disclosed in Note 33 to the financial statements.

## OTHER STATUTORY INFORMATION

The Directors state that:-

At the date of this report, they are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

In their opinion:-

- (a) the results of the Group's and of the Company's operations during the year were not substantially affected by any item, transaction or event of a material and unusual nature except as disclosed in the Notes to the financial statements; and
- (b) there has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the year in which this report is made.

## DIRECTORS

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

Ng Swee Kiat  
Ng Swee Keong  
Ng Ai Cheng  
Ng Chuan Seng @ Ng Teck Huat  
Sukhinderjit Singh Muker  
Yet Kiong Siang  
Dato' Zainal bin Md Deros (appointed on 22.08.2005)

In accordance with Section 129 (2) of the Companies Act, 1965, Ng Chuan Seng @ Ng Teck Huat retires at the forthcoming Annual General Meeting and being eligible, offer himself for re-election.

In accordance with Article 97 of the Company's Articles of Association, Ng Ai Cheng and Yet Kiong Siang retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 103 of the Company's Articles of Association, Dato' Zainal bin Md Deros retires at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.



# DIRECTORS' REPORT

## DIRECTORS (cont'd)

According to the register of Directors' shareholdings, the interests of Directors in office at the end of the year in shares in the Company and its related corporations were as follows:-

Interest in the Company	Ordinary shares of RM1 each			
	At 1.1.2005	Bought	Sold	At 31.12.2005
<u>Direct Interest</u>				
Ng Chuan Seng @ Ng Teck Huat	316,400	152,000	250,000	218,400
Ng Swee Kiat	560,200	68,800	250,000	379,000
Ng Swee Keong	486,000	126,000	-	612,000
Ng Ai Cheng	50,000	164,100	-	214,100
Sukhinderjit Singh Muker	10,000	-	-	10,000
<u>Deemed Interest</u>				
Ng Chuan Seng @ Ng Teck Huat*#	8,997,400	363,900	1,378,500	7,982,800
Ng Swee Kiat*#	8,753,600	447,100	1,378,500	7,822,200
Ng Swee Keong*#	8,827,800	389,900	1,628,500	7,589,200
Ng Ai Cheng*#	9,263,800	351,800	1,628,500	7,987,100

	Option over ordinary shares of RM1 each				
	At 1.1.2005	Granted	Exercised	Lapsed	At 31.12.2005
Ng Chuan Seng @ Ng Teck Huat	-	300,000	(142,000)	-	158,000
Ng Swee Kiat	-	300,000	(68,800)	-	231,200
Ng Swee Keong	-	300,000	(126,000)	-	174,000
Ng Ai Cheng	-	300,000	(164,100)	-	135,900
Sukhinderjit Singh Muker	-	100,000	-	-	100,000
Yet Kiong Siang	-	100,000	-	-	100,000

\* deemed interest by virtue of their shareholdings in Harvest Court Holdings (M) Sdn. Bhd..

# deemed interest by virtue of their family members' interest in the Company.

By virtue of their interest in the shares of the Company, Directors having interest in the shares of the Company are also deemed interested in the shares of its related corporations to the extent that the Company has an interest under Section 6A of the Companies Act, 1965.

No other Directors held any shares or had any interest in shares of the Company and its related corporations during the year.

## DIRECTORS' BENEFITS

During and at the end of the year, no arrangements subsisted to which the Company is a party, with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than the share options granted pursuant to the ESOS.

Since the end of the previous year, no Director has received or become entitled to receive any benefit (other than as disclosed in the Notes to 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.

# DIRECTORS' REPORT

## AUDITORS

Messrs Shamsir Jasani Grant Thornton have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution of the Board of Directors dated 22 April 2006.

	)	
NG SWEE KIAT	)	
	)	
	)	
	)	
	)	
	)	DIRECTORS
	)	
	)	
	)	
	)	
	)	
	)	
NG AI CHENG	)	

Kuala Lumpur  
22 April 2006

## STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 29 to 63 are drawn up in accordance with the provisions of Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2005, results of the operations and cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Board of Directors dated 22 April 2006.

**NG SWEE KIAT**

**NG AI CHENG**

Kuala Lumpur  
22 April 2006

## STATUTORY DECLARATION

I, Ng Swee Kiat, being the Director primarily responsible for the financial management of Harvest Court Industries Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 29 to 63 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.

Subscribed and solemnly declared by     )  
the abovenamed at Kuala Lumpur in     )  
the Federal Territory this day of         )  
22 April 2006                                     )

**NG SWEE KIAT**

Before me:

T THANDONEE RAJAGOPAL  
(No. W 228)  
Commissioner for Oaths  
Kuala Lumpur

# REPORT OF THE AUDITORS

## TO THE MEMBERS OF HARVEST COURT INDUSTRIES BERHAD

We have audited the financial statements set out on pages 29 to 63 of Harvest Court Industries Berhad.

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

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

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations, which we consider necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:-

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

and

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

We have considered the financial statements and the auditors' reports thereon of the subsidiary company of which we have not acted as auditors, as indicated in Note 14 to the financial statements.

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 consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and in respect of subsidiary companies incorporated in Malaysia, did not include any comment (or any adverse comment) made under Section 174 (3) of the Act.

Without qualifying our opinion, we draw your attention to the disclosures made in Note 2 to the financial statements on the uncertainty relating to the appropriateness of preparing the financial statements of the Group and of the Company on a going concern basis.

## **REPORT OF THE AUDITORS**

### **TO THE MEMBERS OF HARVEST COURT INDUSTRIES BERHAD**

We have been informed by the Directors that the Group is in midst of formulating a restructuring plan to regularise its financial condition after taking into consideration the present status of the previous Proposed Corporate Exercise Scheme as mentioned in Note 33(d) and Note 9 to the financial statements respectively. Accordingly, the ability of the Group and the Company to continue as a going concern is dependent on the formulation, approval and implementation on the proposed restructuring plan, profitable operation, positive cash flows and financial support of the shareholders. The financial statements of the Group and of the Company do not include any adjustments relating to amounts and classifications of assets and liabilities that might be necessary should the Group and the Company be unable to continue as going concern.

**SHAMSIR JASANI GRANT THORNTON**  
(NO. AF: 0737)  
CHARTERED ACCOUNTANTS

**DATO' N. K. JASANI**  
CHARTERED ACCOUNTANT  
(NO: 708/03/08(J/PH))  
PARTNER

Kuala Lumpur  
22 April 2006

# BALANCE SHEETS

## AS AT 31 DECEMBER 2005

	Note	Group		Company	
		2005 RM	2004 RM	2005 RM	2004 RM
<b>CAPITAL AND RESERVES</b>					
<b>SHARE CAPITAL</b>	6	22,669,900	22,098,400	22,669,900	22,098,400
<b>SHARE PREMIUM</b>	7	873,000	873,000	873,000	873,000
<b>EXCHANGE TRANSLATION RESERVE</b>	8	3,856	154,530	-	-
<b>ACCUMULATED LOSSES</b>		(20,738,843)	(15,078,180)	(3,495,204)	(2,227,444)
Total shareholders' fund		2,807,913	8,047,750	20,047,696	20,743,956
<b>MINORITY INTERESTS</b>		73,953	74,372	-	-
<b>LONG TERM BORROWINGS</b>	9	248,974	293,096	-	-
<b>FINANCE PAYABLES</b>	10	394,036	464,831	-	-
<b>DEFERRED TAX LIABILITIES</b>	11	317,000	339,000	-	-
		3,841,876	9,219,049	20,047,696	20,743,956
Represented by:-					
<b>PROPERTY, PLANT AND EQUIPMENT</b>	12	16,727,473	17,998,934	59,679	93,865
<b>LAND HELD FOR PROPERTY DEVELOPMENT</b>	13(a)	19,123,451	17,849,606	-	-
<b>INVESTMENT IN SUBSIDIARY COMPANIES</b>	14	-	-	50,165,991	50,165,991
<b>GOODWILL ON CONSOLIDATION</b>	15	388,612	410,379	-	-
<b>FIXED DEPOSITS WITH A LICENSED BANK</b>	16	539,134	523,335	-	-
<b>CURRENT ASSETS</b>					
Property development costs	13(b)	-	2,293,712	-	-
Inventories	17	8,889,788	14,008,294	-	-
Trade receivables	18	8,195,054	7,211,432	-	-
Other receivables, deposits and prepayments		1,349,840	1,774,530	803,678	1,040,400
Amount due from subsidiary companies	19	-	-	7,405,837	10,699,610
Tax recoverable		66,380	11,438	-	-
Cash and bank balances		63,478	196,475	11,138	10,831
Total current assets		18,564,540	25,495,881	8,220,653	11,750,841
<b>CURRENT LIABILITIES</b>					
Trade payables	20	2,541,706	2,517,067	-	-
Other payables and accruals	21	5,943,826	5,718,023	2,143,096	2,803,449
Amount due to subsidiary companies	19	-	-	20,693,863	14,963,605
Amount due to Directors	22	1,232,961	36,000	1,232,961	36,000
Short term borrowings	9	40,859,630	43,660,374	14,238,316	23,297,473
Finance payables	10	211,616	321,204	-	-
Tax payable		711,595	806,418	90,391	166,214
Total current liabilities		51,501,334	53,059,086	38,398,627	41,266,741
<b>NET CURRENT LIABILITIES</b>		(32,936,794)	(27,563,205)	(30,177,974)	(29,515,900)
		3,841,876	9,219,049	20,047,696	20,743,956

