

**Lay Hong Berhad**

(107129-H) Incorporated in Malaysia

39 & 41, Jalan 5, Kawasan 16  
Taman Intan, 41300 Klang  
Selangor, Malaysia

T ♥ 03 3343 4888  
F ♥ 03 3341 0251





**LAY HONG  
BERHAD**


(107129-H) Incorporated in Malaysia

*setting our sights ever higher*

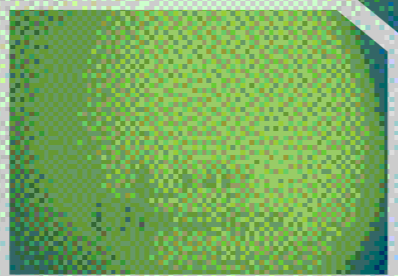


 TO PROMOTE A HEALTHIER LIFESTYLE AND DIET AMONG MALAYSIANS BY DEVELOPING HIGHLY NUTRITIOUS AND HYGIENIC PRODUCTS UTILISING THE HIGHEST QUALITY PROCESSING STANDARDS.

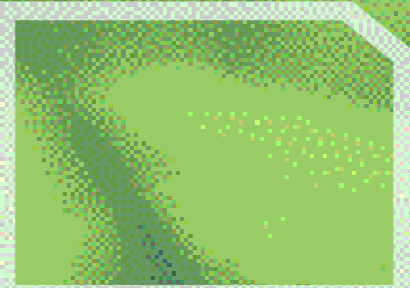
 TO BECOME AN INCREASINGLY IMPORTANT SUPPLIER OF EGGS AND PROCESSED CHICKEN PRODUCTS BY EXPANDING MARKET SHARE, DEVELOPING NEW PRODUCTS, AND BUILDING TRUST AND RELIABILITY AMONG CONSUMERS.

 TO PROVIDE A CARING AND REWARDING ENVIRONMENT FOR OUR EMPLOYEES, ONE WHICH CAN HELP FULFILL THEIR CAREER GOALS AND INCULCATE A SENSE OF PARTICIPATION, TEAM SPIRIT AND LOYALTY WHICH WILL BENEFIT ALL.

 TO WORK DILIGENTLY AND CONSISTENTLY TO ENHANCE VALUE FOR OUR SHAREHOLDERS, TO DELIVER OUR PRODUCTS FRESH ON TIME TO OUR PARTNERS AND CUSTOMERS, AND TO BE A RESPONSIBLE CORPORATE CITIZEN.



## OUR MISSION



## COVER RATIONALE

 **LAY HONG BERHAD** Lay Hong has consistently set its sights higher and higher – and has achieved the goals it has set. This year has seen rising profitability and turnover, as well as product growth and expansion into new market sectors. We have set our sights to an ever-more modern and automated manufacturing capability, which also saw significant strides in the year under review. And in one sense, we have literally risen to new heights!

We salute our team members, our partners, our customers and our stakeholders for helping Lay Hong set new standards in productivity and profitability.



## CONTENTS

02	corporate information
04	profile of directors
07	audit committee report
12	notice of annual general meeting
14	statement accompanying the notice of twenty-second annual general meeting of Lay Hong Berhad
16	chairman's statement
20	statement on corporate governance
24	statement on internal control
26	group financial highlights
27	financial statements
73	analysis of shareholdings
75	properties owned by Lay Hong Berhad group of companies form of proxy

## CORPORATE INFORMATION



### BOARD OF DIRECTORS

#### Yap Hoong Chai

CHAIRMAN AND GROUP MANAGING DIRECTOR  
NON-INDEPENDENT EXECUTIVE DIRECTOR

#### Yeap Weng Hong

NON-INDEPENDENT EXECUTIVE DIRECTOR

#### Yip Kim Hoong

NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

#### Yeap Fock Hoong

NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

#### Gan Soo Jin

INDEPENDENT NON-EXECUTIVE DIRECTOR

#### Abdul Hamid Bin Mohamed Ghows

INDEPENDENT NON-EXECUTIVE DIRECTOR

#### Dato' Dr Abdul Aziz Bin Mangkat

INDEPENDENT NON-EXECUTIVE DIRECTOR

### AUDIT COMMITTEE

#### Gan Soo Jin

CHAIRMAN

#### Yap Hoong Chai

NON-INDEPENDENT EXECUTIVE DIRECTOR

#### Abdul Hamid Bin Mohamed Ghows

INDEPENDENT NON-EXECUTIVE DIRECTOR

#### Dato' Dr Abdul Aziz Bin Mangkat

INDEPENDENT NON-EXECUTIVE DIRECTOR

### NOMINATION COMMITTEE

#### Abdul Hamid Bin Mohamed Ghows

Gan Soo Jin

Dato' Dr Abdul Aziz Bin Mangkat

### REMUNERATION COMMITTEE

#### Yap Hoong Chai

Abdul Hamid Bin Mohamed Ghows

Gan Soo Jin

Dato' Dr Abdul Aziz Bin Mangkat

### SHARE REGISTRAR

Securities Services  
(Holdings) Sdn Bhd  
Level 7, Menara Milenium  
Jalan Damanlela