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

## INCOME STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	Group		Company	
		2005 RM	2004 RM	2005 RM	2004 RM
Revenue	23	28,828,987	37,689,287	132,000	132,000
Cost of sales		(24,925,525)	(34,259,194)	-	-
Gross profit		3,903,462	3,430,093	132,000	132,000
Other operating income		138,051	347,207	1,633,827	1,808,706
Selling and distribution expenses		(1,378,254)	(1,832,215)	-	-
Administration expenses		(5,187,385)	(5,599,870)	(252,540)	(274,684)
Other operating expenses		(1,423,388)	(266,227)	(1,134,341)	(3,500,000)
(Loss)/Profit from operations		(3,947,514)	(3,921,012)	378,946	(1,833,978)
Finance costs		(1,732,543)	(1,955,767)	(1,646,706)	(1,812,361)
Loss before taxation	24	(5,680,057)	(5,876,779)	(1,267,760)	(3,646,339)
Taxation	25	18,975	498,748	-	57,444
Loss after taxation		(5,661,082)	(5,378,031)	(1,267,760)	(3,588,895)
Minority interests		419	(346)	-	-
Net loss for the year		(5,660,663)	(5,378,377)	(1,267,760)	(3,588,895)
Loss per share (sen)					
- Basic	26	(25.0)	(25.0)		

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

## STATEMENTS OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 31 DECEMBER 2005

Group	Share capital RM	Share premium RM	Exchange translation reserve RM	(Accumulated losses)/ Retained profits RM	Total RM
Balance at 1 January 2004	20,340,000	270,000	(42,784)	(9,699,803)	10,867,413
Issue of ordinary shares pursuant to ESOS	1,758,400	603,000	-	-	2,361,400
Foreign exchange differences, representing net profits not recognised in income statements	-	-	197,314	-	197,314
Net loss for the year	-	-	-	(5,378,377)	(5,378,377)
Balance at 31 December 2004	22,098,400	873,000	154,530	(15,078,180)	8,047,750
Issue of ordinary shares pursuant to ESOS	571,500	-	-	-	571,500
Foreign exchange differences representing net losses not recognised in income statements	-	-	(150,674)	-	(150,674)
Net loss for the year	-	-	-	(5,660,663)	(5,660,663)
Balance at 31 December 2005	22,669,900	873,000	3,856	(20,738,843)	2,807,913
<b>Company</b>					
Balance at 1 January 2004	20,340,000	270,000	-	1,361,451	21,971,451
Issue of ordinary shares pursuant to ESOS	1,758,400	603,000	-	-	2,361,400
Net loss for the year	-	-	-	(3,588,895)	(3,588,895)
Balance at 31 December 2004	22,098,400	873,000	-	(2,227,444)	20,743,956
Issue of ordinary shares pursuant to ESOS	571,500	-	-	-	571,500
Net loss for the year	-	-	-	(1,267,760)	(1,267,760)
Balance at 31 December 2005	22,669,900	873,000	-	(3,495,204)	20,047,696

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



# CASH FLOW STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2005

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss before taxation	(5,680,057)	(5,876,779)	(1,267,760)	(3,646,339)
<b>Adjustments for:</b>				
Amortisation of goodwill	21,767	21,767	-	-
Bad debts written off	141,780	35,808	-	-
Depreciation	1,608,677	1,722,553	37,136	43,717
Loss/(Gain) on disposal of property, plant and equipment	37,300	(206,456)	-	-
Impairment loss on investment in subsidiary companies	-	-	-	3,500,000
Interest expenses	1,360,886	1,597,612	1,633,827	1,808,706
Interest income	(68,489)	(17,332)	(1,633,827)	(1,808,706)
Property, plant and equipment written off	8,200	-	-	-
Provision for doubtful debts	-	226,751	-	-
Provision for obsolete inventories	80,000	-	-	-
Operating loss before working capital changes	(2,489,936)	(2,496,076)	(1,230,624)	(102,622)
Changes in working capital:-				
Directors	1,196,961	(60,089)	1,196,961	(43,089)
Inventories	4,829,444	(1,973,781)	-	-
Payables	285,238	(420,456)	(660,353)	(932,343)
Receivables	(839,157)	(881,461)	236,722	(580,111)
Property development costs	2,293,712	4,049,105	-	-
Subsidiary companies	-	-	9,024,031	(4,550,703)
Cash generated from/(used in) operations	5,276,262	(1,782,758)	8,566,737	(6,208,868)
Interest paid	(1,176,722)	(1,225,089)	(1,633,827)	(1,436,183)
Tax refund	5,175	-	-	-
Tax paid	(160,165)	(76,803)	(75,823)	-
Net cash generated from/(used in) operating activities	3,944,550	(3,084,650)	6,857,087	(7,645,051)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Development expenditure on lands held for development	(937,230)	(1,049,987)	-	-
Interest received	68,489	17,332	1,633,827	1,808,706
Proceeds from disposal of property, plant and equipment	158,145	400,587	-	-
Purchase of property, plant and equipment (Note A)	(339,441)	(942,786)	(2,950)	-
Net cash (used in)/generated from investing activities	(1,050,037)	(1,574,854)	1,630,877	1,808,706

# CASH FLOW STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2005

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Bankers' acceptances	(174,563)	5,477,706	(5,442,563)	3,419,725
Bills payables	(776,848)	(2,031,870)	-	-
Trust receipts	202,640	28,238	-	-
Revolving credits	(1,776,120)	-	(1,776,120)	-
Export credit refinancing	(440,787)	(1,707,804)	(440,787)	(1,707,804)
Placement of fixed deposit	(15,799)	(17,324)	-	-
Proceeds from issuance of shares	571,500	2,361,400	571,500	2,361,400
Repayment of finance payables	(388,521)	(301,101)	-	-
Repayment of term loans	(164,833)	(436,453)	-	-
Net cash (used in)/generated from financing activities	(2,963,331)	3,372,792	(7,087,970)	4,073,321
<b>CASH AND CASH EQUIVALENTS</b>				
Net changes	(68,818)	(1,286,712)	1,399,994	(1,763,024)
At beginning of year	(11,406,381)	(10,120,522)	(8,104,758)	(6,341,734)
Exchange differences	14,366	853	-	-
At end of year (Note B)	(11,460,833)	(11,406,381)	(6,704,764)	(8,104,758)

### NOTES TO CASH FLOW STATEMENTS

#### A. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM558,034 (2004: RM1,284,606) of which RM218,593 (2004: RM341,820) was acquired by means of hire purchase. Cash payments of RM339,441 (2004: RM942,786) were made to purchase the property, plant and equipment.

#### B. CASH AND CASH EQUIVALENTS COMPRISE OF:-

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Bank overdrafts	(11,524,311)	(11,602,856)	(6,715,902)	(8,115,589)
Cash and bank balances	63,478	196,475	11,138	10,831
	(11,460,833)	(11,406,381)	(6,704,764)	(8,104,758)

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

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and of the Company have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

## 2. GOING CONCERN

As at 31 December 2005, the Group and the Company reflected an accumulated losses of RM20.74 million and RM3.50 million respectively and the Group's and the Company's total current liabilities exceeded their total current assets by RM32.94 million and RM30.18 million respectively.

The Group is in the midst of formulating a new plan to regularise its financial condition after taking into consideration the present status of the previous Proposed Corporate Exercise Scheme as mentioned in Note 33(d) and Note 9 to the financial statements respectively. Accordingly, the ability of the Group and the Company to continue as a going concern is dependent on the formulation, approval and implementation on the proposed restructuring plan, profitable operation, positive cash flows and financial support of the shareholders.

The financial statements of the Group and of the Company do not include any adjustments relating to amounts and classifications of assets and liabilities that might be necessary should the Group and the Company be unable to continue as going concern.

## 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its risks. The Group operates within guidelines approved by the Board and the Group's policy is not to engage in speculative transactions.

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activity are set out as follows:-

### (a) Foreign exchange risk

One of the subsidiary companies is exposed to Australian Dollar. The Group operates locally and is not exposed to significant foreign currency risk as the majority of the Group's transactions, assets and liabilities are denominated in Ringgit Malaysia. Foreign currency denominated liabilities together with expected future cash flows from highly probable purchases give rise to foreign exchange exposures.

Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

### (b) Interest rate risk

The Group's investment in financial assets is interest bearing debts which are short term in nature.

The Group manages its interest exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group actively reviews its debt portfolio by taking into account the investment holding period and nature of the assets. This strategy allows the Group to capitalise on cheaper funding in a low interest rate environment and achieve a comfortable level of protection against rate hikes.

### (c) Market risk

For key product purchase, the Group establishes floating and fixed priced levels that the Group considers acceptable and enters physical supply or derivative agreements, where necessary, to achieve these levels.

### (d) Credit risk

The management has in place a credit risk policy to monitor and minimise the exposure of counter party default which is controlled by the application of credit approval, limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Group's association to business partners with high credit worthiness. Trade receivables are monitored on a regular and an ongoing basis via Group's management reporting procedures.

The Group has no significant concentration of credit risk that may arise from exposure to a single receivable or to group of receivables.

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

### (e) Liquidity and cash flow risks

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. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements.

The Group also strives to maintain available banking facilities of a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from both capital market and financial institutions and prudently balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### (a) Accounting convention

The financial statements of the Group and of the Company have been prepared under the historical cost convention except for the revaluation of investment in subsidiary companies and unless otherwise indicated in the other significant accounting policies.

### (b) Basis of consolidation

The consolidated financial statements included the financial statements of the Company and all its subsidiary companies.

Subsidiary companies are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiary companies acquired or disposed during the year are included in the consolidated income statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The assets and liabilities of a subsidiary company are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheets. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary company at the date of acquisition is included in the consolidated balance sheets as goodwill or reserves arising on consolidation.

All significant inter group transactions, balances are eliminated on consolidation and the consolidated financial statements reflect external transactions only. The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences which were not previously recognised in the consolidated income statements.