Pusat Bandar Damansara  
Damansara Heights  
50490 Kuala Lumpur

t ☎ 03 2084 9000

f ☎ 03 2094 9940

### SUBSIDIARIES

Hing Hong Sdn Bhd  
Innofarm (Klang) Sdn Bhd  
Sri Tawau Farming Sdn Bhd  
Evergreen Organic Fertilisers Sdn Bhd  
Lay Hong Liquid Egg Sdn Bhd  
Eminent Farm Sdn Bhd  
Lay Hong Poultry Processing Sdn Bhd  
Innobrid Sdn Bhd  
Innobrid Marketing Sdn Bhd  
Evergrowth Marketing Sdn Bhd

### COMPANY SECRETARIES

Lim King Hua  
(MAICSA 0798613)

Lim Kui Suang  
(MAICSA 0783327)

### REGISTERED OFFICE

26, Jalan Istana  
41000 Klang, Selangor

t ☎ 03 3371 0611

f ☎ 03 3371 2886

### CORPORATE OFFICE

39 & 41, Jalan 5  
Kawasan 16 Taman Intan  
41300 Klang, Selangor

t ☎ 03 3343 4888

f ☎ 03 3341 0251

### AUDITORS

Ernst & Young  
Level 23A, Menara Milenium  
Jalan Damanlela, Pusat Bandar  
Damansara, Damansara Heights  
50490 Kuala Lumpur

### PRINCIPAL BANKERS

Bumiputra-Commerce Bank (M) Bhd  
Malayan Banking Bhd  
Hong Leong Bank Berhad

### STOCK EXCHANGE LISTING

Second Board of Bursa Malaysia  
Stock Code: Lay Hong  
Stock No.: 9385



*auto poultry rearing keeping system*

The Lay Hong's new production installations reduce breakage and feature belt-cleaning and manure-drying systems.



## PROFILE OF DIRECTORS



### YAP HOONG CHAI

MALAYSIAN, AGED 56,

is the Chairman and Group Managing Director and a founder member of the Lay Hong Berhad Group. He was appointed to the Board of Directors of Lay Hong Berhad on 27th September 1983. Under his stewardship for the past 31 years, the Lay Hong Berhad Group has grown from a small family concern into one of Malaysia's largest and most successful integrated poultry farming and food processing Group. He also sits on the Board of Directors of several private limited companies. He had served as a Past President of the Selangor Livestock Association, Egg Division. He is the brother of Yip Kim Hoong, Yeap Weng Hong and Yeap Fock Hoong, who are also Directors of the Company. He holds no direct shareholding but has indirect interest via the substantial shareholder of the Company, Innofarm Sdn Bhd.

He attended all the five (5) board meetings held for the financial year. He has no conflict of interest with Lay Hong Berhad and no conviction for any offence within the past 10 years.



### YEAP WENG HONG

MALAYSIAN, AGED 48,

is an Executive Director of Lay Hong Berhad. He was appointed to the Board of Directors of Lay Hong Berhad on 18th April 1986. He has more than 20 years experience in poultry farming and currently in-charge of the entire Group's production activities and new projects. He also sits on the Board of Directors of several private limited companies. He is the brother of Yip Kim Hoong, Yap Hoong Chai and Yeap Fock Hoong, who are also Directors of the Company. He holds 7,200 shares of RM1/- each in Lay Hong Berhad and has indirect interest via the substantial shareholder of the Company, Innofarm Sdn Bhd.

He attended all the five (5) board meetings held for the financial year. He has no conflict of interest with Lay Hong Berhad and no conviction for any offence within the past 10 years.



### YIP KIM HOONG

MALAYSIAN, AGED 58,

is a Non-Executive Director of Lay Hong Berhad. He was appointed to the Board of Directors of Lay Hong Berhad on 20th August 1984. He has more than 20 years experience in poultry farming, having previously served as an Executive Director in the Group. He also sits on the Board of Directors of several private limited companies. He is the brother of Yap Hoong Chai, Yeap Weng Hong and Yeap Fock Hoong, who are also Directors of the Company. He holds 2,836,657 shares of RM1/- each in Lay Hong Berhad.

He attended four (4) of the five (5) board meetings held for the financial year. He has no conflict of interest with Lay Hong Berhad and no conviction for any offence within the past 10 years.



### YEAP FOCK HOONG

SINGAPOREAN, AGED 52,

is a Non-Executive Director of Lay Hong Berhad and was appointed to the Board of Directors of Lay Hong Berhad on 18th January 1994. He has been a commercial pilot since 1973 and currently holds the position of a management pilot for a major airline. He also sits on the Board of Directors of several private limited companies. He is the brother of Yip Kim Hoong, Yap Hoong Chai and Yeap Weng Hong, who are also Directors of the Company. He holds 12,000 shares of RM1/- each and has indirect interest via the substantial shareholder of the Company, Innofarm Sdn Bhd.

He attended four (4) of the five (5) board meetings held for the financial year. He has no conflict of interest with Lay Hong Berhad and no conviction for any offence within the past 10 years.

**GAN SOO JIN**

MALAYSIAN, AGED 56,

is an Independent Non-Executive Director of Lay Hong Berhad and was appointed to the Board of Directors of Lay Hong Berhad on 10th August 1994. He was appointed Chairman of the Lay Hong Berhad Audit Committee on 26 February 2002 and also sits in the Nomination & Remuneration Committees. He is a fellow member of the Institute of Chartered Accountants in England and Wales and a member of the Malaysian Institute of Accountants. He began his professional career with Price Waterhouse & Co., London from 1975 to 1977 and subsequently with Charles Bradburne & Co. (1930) Sdn Bhd from 1978 to 1987. He joined CIMB Securities Sdn Bhd in 1988 and currently holds the position of Senior Vice President. He holds 48,000 shares of RM1/- each in Lay Hong Berhad.

He attended all the five (5) board meetings held for the financial year. He has no family relationship with any Director / or major shareholder of Lay Hong Berhad. He has no conflict of interest with Lay Hong Berhad and has no conviction for any offence within the past 10 years.

**ABDUL HAMID BIN MOHAMED GHOWS**

MALAYSIAN, AGED 55,

was appointed Independent Non-Executive Director of Lay Hong Berhad on 11th October 2001. He was appointed Chairman of the Lay Hong Berhad Nomination & Remuneration Committees on March 18, 2005. He is a fellow member of the Institute of Chartered Accountants in England and Wales and of the Chartered Institute of Management Accountants, UK and a member of the Malaysian Institute of Accountants. From 1974 to 2000, he served in various senior capacities with Price Waterhouse, Kenmore Asia Pte Ltd and Drexel Oilfields Services in Singapore and the Rothmans International Tobacco Group in Holland, United Kingdom and Malaysia. From 2000 to 2004 he was Director – Risk Management at Rashid Hussein Berhad group. He was Group Chief Executive Officer of the Perisai Petroleum Teknologi Bhd from 2005 to March 2006.

Presently he serves as Independent Non-Executive Director in Malaysia Merchant Marine Berhad.

He attended all the five (5) board meetings held for the financial year. He has no family relationship with any director and / or major shareholder of Lay Hong Berhad. He has no conflict of interest with Lay Hong Berhad and no conviction for any offence within the past 10 years. He has no shareholding in the Company or the Company's subsidiaries.

**DATO' DR. ABDUL AZIZ BIN MANGKAT DIMP, KMN, ASK**

MALAYSIAN, AGED 56,

was appointed Independent Non-Executive Director of Lay Hong Bhd on 3rd July, 2006. He was also appointed a member to the Audit, Nomination as well as Remuneration Committee. He graduated as a doctor of Veterinary Medicine from University of Agriculture, Bogor in Indonesia and a Master of Science in Tropical Veterinary Medicine from University of Edinburgh, Scotland. He also attended an Advanced Leadership and Management Course in INTAN. He has been working with the Department of Veterinary Science holding various positions in the Ministry of Agriculture and Agro based Industry for 31 years and rose to the position of Deputy Director General 1 before his retirement in May, 2006.

He has no shareholding in the company or subsidiaries. He has no family relationship with any director and / or major shareholder of Lay Hong Berhad. He has no conflict of interest with Lay Hong Berhad and no conviction for any offence within the past 10 years.



## taking to the skies

Lay Hong is proud to be welcomed on board the cabins of Malaysia Airlines flights this year. Now passengers on both foreign and domestic flights can enjoy the delicious products supplied by Lay Hong. And we are proud our company is able to “serve” as goodwill ambassadors.

PHOTO COURTESY OF LUFTHANSA GERMAN AIRLINES



## AUDIT COMMITTEE REPORT

### MEMBERS OF THE AUDIT COMMITTEE

The Audit Committee of the Company comprises the following Members:-

**Gan Soo Jin**

CHAIRMAN, INDEPENDENT NON-EXECUTIVE DIRECTOR

**Yap Hoong Chai**

NON-INDEPENDENT EXECUTIVE DIRECTOR

**Abdul Hamid Bin Mohamed Ghows**

INDEPENDENT NON-EXECUTIVE DIRECTOR

**Lau Thow Sin**

INDEPENDENT NON-EXECUTIVE DIRECTOR

(APPOINTED ON 27/02/2006 AND RESIGNED ON 03/04/2006)

**Dato' Dr Abdul Aziz Bin Mangkat**

INDEPENDENT NON-EXECUTIVE DIRECTOR (APPOINTED ON 18/07/2006)

### TERMS OF REFERENCE OF THE AUDIT COMMITTEE

#### 1. COMPOSITION

- 1.1 The Board of Directors shall elect an Audit Committee from amongst its Directors which fulfils the following requirements:-
- a. the Audit Committee must be composed of no fewer than 3 members;
  - b. a majority of the Audit Committee must be Independent Directors; and
  - c. at least one member of the Audit Committee:-
    - i. must be a member of the Malaysian Institute of Accountants; or
    - ii. if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:-
      - aa. he must have passed the examination specified in Part I of the 1st Schedule of the Accountants Act 1967; or
      - bb. he must be a member of one of the association of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.
- 1.2 No Alternate Director is to be appointed as a member of the Audit Committee.