### (c) Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary company at the date of acquisition.

Goodwill is stated at cost less accumulated amortisation and impairment loss. The policy for the recognition and measurement of impairment loss is in accordance with Note 4 (x).

Goodwill is amortised on a straight-line basis over its estimated useful life. Goodwill is amortised over 25 years from the following year of acquisition.

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (d) **Subsidiary companies**

Subsidiary companies are those companies in which the Group has a long term interest of more than 50% of the equity capital and in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from its activities.

Investments in subsidiary companies are stated at cost less impairment loss. The policy for recognition and measurement of impairment loss is in accordance with Note 4 (x). On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is recognised in the income statement.

### (e) **Minority interests**

Minority interest is measured at the minorities' share of the post acquisition fair values of the identifiable assets and liabilities of the acquiree and advances received from the minority shareholders.

### (f) **Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss.

The policy for the recognition and measurement of impairment loss is in accordance with Note 4 (x).

Freehold land and work in progress are not depreciated. All other property, plant and equipment are depreciated on a straight line method to write off the cost of each property, plant and equipment over their estimated useful lives. The principal annual rates of depreciation used are as follows:-

Buildings	2%
Plant and machinery	5 – 33%
Office furniture, fittings and equipment	5 – 10%
Motor vehicles	10 – 20%

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

### (g) **Land held for property development and property development costs**

#### (i) **Land held for property development**

Land held for property development consists of land where no development activities have been carried out or where development activities are not expected to be completed within the normal operating cycle. Such land is classified within non-current assets and is stated at cost less any accumulated impairment loss. The policy for the recognition and measurement of impairment loss is in accordance with Note 4 (x).

Land held for property development is reclassified as property development costs at the point when development activities have commenced and where it can be demonstrated that the development activities can be completed within the normal operating cycle.

#### (ii) **Property development costs**

Property development costs comprise all costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities.

When the financial outcome of a development activity can be reliably estimated, property development revenue and expenses are recognised in the income statement by using the stage of completion method. The stage of completion is determined by the survey of work performed.

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (g) Land held for property development and property development costs (cont'd)

#### (ii) Property development costs (cont'd)

Where the financial outcome of a development activity cannot be reliably estimated, property development revenue is recognised only to the extent of property development cost incurred that is probable will be recoverable, and property development costs on properties sold are recognised as an expense in the period in which they are incurred.

Any expected loss on a development project, including costs to be incurred over the defects liability period is recognised as an expense immediately.

Property development cost not recognised as an expenses are recognised as an asset, which is measured at the lower of cost and net realisable value.

The excess of revenue recognised in the income statement over billings to purchasers is classified as accrued billings and the excess of billings to purchasers over revenue recognised in the income statement is classified as progress billings.

#### (h) Construction contracts

Where the outcome of a construction contract can be reliably estimated, contract revenue and contract costs are recognised as revenue and expenses respectively by using the stage of completion method. The stage of completion is measured by reference to the survey of work performed.

Where the outcome of a construction contract cannot be reliably estimated, contract revenue is recognised to the extent of contract costs incurred that it is probably will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

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

When the total costs incurred on construction contracts plus, recognised profits (less recognised losses), exceeds progress billings, the balance is classified as amount due from customers. When progress billings exceeds costs incurred plus, recognised profits (less recognised losses), the balance is classified as amount due to customers.

#### (i) Inventories

Inventories of raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value less provision for obsolete and slow moving items. Cost is determined on the first-in-first-out basis.

Cost of raw materials comprises the cost of purchase plus the cost of bringing the inventories to their present location and condition.

Cost of work-in-progress and finished goods consist of raw materials, direct labour, other direct costs and an appropriate proportion of production overheads.

#### (j) Provisions for liabilities

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (k) Receivables

Trade and other receivables are carried at anticipated realisable value. Bad debts are written off when they are identified. Specific provision is made for debts that are considered doubtful of collection based on a review of all outstanding amounts on a periodic basis.

### (l) Payables

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

### (m) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

#### i) Sale of goods

Revenue from sale of goods is recognised net of discounts when transfer of risks and rewards has been completed.

#### ii) Revenue from services

Revenue from services rendered is recognised net of taxes and discounts as and when the services are performed.

#### iii) Interest income

Interest income is recognised on a time proportion basis that reflects the effective yield on the asset.

#### iv) Sale of properties

Revenue from sale of properties is accounted for by the stage of completion method as described in Note 4 (g) (ii).

#### v) Construction contract

Revenue from construction contract is accounted for by the stage of completion method as described in Note 4 (h).

#### vi) Property management income

Revenue from property management income is recognised when services are rendered and invoice issued to customers. Revenue are recognised net of sales and service tax, where applicable.

### (n) Foreign currencies

#### i) Foreign currency transactions

Foreign currency transactions are initially converted into Ringgit Malaysia at rates of exchange prevailing at the transaction dates. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates prevailing at the date. Non-monetary items which are carried at historical cost are translated using the historical rate as of the date of acquisition and non monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined.

All exchange rate differences are taken to the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (n) Foreign currencies (cont'd)

#### ii) Foreign entities

Financial statements of foreign consolidated subsidiary company are translated at year end exchange rate with respect to the assets and liabilities, and at exchange rates at the dates of the transactions with respect to the income statement. All resulting translation differences are included in the foreign exchange reserve in shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the Company and translated at the exchange rate ruling at the date of the transaction.

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

	2005 RM	2004 RM
Australian Dollar	2.77	3.00
United States Dollar	3.80	3.80

### (o) Share capital

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

External costs directly attributable to the issue of new shares are shown as a deduction, net of tax in equity from the proceeds.

### (p) Interest-bearing borrowings

Interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received net of transaction costs. Borrowing costs are charged to the income statement as an expense in the period in which they are incurred.

Interest incurred on borrowings relating to the construction of property, plant and equipment is capitalised until the assets are ready for their intended use. Borrowing costs relating to development properties are capitalised during the period of active development until they are ready for their intended purposes.

### (q) Income tax

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

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary differences arise from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.



# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (q) Income tax (cont'd)

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

### (r) Property, plant and equipment acquired under finance lease and hire purchase arrangements

The cost of property, plant and equipment acquired under finance lease and hire purchase arrangements are capitalised. The depreciation policy on these property, plant and equipment is similar to that of the Group's property, plant and equipment depreciation policy. Outstanding obligation due under the finance lease or hire purchase agreements after deducting finance expenses are included as liabilities in the financial statements. Finance charges on finance lease or hire purchase agreements are allocated to income statement over the period of the respective agreements.

### (s) Financial instruments

Financial instruments carried on the balance sheets include cash and bank balances, investments, receivables, payables and bank borrowings. 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 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 assets and settle the liability simultaneously.

### (t) Cash and cash equivalents

Cash comprises of cash and bank balances, bank overdraft and demand deposits. Cash equivalents are 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.

### (u) Employee benefits

#### (i) Short term benefits

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

#### (ii) Defined contribution plans

Obligations for contributions to defined contribution plans such as Employees Provident Fund ("EPF") are recognised as an expense in the income statement as incurred.

#### (iii) Equity compensation benefits

The Company's Employee Share Option Scheme ("ESOS") allows the Group's employees to acquire shares of the Company. No compensation cost or obligation is recognised. When the options are exercised, equity is increased by the amount of the proceeds received.

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (v) Segmental results

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

### (w) Intersegment transfers

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

### (x) Impairment of assets

The carrying values of assets are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of net realisable value and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash generating unit.

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

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

## 5. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The principal activity of the Company is investment holding. The principal activities of its subsidiary companies are disclosed in Note 14 to the financial statements.

There have been no significant changes in the nature of these activities during the year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Second Board of Bursa Malaysia Securities Berhad. The registered office and principal place of business of the Company is located at Lot 450, Jalan Papan, Pandamaran Industrial Area, 42000 Port Klang, Selangor Darul Ehsan.

The financial statements were authorised for issue by the Board of Directors in accordance with a Resolution of the Directors on 22 April 2006.

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 6. SHARE CAPITAL

	Group and Company	
	2005 RM	2004 RM
Authorised:		
Ordinary shares of RM1 each	25,000,000	25,000,000
Issued and fully paid:		
Ordinary shares of RM1 each		
At beginning of year	22,098,400	20,340,000
Issued during the year	571,500	1,758,400
At end of year	22,669,900	22,098,400

## 7. SHARE PREMIUM

	Group and Company	
	2005 RM	2004 RM
Non distributable:-		
At beginning of year	873,000	270,000
Arising from issuance of share	-	603,000
At end of year	873,000	873,000

## 8. EXCHANGE TRANSLATION RESERVE

	Group	
	2005 RM	2004 RM
Non distributable:-		
At beginning of year	154,530	(42,784)
Foreign exchange differences, representing net (losses)/profits not recognised in the income statements	(150,674)	197,314
At end of year	3,856	154,530

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 9. BORROWINGS

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
<b>Long term borrowings</b>				
Secured:				
Term loan 1	5,019,226	4,682,610	-	-
Al-Bai Bithaman Ajil	335,493	408,965	-	-
	5,354,719	5,091,575	-	-
Less: Due within one year	(5,105,745)	(4,798,479)	-	-
	248,974	293,096	-	-
<b>Short term borrowings</b>				
Secured:				
Bank overdrafts	11,295,084	10,135,465	6,715,902	6,898,247
Bills payables	154,964	563,742	-	-
Bankers' acceptances	12,442,000	12,661,000	-	5,487,000
Export credit refinancing	3,120,150	3,560,937	3,120,150	3,560,937
Revolving credits	5,423,880	7,200,000	3,223,880	5,000,000
Term loan 2	-	63,787	-	-
Trust receipts	230,878	28,238	-	-
Long term borrowings due within one year	5,105,745	4,798,479	-	-
	37,772,701	39,011,648	13,059,932	20,946,184
Unsecured:				
Bank overdrafts	229,227	1,467,391	-	1,217,342
Bankers' acceptances	1,178,384	1,133,947	1,178,384	1,133,947
Bills payables	1,679,318	2,047,388	-	-
	3,086,929	4,648,726	1,178,384	2,351,289
	40,859,630	43,660,374	14,238,316	23,297,473

### Long term borrowings

(a) The long term borrowings obtained from financial institutions are secured by means of:-

- (i) Term loan 1 - First party first legal charge over a subsidiary company's landed properties, assignment of sales proceeds in respect of a proposed project by a subsidiary company, corporate guarantee by the Company and a letter of understanding from another subsidiary company to meet any debts obligation in the event of default by the said subsidiary company.