#### 2. CHAIRMAN

The members of an Audit Committee shall elect a Chairman from among their number who shall be an Independent Director.

#### 3. FUNCTIONS

An Audit Committee shall, amongst others, discharge the following functions:-

- 3.1 review the following and report the same to the Board of Directors:-
- a. with the External Auditors, the audit plan;
  - b. with the External Auditors, his evaluation of the system of internal controls;
  - c. with the External Auditor, his audit report;
  - d. the assistance given by the employees of the company to the External Auditor;
  - e. the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;
  - f. the internal audit programme, process, the results of the internal audit programme, process of investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;

### TERMS OF REFERENCE OF THE AUDIT COMMITTEE (cont'd)

#### 3. FUNCTIONS (cont'd)

- g. the quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:-
  - i. changes in or implementation of major accounting policy changes;
  - ii. significant and unusual events; and
  - iii. compliance with accounting standards and other legal requirements;
- h. any related party transaction and conflict of interest situation that may arise within the Company or group including any transaction, procedure or course of conduct that raises questions or management integrity;
- i. any letter of resignation from the External Auditors of the Company; and
- j. whether there is reason (supported by grounds) to believe that the Company's External Auditors is not suitable for re-appointment; and

3.2 recommend the nomination of a person or persons as External Auditors.

#### 4. PROCEDURE

The Audit Committee shall regulate its own procedure, as follows:-

- a. The Audit Committee is authorised to meet at least four times a year, and as many times as the Committee deems necessary. Minutes of each meeting shall be kept and distributed to each member of the Committee and of the Board. The Chairman of the Committee shall report on each meeting to the Board. The Secretary to the Committee shall be the Company Secretary.
- b. In order to form a quorum in respect of an Audit Committee, the majority of members present must be Independent Directors.
- c. A resolution in writing signed by all the committee members shall be as effective as a resolution passed at a meeting of the Committee duly convened and held, if any may consist of several documents in the like form, signed by one or more of the Committee.
- d. In the event of any vacancy in an Audit Committee resulting in the non-compliance of subparagraph 15.10(1) of the Bursa Malaysia Listing Requirements, the Company must fill the vacancy within 3 months.
- e. Upon the request of External Auditors, the Chairman of the Audit Committee shall convene a meeting of the Committee to consider any matter the External Auditor believes should be brought to the attention of the Directors or Shareholders.
- f. To ensure that other directors and employees attend any particular audit committee meeting only at the audit committee's invitation, specific to the relevant meeting.

#### 5. REPORT

The Audit Committee Report must be clearly set out in the Annual Report of the Company and shall include the following:-

- a. the composition of the Audit Committee, including the name, designation (indicating the Chairman) and directorship of the members (indicating whether the Directors are independent or otherwise);
- b. the terms of reference of the Audit Committee Member;
- c. the number of Audit Committee meetings held during the financial year and details of attendance of each Audit Committee Member;
- d. a summary of the activities of the Audit Committee in the discharge of its functions and duties for the financial year of the Company; and
- e. the existence of an internal audit function or activity and where there is such a function or activity, a summary of the activities of the function or activity. Where such a function or activity does not exist, an explanation of the mechanisms that exist to enable the Audit Committee to discharge its function effectively.

## AUDIT COMMITTEE REPORT

### 6. REPORTING OF BREACHES TO THE EXCHANGE

Where the Audit Committee is of the view that a matter reported by it to the Board of Directors of the Company has not been satisfactorily resolved resulting in a breach of the Bursa Malaysia Listing Requirements, the Audit Committee must promptly report such matter to the Bursa Malaysia.

### 7. RIGHTS

Whenever necessary and reasonable for the performance of its duties, the Audit Committee shall, in accordance with a procedure to be determined by the Board of Directors and at the cost of the Company:-

- a. have authority to investigate any matter within its terms of reference;
- b. have the resources which are required to perform its duties;
- c. have full and unrestricted access to any information pertaining to the Company;
- d. have direct communication channels with the External Auditors and person(s) carrying out the internal audit function or activity (if any);
- e. be able to obtain independent professional or other advice; and
- f. be able to convene meeting with the External Auditors, excluding the attendance of the Executive members of the committee, whenever deemed necessary.

### 8. REVIEW OF THE AUDIT COMMITTEE

The terms of office and performance of the Audit Committee and each of its member must be reviewed by the Board of Directors at least once every 3 years to determine whether such Audit Committee and members have carried out their duties in accordance with their terms of reference.

## SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE FOR THE FINANCIAL YEAR ENDED 31 MARCH 2006

During the financial year ended 31 March 2006, the activities of the Audit Committee included the following:-

1. Reviewed the Unaudited Quarterly Financial Statements and the Annual Audited Financial Statement of the Group and recommending the same for approval by the Board. The review was to ensure that the financial reporting and disclosure requirements of relevant authorities had been complied with. Any significant issues resulting from the audit of the financial statements raised by the External Auditors were discussed and brought to the attention of the Board and resolved at the Board level.
2. Reviewed the External Auditors' scope of work and audit plan for the year 2006.
3. Reviewed the Internal Audit Reports which highlighted the audit issues, recommendations and management's response. Follow up audits were also reviewed to ensure that appropriate actions were taken and recommendations were implemented.
4. Reviewed and approved the annual internal audit plan for year 2006.
5. Reviewed related party transactions of the Company.
6. Reviewed the extent of application and compliance of principles and best practices set out in the Malaysian Code on Corporate Governance.
7. Reviewed the corporate governance statement for inclusion in the Company's Annual Report.

## AUDIT COMMITTEE REPORT

### SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE FOR THE FINANCIAL YEAR ENDED 31 MARCH 2006 (cont'd)

For the Financial Year ended 31 March 2006, the Audit Committee members' attendance at meetings are as follows:

No. Director	Attendance At The Audit Committee Meetings	
	No. of Audit Committee meetings held during member's tenure in office	No. of Audit Committee meetings attended by member
Gan Soo Jin	5	5
Yap Hoong Chai	5	5
Abdul Hamid Bin Mohamed Ghows	5	5
Lau Thow Sin	–	–
(APPOINTED ON 27/02/2006 AND RESIGNED ON 03/04/2006)		
Dato' Dr Abdul Aziz Bin Mangkat	–	–
(APPOINTED ON 18/07/2006)		

### INTERNAL AUDIT FUNCTION

The internal audit function has been outsourced to an independent professional firm who reports directly to the Audit Committee. The internal audit function reviews critical business processes and identifies internal control gaps, assesses the effectiveness and adequacy of the existing state of internal control and recommends possible improvements to the internal control process.

In carrying out audit assignments relating to the Lay Hong Group, the principal responsibility of Lay Hong Bhd Internal Auditors is to provide independent assessments for adequate, efficient and effective internal control systems to ensure compliance with systems and standard operating procedures in each of the operations in the Lay Hong Group.

Throughout the financial year, audit assignments, investigations and follow-up audits were carried out on Lay Hong Bhd and its subsidiary companies by the Internal Auditors of Lay Hong Bhd. Two (2) audit reports were issued during the financial year. The resulting report of the audit undertaken was presented and reviewed by the Lay Hong Bhd Audit Committee and forwarded to the management for action.

### OTHER INFORMATION

#### Executive Share Options Scheme ("ESOS")

During the financial year, the company implemented Executive Share Options Scheme. The allocation of options pursuant to the ESOS is disclosed in Note 15 of the Financial Statements.

#### Non-Audit Fees

There were RM6,000 of non-audit fees paid to the external auditors by the company for the financial year ended 31 March 2006.

#### Statement of Valuation Policy on Landed Properties

The Group has adopted a policy to revalue its land and buildings at least once in every five years.



### *modernizing facilities*

Modernizing facilities and procedures was a major objective of the year in review, as we brought a number of innovations online in our new high technology farms.

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE TWENTY-SECOND ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD AT PUTRA ROOM, KELAB GOLF SULTAN ABDUL AZIZ SHAH, NO 1 RUMAH KELAB, JALAN KELAB GOLF 13/6, 40100 SHAH ALAM, SELANGOR ON THURSDAY, 28TH SEPTEMBER 2006 AT 11.30 AM FOR THE FOLLOWING PURPOSES:-

### ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31st March 2006 together with the Reports of the Directors and Auditors thereon.
2. To declare a First and Final Dividend of 1 Sen less tax at 28% for the year ended 31st March 2006.
3. To approve Directors' Fees for the year ended 31st March 2006.
4. To re-elect Mr Yip Kim Hoong as a Director of the Company in accordance with Article 71 of the Company's Articles of Association.
5. To re-elect Mr Yeap Fock Hoong as a Director of the Company in accordance with Article 71 of the Company's Articles of Association.
6. To re-elect Dato' Dr. Abdul Aziz Bin Mangkat DIMP KMN ASK as a Director of the Company in accordance with Article 72 of the Company's Articles of Association.
7. To re-appoint Messrs Ernst & Young as Auditors to hold office until the conclusion of the next Annual General Meeting of the Company at a remuneration to be fixed by the Directors.