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 9. BORROWINGS (cont'd)

### Long term borrowings (cont'd)

- (a) The long term borrowings obtained from financial institutions are secured by means of:- (cont'd)
- (ii) Term loan 2 - Third party charge over a landed property of a company in which the Directors have interest and corporate guarantee by the Company.  
  
However, this loan has been fully settled during the year.
  - (iii) Al-Bai Bithaman Ajil - Corporate guarantee by the Company and a debenture by way of first fixed charge on the machinery financed by the bank.
- (b) The long term borrowings carry interest at rates ranging from 6.0% to 8.5% (2004: 6.0% to 8.9%) per annum.

### Short term borrowings

#### Group

Short term borrowings are secured by landed properties of a Director and of a company in which certain Directors have interest, landed properties and office lot of subsidiary companies, a pledge of fixed deposits of a subsidiary company, negative pledges over other assets of certain subsidiary companies and corporate guarantees executed by the Company.

#### Company

- (a) Short term borrowings are secured by means of:-
- (i) third party first legal charge over landed properties of a Director and a company in which certain Directors have interest;
  - (ii) third party first fixed charge over landed properties of a subsidiary company; and
  - (iii) negative pledge over assets of the Company.
- (b) The short term borrowings are obtained at interest rates ranging from 2.9% to 9.6% (2004: 2.9% to 9.6%) per annum.
- (c) On 11 April 2005, the Company together with its certain subsidiary companies entered into a Debt Restructuring Agreement with all its schemed licensed banks to undertake the Proposed Debt Settlement for the following banking facilities outstanding as at 30 September 2004 together with interests accrued from 1 October 2003 to 30 September 2004 as disclosed in Note 33 (a) and 33 (d).

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 9. BORROWINGS (cont'd)

### Short term borrowings (cont'd)

#### Company (cont'd)

	2004 RM
<b>Secured</b>	
Term loan I	4,526,491
Bank overdrafts	8,200,194
Bankers' acceptances and trust receipts	2,890,504
Export credit refinancing	2,269,499
Revolving credits	7,763,016
<b>Unsecured</b>	
Bank overdrafts	1,199,116
Bankers' acceptances	1,117,052
	27,965,872

However, the Securities Commission has rejected the Proposed Corporate Exercise which consists of the Proposed Debt Settlement on 22 February 2006. Subsequently, the Board of Directors of the Company is in the midst of deliberating new course of action in respect of the rejection.

## 10. FINANCE PAYABLES

	Group	
	2005 RM	2004 RM
Payable within 1 year	258,197	401,432
Payable after 1 year but not later than 5 years	476,050	503,393
Payable after 5 years	14,894	51,568
	749,141	956,393
Less: Interest in suspense	(143,489)	(170,358)
	605,652	786,035
Present value of finance payables		
- within 1 year	211,616	321,204
- after 1 year but not later than 5 years	382,272	423,002
- after 5 years	11,764	41,829
	605,652	786,035

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 11. DEFERRED TAX LIABILITIES

	Group	
	2005 RM	2004 RM
At beginning of year	339,000	610,000
Transfer to income statements (Note 25)	(22,000)	(271,000)
At end of year	317,000	339,000

The balance in the deferred tax liabilities are made up of temporary differences arising from:-

Capital allowances in excess of depreciation	351,000	372,000
Unabsorbed capital allowances	(34,000)	(33,000)
	317,000	339,000

As at 31 December 2005, the Group and the Company has deferred tax assets not recognised in the financial statements as follows:-

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Tax effects of:				
- temporary differences between capital allowances and depreciation	1,104,200	1,063,300	15,200	24,000
- unutilised tax losses	(3,298,600)	(2,334,500)	(121,400)	(123,700)
- unabsorbed capital allowances	(796,300)	(630,500)	(17,100)	(17,100)
- others	(22,300)	-	-	-
- temporary difference on property development loss recognition	(174,000)	(298,000)	-	-
	(3,187,000)	(2,199,700)	(123,300)	(116,800)

The potential deferred tax assets of the Group and of the Company have not been recognised in respect of these items as it is not probable that future taxable profits will be available against which the respective subsidiary companies and the Company can utilise the benefits.

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 12. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings RM	Plant and machinery RM	Motor vehicles RM	Office furniture, and equipment RM	Building in progress RM	Total 2005 RM	Total 2004 RM
<b>Cost</b>							
At beginning of year	11,346,054	19,356,066	1,693,866	1,261,453	322,557	33,979,996	33,679,271
Additions	26,413	265,300	235,081	31,240	-	558,034	1,284,606
Disposals	-	(33,912)	(267,697)	-	-	(301,609)	(1,058,111)
Written off	-	(82,000)	-	-	-	(82,000)	-
Translation difference	-	(18,629)	(38,445)	(1,512)	-	(58,586)	74,230
At end of year	11,372,467	19,486,825	1,622,805	1,291,181	322,557	34,095,835	33,979,996
<b>Accumulated depreciation</b>							
At beginning of year	1,518,236	12,751,690	718,128	993,008	-	15,981,062	15,072,474
Charge for the year	234,531	1,078,050	201,335	94,761	-	1,608,677	1,722,553
Disposals	-	(14,317)	(91,846)	-	-	(106,163)	(863,980)
Written off	-	(73,800)	-	-	-	(73,800)	-
Translation difference	-	(15,278)	(24,947)	(1,189)	-	(41,414)	50,015
At end of year	1,752,767	13,726,345	802,670	1,086,580	-	17,368,362	15,981,062
<b>Net book Value</b>							
2005	9,619,700	5,760,480	820,135	204,601	322,557	16,727,473	-
2004	9,827,818	6,604,376	975,738	268,445	322,557	-	17,998,934
<b>Depreciation charged for the year ended 31 December 2004</b>							
	230,244	1,223,203	163,006	106,100	-	-	1,722,553



# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 12. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Company	Office furniture, fittings and equipment RM	Motor vehicles RM	Total 2005 RM	Total 2004 RM
<b>Cost</b>				
At beginning of year	622,057	18,973	641,030	641,030
Additions	2,950	-	2,950	-
At end of year	625,007	18,973	643,980	641,030
<b>Accumulated depreciation</b>				
At beginning of year	528,947	18,218	547,165	503,448
Charge for the year	36,759	377	37,136	43,717
At end of year	565,706	18,595	584,301	547,165
<b>Net book value</b>				
2005	59,301	378	59,679	-
2004	93,110	755	-	93,865
Depreciation charged for the year ended 31 December 2004	43,340	377	-	43,717

### Group

(a) Net book value of property, plant and equipment held under hire purchase arrangements are as follows:-

	Group	
	2005 RM	2004 RM
Plant and machinery	156,680	499,790
Motor vehicles	673,794	766,025
	830,474	1,265,815

(b) The buildings with net book value amounted to RM532,087 (2004: RM548,914) are pledged to licensed banks for banking facilities granted to the Group.

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 13. LAND HELD FOR PROPERTY DEVELOPMENT AND PROPERTY DEVELOPMENT COSTS

### (a) Land held for property development

	Group	
	2005 RM	2004 RM
At cost:-		
Leasehold land	5,380,110	5,380,110
Freehold land	2,223,187	2,223,187
Development expenditure	15,295,718	14,021,873
	<u>22,899,015</u>	<u>21,625,170</u>
Less: Impairment loss	(3,775,564)	(3,775,564)
	<u>19,123,451</u>	<u>17,849,606</u>
At beginning of year	17,849,606	22,566,050
Development expenditure incurred	1,273,845	1,626,373
Transfer to property development costs	-	(6,342,817)
At end of year	<u>19,123,451</u>	<u>17,849,606</u>

The freehold and leasehold lands of the Group with carrying value of RM7,603,297 (2004: RM7,603,297) have been pledged to licensed banks as part of the securities for banking facilities extended to the Company and a subsidiary company.

Included in development expenditure of the Group is loan interest amounting to RM1,057,736 (2004:RM1,581,003) capitalised during the year (Note 24).

The individual separate title of the leasehold lot has yet to be issued by the local authorities.

### (b) Property development costs

	Group	
	2005 RM	2004 RM
At beginning of year	2,293,712	-
Cost incurred during the year:		
Development cost	2,603,309	2,559,221
Costs recognised in income statement	(4,897,021)	(6,608,326)
Transfer from land held for property development	-	6,342,817
At end of year	<u>-</u>	<u>2,293,712</u>
Property development cost at end of year:		
Land	3,351,313	3,351,313
Development cost	8,122,753	5,550,725
Accumulated costs charged to income statement	(11,474,066)	(6,608,326)
	<u>-</u>	<u>2,293,712</u>

Included in development expenditure of the Group is loan interest amounting to RM493,140 (2004:RMNil) capitalised during the year (Note 24).