 Resolution 1

 Resolution 2

 Resolution 3

 Resolution 4

 Resolution 5

 Resolution 6

 Resolution 7

### SPECIAL BUSINESS

8. To consider and, if thought fit, adopt the following resolution, with or without amendment, as an Ordinary Resolution:

Authority to allot shares pursuant to Section 132D of the Companies Act, 1965.

"That subject always to the Companies Act, 1965, and the approvals of the relevant governmental and/or regulatory authorities, the Directors be and are hereby empowered, pursuant to Section 132D of the Companies Act, 1965, to issue shares in the Company from time to time at such price, upon such terms and conditions, 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 does not exceed 10% of the issued share capital of the Company for the time being and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

 Resolution 8

9. To consider and, if thought fit, adopt the following resolution, with or without amendment, as an Ordinary Resolution:

Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature.

"That subject always to the Listing Requirements of the Bursa Malaysia Securities Berhad, approval be and is hereby given to the Company and/or its subsidiary companies to enter into the categories of recurrent transactions of a revenue or trading nature and with those Related Parties as specified in Section 2.2 of the Circular to Shareholders dated 5th September 2006 subject further to the following:-

- a. That the transactions are in the ordinary course of business and are on terms that are not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company; and
- b. That the transactions are made on an arm's length basis and on normal commercial terms; and
- c. That disclosure is made in the Annual Report of the aggregate value transactions conducted pursuant to the shareholders' mandate during the financial year;



- d. That such approval shall only continue to be in force until:-
- i. the conclusion of the Annual General Meeting ("AGM") of the Company following this AGM at which such mandate is passed, at which time it will lapse, unless by a resolution passed at such AGM whereby the authority is renewed;
  - ii. the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("CA") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of CA); or
  - iii. revoked or varied by resolution passed by the shareholders in general meeting,
- whichever is the earlier.

 Resolution 9

#### NOTICE OF BOOKS CLOSURE

NOTICE IS ALSO HEREBY GIVEN that a first and final dividend of 1 Sen less tax at 28% per share of RM1/- each will be payable on November 8 2006 to depositors who are registered in the Record of Depositors at the close of business on October 18 2006 if approved by members at the Twenty-Second Annual General Meeting on 28th September 2006.

A depositor shall qualify for entitlement only in respect of:-

- a. shares transferred into the depositors Securities Account before 4.00 pm on 18th October 2006 in respect of ordinary transfers; and
- b. shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

#### BY ORDER OF THE BOARD

Secretary  
LIM KING HUA (F)  
MAICSA 0798613

Date: 5th September 2006  
Klang

#### NOTES

1. Every member entitled to attend and vote at the Meeting is entitled to appoint a proxy (or in the case of a corporation, to appoint a representative) to attend and vote in his/her stead. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
2. The Proxy Form in the case of an individual shall be signed by the appointer or his/her attorney, and in the case of a corporation, either under its common seal or under the hand of an officer or attorney duly authorized.
3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
4. Proxies or other instruments shall not be treated as valid unless they are deposited at the Registered Office of the Company not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof, or in the case of a poll, not less than 24 hours before the time appointed for the holding of the poll.
5. Authority to issue Shares pursuant to Section 132D of the Companies Act, 1965.

The Ordinary Resolution proposed under item 8 of the Agenda, if passed, will give the Directors of the Company from the date of the Annual General Meeting, authority to allot and issue ordinary shares from the unissued capital of the Company up to an amount not exceeding in total 10% of the issued capital of the Company for such purposes as the Directors consider would be in the interest of the Company. This authority will, unless revoked or varied by the company at a general meeting, expire at the next Annual General Meeting of the Company.

6. Proposed Renewal of Shareholders' Mandate For Recurrent Related Party Transactions of a Revenue or Trading Nature.

The Ordinary Resolution proposed under item 9 of the Agenda, if passed, will authorise the Company and/or its subsidiary companies to enter into recurrent related party transactions of a revenue or trading nature. This authority will, unless revoked or varied by the Company in general meeting, expire at the next Annual General Meeting of the Company. Please refer to the Circular to Shareholders dated 5th September 2006 for more information.

## STATEMENT ACCOMPANYING THE NOTICE OF TWENTY-SECOND ANNUAL GENERAL MEETING OF LAY HONG BERHAD

### A. Names of the Directors who are standing for re-election:

- a. Yip Kim Hoong (RETIRING PURSUANT TO ARTICLE 71 OF THE COMPANY'S ARTICLES OF ASSOCIATION).
- b. Yeap Fock Hoong (RETIRING PURSUANT TO ARTICLE 71 OF THE COMPANY'S ARTICLES OF ASSOCIATION).
- c. Dato' Dr. Abdul Aziz Bin Mangkat DIMP, KMN, ASK (RETIRING PURSUANT TO ARTICLE 72 OF THE COMPANY'S ARTICLES OF ASSOCIATION).

### B. Details of attendance of directors at board meetings

5 Board Meetings were held during the financial year ended 31st March 2006. All meetings were held at the Office Premises, No 41-B Jalan 5, Kawasan 16, Taman Intan, 41300 Klang, Selangor.


The attendance record of each Director is as follows:-

	Attendance	Percentage (%)
<b>EXECUTIVE DIRECTOR</b>		
Yap Hoong Chai	5/5	100%
Yeap Weng Hong	5/5	100%
<b>NON-EXECUTIVE DIRECTOR</b>		
Yip Kim Hoong	4/5	80%
Yeap Fock Hoong	4/5	80%
Gan Soo Jin	5/5	100%
Abdul Hamid Bin Mohamed Ghows	5/5	100%
Dato' Dr Abdul Aziz Bin Mangkat DIMP KMN ASK (APPOINTED ON 3/7/2006)	-	-

### C. The Twenty-Second Annual General Meeting will be held at Putra Room, Kelab Golf Sultan Abdul Aziz Shah, No 1 Rumah Kelab, Jalan Kelab Golf 13/6, 40100 Shah Alam, Selangor on Thursday, 28th September 2006 at 11.30 AM.

### D. Further details of the individuals who are standing for election as directors.

1.
  - a. Yip Kim Hoong, a Malaysian, aged 58, is a Non-Executive Director of Lay Hong Berhad and was appointed to the Board of Lay Hong Berhad on 20th August 1984.
  - b. He has 20 years experience in poultry farming and marketing.
  - c. He sits on the Board of Directors of several private limited companies and does not hold any other directorship of public companies.
  - d. He holds 2,836,657 shares of RM1/- each in Lay Hong Berhad.
  - e. He is the brother of Yap Hoong Chai, Yeap Weng Hong and Yeap Fock Hoong, who are also Directors of the Company.
  - f. He has no conflict of interest with the Company.
  - g. He has no conviction for any offence within the past 10 years.
2.
  - a. Yeap Fock Hoong, a Singaporean, aged 54, is a Non-Executive Director of Lay Hong Berhad and was appointed to the Board of Directors of Lay Hong Berhad on 18th January 1994.
  - b. He has been a commercial pilot since 1973 and currently hold the position of a management pilot for a major airline.
  - c. He sits on the Board of Directors of several private limited companies and does not hold any other directorship of public companies.
  - d. He is the brother of Yap Hoong Chai, Yip Kim Hoong and Yeap Weng Hong, who are also Directors of the Company.
  - e. He holds 12,000 shares of RM1/- each and has indirect interest via the substantial shareholder of the Company, Innofarm Sdn Berhad.
  - f. He has no conflict of interest with the Company.
  - g. He has no conviction for any offence within the past 10 years.
3.
  - a. Dato' Dr Abdul Aziz Bin Mangkat DIMP KMN ASK, a Malaysian, aged 56, is an Independent Non-Executive Director of Lay Hong Berhad and was appointed to the Board of Directors of Lay Hong Berhad on 3rd July 2006.
  - b. He was the Deputy Director General 1 at Department of Veterinary Services from 2005 to May 2006.
  - c. He has no shareholding in the Company or the Company's subsidiaries.
  - d. He is not related to any director or major shareholder of the Company.
  - e. He has no conflict of interest with the Company.
  - f. He has no conviction for any offence within the past 10 years.

A smiling woman wearing a light-colored hijab and a white long-sleeved shirt is holding a white tray filled with golden-brown chicken nuggets. In the background, another woman in a white hijab is partially visible, looking towards the camera. The image has a halftone dot pattern.

### **the name you can trust**

Both Muslim and non-Muslim customers appreciate the high Halal-standards we implement throughout our entire food processing line, namely Nutriplus Air Chilled Chicken, other chicken products and pasteurized Liquid Eggs, ensuring both customer satisfaction and peace of mind.

## CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

ON BEHALF OF THE BOARD OF LAY HONG BERHAD, IT IS MY PLEASURE TO PRESENT THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS OF THE COMPANY AND THE GROUP FOR THE FINANCIAL YEAR ENDED 31ST MARCH, 2006.

YAP HOONG CHAI

CHAIRMAN AND GROUP MANAGING DIRECTOR

### FINANCIAL PERFORMANCE

The poultry industry having braced itself through difficult times in the past two financial years of 2004 and 2005 had left your group registering pre-tax losses of RM3.288 million and RM3.811 million respectively. For the financial year under review ended 31st March, 2006, I am pleased to announce that your group had managed to turnaround, recording a 26% increase in turnover of RM226.597 million compared to the previous year of RM180.478 million and pre-tax profit of RM10.237 million. Favorable market conditions coupled with the worldwide reduction of raw material prices especially corn and soya bean and the re-engineering of some of the group's business processes had made this possible. The benefits derived from the expansion of new high tech layer farms and the diversifications into downstream of food processing activities during the past three years, such as pasteurized liquid egg and chicken processing have further contributed to the turnaround situation.