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 14. INVESTMENT IN SUBSIDIARY COMPANIES

	Company	
	2005 RM	2004 RM
Unquoted shares, in Malaysia		
At cost	46,780,002	46,780,002
Less: Impairment loss	(4,700,000)	(4,700,000)
	42,080,002	42,080,002
At valuation in year 1993	15,085,989	15,085,989
Less: Impairment loss	(7,000,000)	(7,000,000)
	8,085,989	8,085,989
	50,165,991	50,165,991

A detailed list of subsidiary companies is as follows:-

Name of company	% Effective interest		Principal activities	Country of incorporation
	2005	2004		
Harvest Court (M) Sdn. Bhd.	100	100	Sawmilling and marketing of sawn timber.	Malaysia
Harvest Court Marketing Sdn. Bhd.	100	100	Marketing of timber doors and other related products.	Malaysia
Harvest Lumber Sdn. Bhd.	100	100	Manufacturing and marketing of timber doors and other related products.	Malaysia
Harvest Court Corporation Sdn. Bhd.	100	100	Manufacturing and marketing of timber doors and other related products.	Malaysia
Harvest Exporter Sdn. Bhd.	100	100	Sawn timber export and related products.	Malaysia
Quantum Pro Sdn. Bhd.	100	100	Timber kiln drying.	Malaysia
Harvest Court Properties Sdn. Bhd.	100	100	Property development.	Malaysia
Harvest Rimba Sdn. Bhd.	98.8	98.8	Property development and jetty operation.	Malaysia
Harvest Court Management Sdn. Bhd.	100	100	Investment holding.	Malaysia
Harvest Court Development Sdn. Bhd.	100	100	Construction.	Malaysia
Harvest Nation Sdn. Bhd.	100	100	Dormant.	Malaysia
Timbeck (M) Sdn. Bhd.	100	100	Dormant.	Malaysia
<b>Held by Harvest Court Management Sdn. Bhd.:-</b>				
Timbeck (M) Sdn. Bhd.	100	100	Dormant.	Malaysia
Harvest Timber Products (Australia) * Pty. Ltd.	100	100	Marketing of wood-based products	Australia

\* Subsidiary company not audited by Shamsir Jasani Grant Thornton.

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 15. GOODWILL ON CONSOLIDATION

	Group	
	2005 RM	2004 RM
At beginning of year	544,178	544,178
Less: Accumulated amortisation	(155,566)	(133,799)
At end of year	388,612	410,379

## 16. FIXED DEPOSITS WITH A LICENSED BANK

### Group

The fixed deposits have been pledged to a licensed bank for banking facilities granted to the Group.

## 17. INVENTORIES

	Group	
	2005 RM	2004 RM
At cost:-		
Raw materials	557,347	1,784,376
Work-in-progress	1,701,646	7,340,494
Finished goods	3,896,252	4,883,424
	6,155,245	14,008,294
At net realisable value:-		
Work-in-progress	2,734,543	-
	8,889,788	14,008,294

## 18. TRADE RECEIVABLES

	Group	
	2005 RM	2004 RM
Trade receivables	8,421,805	7,438,183
Less: Provision for doubtful debts	(226,751)	(226,751)
	8,195,054	7,211,432

Credit terms of trade receivables range from 30 days to 180 days.

## 19. AMOUNT DUE FROM/(TO) SUBSIDIARY COMPANIES

### Company

The amounts due from/(to) subsidiary companies are unsecured, interest free and have no fixed term of repayment.

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 20. TRADE PAYABLES

	Group	
	2005 RM	2004 RM
Trade payables	2,541,706	2,467,292
Progress billings in respect of property development costs	-	49,775
	<u>2,541,706</u>	<u>2,517,067</u>

Credit terms of trade payables range from 30 days to 180 days.

## 21. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Other payables	2,690,150	1,814,776	322,671	246,531
Accruals	2,849,676	3,435,915	1,820,425	2,493,586
Amount due to related parties	404,000	467,332	-	63,332
	<u>5,943,826</u>	<u>5,718,023</u>	<u>2,143,096</u>	<u>2,803,449</u>

Related parties refer to companies in which certain Directors, Ng Chuan Seng @ Ng Teck Huat, Ng Swee Kiat, Ng Ai Cheng and Ng Swee Keong have substantial financial interest. These amounts are unsecured, interest free and have not fixed term of repayment.

## 22. AMOUNT DUE TO DIRECTORS

### Group and Company

The amount due to Directors is unsecured, interest free and has no fixed term of repayment.

## 23. REVENUE

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Jetty service income	903,835	412,224	-	-
Management fees from subsidiary companies	-	-	132,000	132,000
Property development revenue	4,250,425	4,436,575	-	-
Sales of goods	23,674,727	32,765,488	-	-
Management fees from a company in which certain Directors have interest	-	75,000	-	-
	<u>28,828,987</u>	<u>37,689,287</u>	<u>132,000</u>	<u>132,000</u>

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 24. LOSS BEFORE TAXATION

Loss before taxation has been determined after charging/(crediting) amongst other items the following:-

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Audit fee	61,500	61,500	19,000	19,000
Amortisation of goodwill associated company	21,767	21,767	-	-
Bad debts written off	141,780	35,808	-	-
Corporate exercise expenses	1,134,341	-	-	-
Depreciation	1,608,677	1,722,553	37,136	43,717
Director's remuneration				
- fees	24,000	48,000	24,000	48,000
- other emoluments	649,040	820,460	11,600	4,050
Impairment loss on investment in subsidiary companies	-	-	-	3,500,000
Interest expenses:				
- bank overdrafts	323,850	236,915	692,596	632,093
- bankers' acceptances	337,848	386,675	143,895	298,511
- bills payables	156,796	88,413	-	-
- export credit refinancing	266,039	505,578	266,039	505,578
- finance payables	59,805	53,521	-	-
- revolving credits	141,035	249,703	382,329	372,524
- term loans	27,732	47,913	-	-
- trust receipts	481	1,108	-	-
- others	47,300	27,786	148,968	-
Loss/(Gain) on disposal of property, plant and equipment	37,300	(206,456)	-	-
Property, plant and equipment written off	8,200	-	-	-
Provision for doubtful debts - specific	-	226,751	-	-
Provision for obsolete inventories				
- general	80,000	-	-	-
Rental of premises paid to companies in which certain Directors have interest	36,000	294,000	-	-
Rental of premises paid to a Director	-	72,000	-	-
Interest income:				
- fixed deposits	(15,799)	(17,332)	-	-
- others	(52,690)	-	-	-
Rental income	(63,670)	(82,000)	-	-
Interest expense reimbursed by subsidiary companies	-	-	(1,633,827)	(1,808,706)

The estimated monetary value of benefits provided to the Directors of the Group during the year is amounted to RM26,400 (2004: RM26,400)

Excluded from the interest expense of the Group is an amount of RM1,550,876 (2004: RM1,581,003) being capitalised as development expenditure (Note 13 (a) and (b)).

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 25. TAXATION

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Provision for current year				
- Malaysian income tax	-	59,000	-	-
- Overseas taxation	-	63,875	-	-
Over provision in previous year	-	(350,623)	-	(57,444)
	-	(227,748)	-	(57,444)
Real property gain tax under-provided in prior year	3,025	-	-	-
Transfer from deferred taxation (Note 11)	(22,000)	(271,000)	-	-
	(18,975)	(498,748)	-	(57,444)

There is no provision for taxation for the Company as the Company has no chargeable income.

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

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Loss before taxation	(5,680,057)	(5,876,779)	(1,267,760)	(3,646,339)
Income tax at rate of 28%	(1,590,416)	(1,645,498)	(354,973)	(1,020,975)
Tax effect in respect of:				
Non-allowable expenses	654,394	258,406	348,623	1,034,018
Underprovision of unrecognised deferred tax assets in prior year	-	(118,560)	-	-
Utilisation of previously unrecognised temporary difference on property development loss	(435,734)	-	-	-
Tax savings from utilisation of capital allowances	(384)	-	-	-
Tax savings from utilisation of tax losses	(2,282)	(59,650)	(2,282)	(13,043)
Deferred tax assets not recognised in the financial statements	1,405,981	1,908,072	8,632	-
Expenses subject to double deduction	(53,559)	(243,561)	-	-
Overprovision of deferred tax liabilities in prior year	-	(230,128)	-	-
Income subject to tax rate of 20% for small medium enterprise	-	(14,728)	-	-
Effect of different tax rate in other country	-	(2,478)	-	-

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 25. TAXATION (cont'd)

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Current year tax expense	(22,000)	(148,125)	-	-
Real property gain tax under-provided in prior year	3,025	-	-	-
Over provision in previous year	-	(350,623)	-	(57,444)
Tax expense for the year	(18,975)	(498,748)	-	(57,444)
Unutilised tax losses carried forward subject to the agreement of tax authority	11,801,200	8,337,800	433,700	441,800
Unabsorbed capital allowances carried forward subject to agreement of tax authority	2,967,800	2,252,100	61,000	61,000
Unabsorbed reinvestment allowances carried forward subject to agreement of tax authority	1,444,700	1,312,000	234,700	234,700

## 26. LOSS PER SHARE

### (a) Basic loss per share

Basic loss per share of the Group is based on the net loss attributable to shareholders of RM5,660,663 (2004: RM5,378,377) and the weighted average number of ordinary shares in issue during the year of 22,571,222 (2004: 21,509,097).

	2005	2004
Net loss attributable to shareholders (RM)	(5,660,663)	(5,378,377)
Weighted average number of ordinary shares in issue	22,571,222	21,509,097
Basic loss per share (Sen)	(25.0)	(25.0)

### (b) Diluted loss per share

For the share options granted to employees, a calculation is done to determine the number of shares that could have been acquired at market price (determined based on the average annual share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. This calculation serves to determine the "unpurchased" shares to be added to the weighted average number of ordinary shares outstanding for the purpose of computing the diluted loss per share. No adjustment is made to net loss attributable to shareholders for the diluted loss per share calculation.

There is no diluted loss per share as there is no potential dilutive ordinary share.



# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 27. EMPLOYEES INFORMATION

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
(a) Staff costs	4,086,657	4,859,896	-	-

- (b) The number of employees of the Group and of the Company at the end of the year were 128 (2004: 156) and Nil (2004: Nil) respectively.

## 28. COMMITMENTS

	Group	
	2005 RM	2004 RM
Approved and contracted for:		
- Buildings	800,000	800,000

## 29. CONTINGENT LIABILITIES AND OBLIGATION

As at the balance sheet date, the contingent liabilities and obligations are in respect of:-

### (a) Guarantees (unsecured)

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Corporate guarantees given to:-				
- banks in respect of banking facilities granted to subsidiary companies	-	-	16,865,000	16,865,000
- third parties in respect of goods sold/services rendered to subsidiary companies	600,000	600,000	600,000	600,000

### (b) Litigation

#### Group

- (i) Legal suit filed by Kilang Papan Galas Setia (Kelantan) Sdn. Bhd. against the Company for the alleged sum of RM428,827 in respect of the disputed raw material sold and delivered to the Company.
- (ii) Legal suit filed by France Interdoor Massivholturen GmbH against a subsidiary company, Harvest Court (M) Sdn. Bhd. ("HCM") for the alleged sum of RM3.77 million pertaining to the dispute for goods manufactured and supplied by HCM that were not in accordance with their specifications.

Having regard to legal advice received and in all circumstances, the Directors are of the opinion that these claims are unlikely to succeed and will not give rise to liabilities that would have material effects on the Group's financial position. Accordingly, no provision has been made relating to these claims in the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 30. SIGNIFICANT RELATED PARTY TRANSACTIONS

	2005 RM	2004 RM
<b>Group</b>		
<b>Transactions with companies in which certain Directors have interest</b>		
Rental expenses paid to:		
- Port Klang Jetty Sdn. Bhd.	36,000	264,000
- Wangsa Kita Sdn. Bhd.	-	30,000
Purchases from Double Bay Sdn.Bhd.	-	57,572
Management fee received from Ng Teck Huat & Sons Sdn. Bhd.	-	75,000

In all the above companies, certain of the Directors, Ng Chuan Seng @ Ng Teck Huat, Ng Swee Kiat, Ng Ai Cheng and Ng Swee Keong have substantial interest.

### Transactions with a Director

Rental expenses paid to Ng Chuan Seng @ Ng Teck Huat	-	72,000
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### Company

#### Transactions with subsidiary companies

Management fees from subsidiary companies	132,000	132,000
Interest reimbursed from subsidiary companies	1,633,827	1,808,706

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 terms and conditions that are not materially different from that obtainable in transactions with unrelated parties.

## 31. SEGMENT REPORTING - GROUP

### (a) Primary Segmental Reporting - Business Segments

2005	Timber product manufacturing RM	Construction RM	Property development RM	Investment holding and others RM	Eliminations RM	Consolidated RM
<b>Revenue</b>						
External revenue	23,674,727	-	5,154,260	-	-	28,828,987
Inter-segment revenue	10,046,085	1,923,236	-	132,000	(12,101,321)	-
Total segment revenue	33,720,812	1,923,236	5,154,260	132,000	(12,101,321)	28,828,987

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 31. SEGMENT REPORTING - GROUP (cont'd)

### (a) Primary Segmental Reporting - Business Segments (cont'd)

2005	Timber product manufacturing RM	Construction RM	Property development RM	Investment holding and others RM	Eliminations RM	Consolidated RM
<b>Results</b>						
Segment loss from operations	(1,621,945)	(136,720)	(969,720)	(1,265,851)	-	(3,994,236)
Interest income	15,891	-	52,598	1,633,827	(1,633,827)	68,489
Unallocated corporate expenses						(21,767)
Loss from operations						(3,947,514)
Finance costs	(1,717,834)	(1,034)	(661)	(1,646,841)	1,633,827	(1,732,543)
Loss before taxation						(5,680,057)
Taxation						18,975
Loss after taxation						(5,661,082)
Minority interests						419
Net loss for the year						(5,660,663)
<b>Assets</b>						
Segment assets	33,295,330	78,944	20,635,900	878,044	-	54,888,218
Tax recoverable	58,066	-	7,996	318	-	66,380
Unallocated corporate assets						388,612
Consolidated total assets						55,343,210
<b>Liabilities</b>						
Segment liabilities	26,702,613	1,175,071	5,868,276	17,686,789	-	51,432,749
Deferred tax liabilities	317,000	-	-	-	-	317,000
Tax payable	601,873	-	7,000	102,722	-	711,595
Consolidated total liabilities						52,461,344
<b>Other information</b>						
Capital expenditure on property, plant and equipment	489,232	62,693	3,159	2,950	-	558,034
Depreciation	1,555,534	11,996	3,435	37,712	-	1,608,677

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 31. SEGMENT REPORTING - GROUP (cont'd)

### (a) Primary Segmental Reporting - Business Segments (cont'd)

2004	Timber product manufacturing RM	Construction RM	Property development RM	Investment holding and others RM	Eliminations RM	Consolidated RM
<b>Revenue</b>						
External revenue	32,209,291	631,197	4,848,799	-	-	37,689,287
Inter-segment revenue	13,611,052	2,410,367	-	132,000	(16,153,419)	-
Total segment revenue	45,820,343	3,041,564	4,848,799	132,000	(16,153,419)	37,689,287
<b>Results</b>						
Segment (loss)/profit from operations	(1,910,970)	241,156	(2,153,682)	(91,281)	(1,800)	(3,916,577)
Interest income	17,332	-	-	1,808,706	(1,808,706)	17,332
Unallocated corporate expenses						(21,767)
Loss from operations						(3,921,012)
Finance costs	(1,951,903)	(53)	(116)	(1,812,401)	1,808,706	(1,955,767)
Loss before taxation						(5,876,779)
Taxation						498,748
Loss after taxation						(5,378,031)
Minority interests						(346)
Net loss for the year						(5,378,377)
<b>Assets</b>						
Segment assets	37,535,092	121,672	23,050,272	1,149,282	-	61,856,318
Tax recoverable	6,124	-	4,996	318	-	11,438
Unallocated corporate assets						410,379
Consolidated total assets						62,278,135
<b>Liabilities</b>						
Segment liabilities	21,119,967	652,293	5,075,316	26,163,019	-	53,010,595
Deferred tax liabilities	339,000	-	-	-	-	339,000
Tax payable	620,873	-	7,000	178,545	-	806,418
Consolidated total liabilities						54,156,013

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 31. SEGMENT REPORTING - GROUP (cont'd)

### (a) Primary Segmental Reporting - Business Segments (cont'd)

2004	Timber product manufacturing RM	Construction RM	Property development RM	Investment holding and others RM	Eliminations RM	Consolidated RM
<b>Other information</b>						
Capital expenditure on property, plant and equipment	1,284,606	-	-	-	-	1,284,606
Depreciation	1,674,601	382	3,277	44,293	-	1,722,553

### (b) Secondary segmental reporting - Geographical segment

	Revenue RM	Segment assets RM	Capital expenditure RM
<b>2005</b>			
Malaysia	21,018,771	50,759,349	558,034
Australia	7,810,216	4,128,869	-
	<u>28,828,987</u>	<u>54,888,218</u>	<u>558,034</u>
<b>2004</b>			
Malaysia	29,857,959	56,989,881	1,137,946
Australia	7,831,328	4,866,437	146,660
	<u>37,689,287</u>	<u>61,856,318</u>	<u>1,284,606</u>

Segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to the segments as well as those that can be allocated on a reasonable basis. Unallocated item mainly comprise of goodwill.

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

The main business segments and respective business activity of each segment of the Group are:-

Business segment	Business activity
Timber product manufacturing	Kiln drying, sawmilling, manufacturing of timber doors and related products.
Construction	Contractors in construction works and related maintenance services.
Property development	Development of residential and commercial properties and provision of jetty services.
Investment holding and others	Investment in shares and securities and the provision of marketing and management services.

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 32. FINANCIAL INSTRUMENTS

### (a) Interest rate risk

The interest rate risk that financial instruments' values will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities are as follows:-

Group	Less than 1 year RM	2 to 5 years RM	More than 5 years RM	Total RM	Effective interest rate during the year
<b>2005</b>					
<u>Financial assets</u>					
Fixed deposits with a licensed bank	-	539,134	-	539,134	3.00%
<u>Financial liabilities</u>					
Bank overdrafts	11,524,311	-	-	11,524,311	6.00%-9.60%
Bankers' acceptances	13,620,384	-	-	13,620,384	2.95%-3.45%
Export credit refinancing	3,120,150	-	-	3,120,150	9.50%
Revolving credits	5,423,880	-	-	5,423,880	6.35%-6.90%
Al-Bai Bithaman Ajil	86,519	248,974	-	335,493	8.00%
Bills payables	1,834,282	-	-	1,834,282	7.25%-9.50%
Term loans	5,019,226	-	-	5,019,226	6.00%-8.50%
Trust receipts	230,878	-	-	230,878	3.00%-3.25%
Finance payables	211,616	382,272	11,764	605,652	3.30%-6.00%
<b>2004</b>					
<u>Financial assets</u>					
Fixed deposits with a licensed bank	-	523,335	-	523,335	3.00%
<u>Financial liabilities</u>					
Bank overdrafts	11,602,856	-	-	11,602,856	6.00%-9.60%
Bankers' acceptances	13,794,947	-	-	13,794,947	2.95%-3.45%
Export credit refinancing	3,560,937	-	-	3,560,937	9.50%
Revolving credits	7,200,000	-	-	7,200,000	6.35%-6.90%
Al-Bai Bithaman Ajil	115,869	293,096	-	408,965	8.00%
Bills payables	2,611,130	-	-	2,611,130	7.25%-9.50%
Term loans	4,746,397	-	-	4,746,397	6.00%-8.55%
Trust receipts	28,238	-	-	28,238	3.00%-3.25%
Finance payables	321,204	423,002	41,829	786,035	3.30%-6.00%

# NOTES TO THE FINANCIAL STATEMENTS

- 31 DECEMBER 2005

## 32. FINANCIAL INSTRUMENTS (cont'd)

### (a) Interest rate risk (cont'd)

Company	Less than 1 year RM	Effective interest rate during the year
<b>2005</b>		
<u>Financial liabilities</u>		
Bank overdrafts	6,715,902	9.00% - 9.60%
Bankers' acceptances	1,178,384	3.25% - 3.45%
Revolving credits	3,223,880	6.60% - 6.90%
Export credit refinancing	3,120,150	9.50%
<b>2004</b>		
<u>Financial liabilities</u>		
Bank overdrafts	8,115,589	9.00% - 9.60%
Bankers' acceptances	6,620,947	3.25% - 3.45%
Revolving credits	5,000,000	6.60% - 6.90%
Export credit refinancing	3,560,937	9.50%

### (b) Credit risk

The maximum credit risk associated with recognised financial assets is the carrying amount shown in the balance sheets.

### (c) Fair value

The carrying amounts of all financial assets and liabilities of the Group and of the Company at the balance sheet date approximated their fair values.

## 33. SIGNIFICANT EVENTS

- (a) On 11 April 2005, the Company together with its certain subsidiary companies entered into a Debt Restructuring Agreement with all its schemed licensed banks to undertake the Proposed Debt Settlement.

The Proposed Debt Settlement forms part of the Company's Proposed Corporate Exercise ("the Proposals") as stated in Note 33 (d) to the financial statements.

- (b) On 19 April 2005, the Company together with its wholly-owned subsidiary company, Timbeck (M) Sdn. Bhd. entered into a Third Supplementary Sale and Purchase Agreement with the vendor of the machineries, Wolclass Sdn Bhd, to extend the period to submit the Proposals to the Securities Commission ("SC") to 18 July 2005.

On 8 August 2005, the aforesaid parties signed the Fourth Supplementary Sale and Purchase Agreement to extend the period to submit the Proposals to the SC to 18 October 2005.

- (c) On 26 April 2005, the Company announced that the Second Supplementary Sale and Purchase Agreement entered with the vendors and management team of Rubber Timber (Melaka) Sdn. Bhd. ("Proposed RTM Acquisition") dated 8 November 2004 has lapsed and the aforesaid parties have mutually agreed not to extend the deadline of the said Agreement.

Accordingly, the Proposed RTM Acquisition has been aborted.

# NOTES TO THE FINANCIAL STATEMENTS

## - 31 DECEMBER 2005

### 33. SIGNIFICANT EVENTS (cont'd)

- (d) On 9 August 2005, the Company submitted to the SC the revised Proposed Corporate Exercise as follows:-
- (i) Proposed acquisition of four (4) parcels of leasehold industrial land for a total purchases consideration of RM 6,160,000 to be satisfied by the issuance of 6,160,000 new ordinary shares of RM1.00 each in the Company ("HCIB Shares") at par ("Proposed Land Acquisition");
  - (ii) Proposed acquisition of new machineries for a total purchases consideration of RM 4,500,000 to be satisfied by the issuance of 4,500,000 new HCIB Shares at par ("Proposed Machineries Acquisition");
  - (iii) Proposed settlement of debts owing to the licensed banks of the Company and its subsidiary companies as at 30 September 2004 together with interests accrued from 1 October 2003 to 30 September 2004 totaling RM27,965,872 via issuance of RM27,964,000 nominal value of Redeemable Convertible Secured Loan Stock ("RCSLS") and the remaining balance of RM1,872 by cash ("Proposed Debt Settlement");
  - (iv) Proposed private placement of up to 15,000,000 new HCIB Shares to investors to be identified ("Proposed Private Placement");
  - (v) Proposed special issue of up to 5,000,000 new HCIB Shares to bumiputera investors to be identified ("Proposed Special Issue"); and
  - (vi) Proposed listing and quotation for the new HCIB Shares to be issued pursuant to the Proposed Land Acquisition, Proposed Machineries Acquisition, the Proposed Private Placement and the Proposed Special Issue, and the new HCIB Shares to be issued pursuant to the conversion of RCSLS.

(Items (i) to (vi) above are collectively refer to as the "Proposed Corporate Exercise")

On 17 November 2005, SC rejected the application for the Proposed Corporate Exercise on the ground that the Proposed Corporate Exercise did not comply with the requirements under paragraph 13.02 of the SC's Policies and Guidelines on Issue/Offer of Securities, that states, among others, that proposals submitted by distressed-listed companies have to be comprehensive and capable to resolve all financial problems of the companies.

In light of the above decision by the SC on the Proposed Corporate Exercise, the Board of Directors of the Group appealed against the SC's decision on the Proposed Corporate Exercise on 16 December 2005.

However, the appeal was rejected by the SC on 22 February 2006. The Board of Directors of the Group is in the midst of deliberating new course of actions in respect of the rejection.

- (e) On 11 November 2005, one of the subsidiary company, Harvest Rimba Sdn. Bhd. entered into a Sale and Purchase Agreement with Contilogic Sdn. Bhd. to dispose off a piece of vacant land for a total consideration of RM1,000,000.

However, the disposal has yet to be completed to date.

- (f) On 17 December 2005, the Company together with Ng Chuan Seng @ Ng Teck Huat, Port Klang Jetty Sdn. Bhd. and Wangsa Kinta Sdn. Bhd. had mutually agreed to extend the period for fulfillment of the conditions precedent of the Proposed Land Acquisition to 18 December 2006.



## GROUP'S LANDED PROPERTIES

AS AT 31 DECEMBER 2005

Location	Description	Tenure	Area sq. m.	Approximate Age (Years)	Net Book Value	Date of Acquisition	Existing use
1. Unit B-11-1 Megan Phileo Promenade Section 43 Town of Kuala Lumpur	- Office lot	Freehold	210	8	532,087	1997	Tenanted
2. Lot 450, 451 & 452 Jalan Papan Pandamaran Industrial Area 42000 Port Klang Selangor Darul Ehsan	- Main Office - 4 factory buildings - 6 storage yards - 1 packing area - Boiler houses & workshop	* Rented	36,000	15 } } } } 8 }	2,392,897	1990	Factory and Office
3. Mukim of Kuala Linggi District of Alor Gajah State of Malacca	- Land held for development	Leasehold 99 years (pending issuance of titles)	141,640	10	14,565,173	1995	Vacant
4. Geran 55040 Lot 82107 Seksyen 30 Bandar Klang Klang, Selangor	- Land held for development	Freehold	5,332	9	4,558,279 / 3,351,313	1996	Vacant / under construction project
5. Lot 10568 Jalan Papan Pandamaran Industrial Area 42000 Port Klang	- KD Plant and warehouse	* Rented	4,181	6	4,021,986	1999	KD Chambers

\* The buildings are erected on the lands rented from a director related company.

# ANALYSIS OF SHAREHOLDINGS

## AS AT 10 MAY 2006

AUTHORIZED SHARE CAPITAL	:	RM25,000,000.00
ISSUED AND FULLY PAID-UP CAPITAL	:	RM22,669,900.00
CLASS OF SHARES	:	ORDINARY SHARES OF RM1.00 EACH
VOTING RIGHTS	:	ONE VOTE PER ORDINARY SHARE
NUMBER OF SHAREHOLDERS	:	2,452

### DISTRIBUTION OF SHAREHOLDINGS AS AT 10 MAY 2006

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	NO. OF ORDINARY SHARES	%
LESS THAN 100	1	50	0.00
100 TO 1,000	1,161	1,147,000	5.06
1,001 TO 10,000	1,108	4,092,750	18.05
10,001 TO 100,000	161	4,034,900	17.80
100,001 TO LESS THAN 5% OF ISSUED SHARES	20	6,731,000	29.69
5% AND ABOVE OF ISSUED SHARES	1	6,664,200	29.40
<b>TOTAL</b>	<b>2,452</b>	<b>22,669,900</b>	<b>100.00</b>

### DIRECTORS' SHAREHOLDINGS AS AT 10 MAY 2006

#### (a) In the Company

NO.	NAMES	DIRECT		INDIRECT	
		NO. OF SHARES	%	NO. OF SHARES	%
1.	NG CHUAN SENG @ NG TECK HUAT	218,400	0.96	7,982,800 *	35.21
2.	NG SWEE KIAT	379,000	1.67	7,822,200 *	34.50
3.	NG SWEE KEONG	612,000	2.70	7,589,200 *	33.48
4.	NG AI CHENG	214,100	0.94	7,987,100 *	35.23
5.	SUKHINDERJIT SINGH MUKER	10,000	0.04	-	-
6.	DATO' ZAINAL BIN MD DEROS	-	-	-	-
7.	YET KIONG SIANG	-	-	-	-

#### (b) In Related Corporations

By virtue of their substantial shareholdings in the Company, Ng Swee Kiat, Ng Ai Cheng, Ng Chuan Seng @ Ng Teck Huat and Ng Swee Keong are deemed to have interests in the ordinary shares of the following subsidiaries:-

NO.	NAMES OF COMPANIES	DIRECT		INDIRECT	
		NO. OF SHARES	%	NO. OF SHARES	%
1.	Harvest Court Corporation Sdn. Bhd.	-	-	3,000,000	100.00
2.	Harvest Court Development Sdn. Bhd.	-	-	2,200,000	100.00
3.	Harvest Court (M) Sdn. Bhd.	-	-	1,600,000	100.00
4.	Harvest Court Management Sdn. Bhd.	-	-	2,000,000	100.00
5.	Harvest Court Marketing Sdn. Bhd.	-	-	3,000,000	100.00

# ANALYSIS OF SHAREHOLDINGS

## AS AT 10 MAY 2006

### DIRECTORS' SHAREHOLDINGS AS AT 10 MAY 2006 (cont'd)

#### (b) In Related Corporations (cont'd)

NO.	NAMES OF COMPANIES	DIRECT		INDIRECT	
		NO. OF SHARES	%	NO. OF SHARES	%
6.	Harvest Court Properties Sdn. Bhd.	-	-	5,000,000	100.00
7.	Harvest Exporter Sdn. Bhd.	-	-	3,500,000	100.00
8.	Harvest Lumber Sdn. Bhd.	-	-	13,000,000	100.00
9.	Harvest Nation Sdn. Bhd.	-	-	1,200,000	100.00
10.	Harvest Rimba Sdn. Bhd.	-	-	10,000,000	98.80
11.	Quantum Pro Sdn. Bhd.	-	-	4,000,000	100.00
12.	Timbeck (M) Sdn. Bhd.	-	-	2	100.00
13.	Harvest Timber Products (Australia) Pty. Ltd.	-	-	575,850	100.00

### LIST OF SUBSTANTIAL SHAREHOLDERS (5% AND ABOVE) AS AT 10 MAY 2006

NO.	NAMES	DIRECT		INDIRECT	
		NO. OF SHARES	%	NO. OF SHARES	%
1.	HARVEST COURT HOLDINGS (M) SDN. BHD.	6,664,200	29.40	-	-
2.	NG CHUAN SENG @ NG TECK HUAT	218,400	0.96	7,982,800 *	35.21
3.	NG SWEE KIAT	379,000	1.67	7,822,200 *	34.50
4.	NG SWEE KEONG	612,000	2.70	7,589,200 *	33.48
5.	NG AI CHENG	214,100	0.94	7,987,100 *	35.23
6.	NG SIEW HIANG	-	-	8,201,200 *	36.18
7.	GAN KOK HWA	3,500	0.02	8,197,700 *	36.16
8.	YANG PEING NAN	100,000	0.44	8,101,200 *	35.74
9.	GAN TIAN HOOI	-	-	8,201,200 *	36.18
10.	QUEK ENG PIEW	10,000	0.04	8,191,200 *	36.13
11.	HOE GEOK KHENG	-	-	8,201,200 *	36.18

\* DEEMED INTEREST BY VIRTUE OF THE DIRECT AND INDIRECT INTERESTS HELD VIA THEIR FAMILY MEMBERS. NG SWEE KIAT, NG SWEE KEONG, NG AI CHENG AND NG SIEW HIANG ARE SIBLINGS AND ARE THE CHILDREN OF NG CHUAN SENG @ NG TECK HUAT AND HOE GEOK KHENG; YANG PEING NAN IS THE SPOUSE OF NG SWEE KIAT; GAN TIAN HOOI IS THE SPOUSE OF NG SWEE KEONG; QUEK ENG PIEW IS THE SPOUSE OF NG AI CHENG; GAN KOK HWA IS THE SPOUSE OF NG SIEW HIANG. NG SWEE KIAT, NG SWEE KEONG, NG CHUAN SENG @ NG TECK HUAT AND HOE GEOK KHENG ARE DEEMED INTERESTED IN HCIB BY VIRTUE OF THEIR SHAREHOLDINGS OF 15% OR MORE IN HCHSB PURSUANT TO SECTION 6A OF THE COMPANIES ACT, 1965.

# ANALYSIS OF SHAREHOLDINGS

## AS AT 10 MAY 2006

### EMPLOYEE SHARE OPTION SCHEME AS AT 10 MAY 2006

NO.	NAME OF DIRECTORS	AMOUNT OF OPTIONS OFFERED	AMOUNT OF OPTIONS EXERCISED	OPTION PRICE
1.	NG CHUAN SENG @ NG TECK HUAT	300,000	300,000	1.00
2.	NG SWEE KIAT	300,000	300,000	1.00
3.	NG SWEE KEONG	300,000	126,000	1.00
4.	NG AI CHENG	300,000	214,100	1.00
5.	YET KIONG SIANG	100,000	0	1.00
6.	SUKHINDERJIT SINGH MUKER	100,000	0	1.00

### LIST OF TOP 30 SHAREHOLDERS/DEPOSITORS AS AT 10 MAY 2006

Name	No. of Shares Held	Percentage
1. Harvest Court Holdings (M) Sdn. Bhd.	6,664,200	29.40
2. Jason Lim Eng Siong	850,000	3.75
3. Ng Chooi Lan	824,600	3.64
4. Amsec Nominees (Tempatan) Sdn. Bhd.AmBank (M) Berhad for Wong Wei Shan	745,100	3.29
5. Chan Sau Poh	720,500	3.18
6. Ng Swee Keong	612,000	2.70
7. SJ Sec Nominees (Tempatan) Sdn. Bhd.Pledged Securities Account for Chan Sai Kim	392,200	1.73
8. AMSEC Nominees (Tempatan) Sdn. Bhd.Ambank (M) Berhad for Ng Swee Kiat	379,000	1.67
9. Tan Ching Ching	263,900	1.16
10. Mayban Securities Nominees (Tempatan) Sdn. Bhd.Pledged Securities Account for Ong Huey Peng (Rem 650)	219,200	0.97
11. Ng Chuan Seng @ Ng Teck Huat	218,400	0.96
12. Ng Ai Cheng	214,100	0.94
13. Tan Han Chuan	209,000	0.92
14. Ahmad Kamaruzaman Bin Mohamed Baria	186,800	0.82
15. HLG Nominee (Tempatan) Sdn. Bhd.Pledged Securities Account for Yang Sin Tzong (CCTS)	162,900	0.72
16. Low Yoke Choo	153,400	0.68
17. HLG Nominees (Tempatan) Sdn. Bhd.Pledged Securities Account for Lai Voon Huey	125,000	0.55
18. Thean Yin Kong	120,900	0.53
19. Thean Wooi Khiong	118,700	0.52
20. Lee Teck Ong @ Lee Kok Chee	110,300	0.49
21. Public Nominees (Tempatan) Sdn. Bhd.Pledged Securities Account for Yeo Peng Huat (AFF)	105,000	0.46
22. Yang Peing Nan	100,000	0.44
23. SJ Sec Nominees (Tempatan) Sdn. Bhd.Pledged Securities Account for Tan Saw Sim	94,000	0.41
24. Mayban Nominees (Tempatan) Sdn. Bhd.Pledged Securities Account for Kuan Shin Nyiap	88,000	0.39
25. Tung Ah Kiong	83,600	0.37
26. Low Leong Hock	80,000	0.35
27. TA Nominees (Tempatan) Sdn. Bhd.	69,800	0.31
28. Paul Lim Eng Kwang	68,400	0.30
29. Tan Kar Pin	65,000	0.29
30. Ng Foong Paik	63,000	0.28
Total	14,107,000	62.22

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## HARVEST COURT INDUSTRIES BERHAD

(Company No.: 36998-T)  
(Incorporated in Malaysia)

NUMBER OF SHARES HELD

### FORM OF PROXY

(Before completing this form please refer to the notes below)

I/We, ..... NRIC No./Passport No./Company No. ....  
(Full name in block letters) CDS No. ....

of .....  
(Full address)

being a member(s) of **HARVEST COURT INDUSTRIES BERHAD** (36998-T) hereby appoint .....  
..... NRIC No./Passport No. ....  
(Full name in block letters)

of .....  
(Full address)

or failing him/her, the Chairman of the Meeting as \*my/our proxy to attend and vote for \*me/us and on my/our behalf at the Twenty Eighth Annual General Meeting of the Company to be held at the Crystal Room, 2<sup>nd</sup> Floor, Crystal Crown Hotel Harbour View, 217, Persiaran Raja Muda Musa, 42000 Port Klang, Selangor Darul Ehsan on Monday, 26 June 2006 at 10.00 a.m. and at any adjournment thereof in the manner as indicate below:-

	For	Against
Ordinary Resolution 1		
Ordinary Resolution 2		
Ordinary Resolution 3		
Ordinary Resolution 4		
Ordinary Resolution 5		
Ordinary Resolution 6		
Ordinary Resolution 7		
Ordinary Resolution 8		
Ordinary Resolution 9		

(Please indicate with an "x" in the space provided above how you wish your vote to be cast. If no indication is given, the proxy may vote or abstain from voting at his/her discretion).

Dated this ..... day of ..... 2006

.....  
Signature of shareholder(s)/Common Seal

\* **Strike out whichever is not desired.**

Notes:-

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead. A proxy or attorney may but does not need to be a member and if the proxy is not a member of the Company, the proxy shall be an advocate or an approved company auditor or a person approved by the Companies Commission of Malaysia.
2. Where a member is an authorised nominee as defined under the Security Industry (Central Depositories) Act, 1991, it may appoint at least one (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.
3. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorized in writing or, if the appointer is a corporation, either under its Common Seal or signed by attorney so authorized.
4. The Form of Proxy must be deposited at the Registered Office of the Company at Lot 450, Jalan Papan, Pandamaran Industrial Area, 42000 Port Klang, Selangor Darul Ehsan not less than 48 hours before the time set for holding the meeting or any adjournment thereof.



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Stamp

The Secretary  
**HARVEST COURT INDUSTRIES BERHAD**  
Lot 450, Jalan Papan (36998-T)  
Pandamaran Industrial Area  
42000 Port Klang  
Selangor Darul Ehsan

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