### BUSINESS REVIEW

#### Layers

Table eggs production for the financial year under review was higher at 405 million compared to 366 million eggs in the previous year. The additional new and more efficient high technological farms completed in the first phase during the year plus the improvements made to the old farm in Ijok, Selangor have led to the increased in production. Further, with the planned completion of the 2nd phase of the new farm located in Jeram, Selangor, in the current financial year, total production of table egg would increase from presently 1.100 million to approximately 1.300 million eggs per day. All the new high technology farms are accredited by the Ministry of Agriculture and Agrobased's Department of Veterinary Science for implementing good farm practices under the Skim Amalan Ladang Ternakan and are also ISO 9001 certified.

Your group is now exporting the Nutriplus brand of lower cholesterol eggs to Hong Kong. Though the quantity exported now is not significant, your board is confident that the quantity would increase in due course. For the local market in the speciality eggs segment, the Nutriplus brand continues its dominance as the market leader.

**BROILERS**

The quantity of live broilers produced during the financial year had recorded an increase of 4.358 million kilograms or 26% i.e. from 16.785 million to 21.144 million kilograms. The increase was contributed by the higher production from the contract farmers in Sabah, East Malaysia.

Currently, seventy percent (70%) of the live broilers produced by the group are for internal consumption and processed into primary and further processed poultry products i.e. dressed chicken, deboned meat and frankfurters. The balance are sold directly to retailers.

**FOOD PROCESSING**

This division comprised of the group's downstream activities that includes processing of chicken, manufacturing of chicken frankfurters and pasteurized liquid egg. The dressed chickens and frankfurters are currently marketed under the group's established brand of 'Nutriplus' in Peninsular Malaysia whereas in Sabah it is marketed under a second brand. Demand to date for the group's revolutionary product 'Air chilled chicken' and the newly launched chicken frankfurter have been very encouraging. Further, the market acceptance from the industrial users such as confectionaries and bakeries for pasteurized liquid egg is growing steadily. To increase turnover, the group is now focusing seriously into research and development in its pursuit to widen the range of quality processed poultry products. During the year, the group was awarded the 'Anugerah Khas Q' for the Industri Pengeluaran Ternakan by Jabatan Perkhidmatan Haiwan, Malaysia, for its uncompromised commitment to produce quality products.

During the financial year under review, I am pleased to inform that this division recorded a positive contribution of RM1.054 million to the group's profit.

**CAPITAL EXPENDITURE**


The construction of the second phase of the high technological layer farm in Jeram, Selangor is in the advanced stage of completion. Total cost to completion is estimated to be approximately RM18.00 million.

To further complement its existing manufacturing of chicken frankfurters, your group will be extending its manufacturing process to include nuggets, burgers and other cooked chicken products. This minor expansion will cost approximately RM1.0 million to complete.

Your group is also currently commissioning an additional fermentation plant for its organic fertilizer operation costing RM1.30 million. The construction of this plant is projected to be completed in the current financial year.

**DIRECTORATE**

On 3rd July, 2006, Dato' Dr. Abdul Aziz Bin Mangkat joined the board as a non-executive independent director. He was also appointed to the audit committee as well as nomination and remuneration committee. On behalf of the board, I welcome him on board.



**celebrating  
special occasions,  
celebrating life**

Lay Hong's Liquid Eggs have captured a substantial and growing sector of the bakery and confectionary market, providing customers with the cakes, pastries and other food items with which we celebrate life's special occasions, big and small.



## CHAIRMAN'S STATEMENT

### DIVIDEND

You board had recommended a dividend payment of 1 Sen per share less 28% tax for the financial year ended 31st March, 2006. Subject to the approval of shareholders at the forthcoming Annual General Meeting, this dividend will be paid on 8th November, 2006.

### PROSPECT FOR CURRENT YEAR

The outlook for the financial year ending 31st March, 2007 appears positive. The country had been declared free of the Avian Influenza H5N1 by the Minister of Agriculture and Agrobased Industry on 21st June, 2006. Following this announcement, prices of poultry products have been rising steadily and cost of imported raw material have remained fairly constant. Barring any unforeseen circumstances, your board would expect another profitable year.

### APPRECIATION

On behalf of the board, I would like to extend my heartfelt gratitude to the group's valued customers, business associates, government authorities, bankers and shareholders for their continued support, trust and confidence in the group.

To all our employees, on behalf of the board, I would like to extend our gratitude and great appreciation for their dedicated service, loyalty, contribution and commitment to the group.

Last, but not least, my personal thanks to my fellow Directors for their support and distinguished contribution in their respective capacities.

Yap Hoong Chai

CHAIRMAN AND GROUP MANAGING DIRECTOR

## STATEMENT ON CORPORATE GOVERNANCE

The Board fully appreciates the importance of adopting high standards of corporate governance within Lay Hong Bhd to enhance shareholders value. The Board has taken steps, as far as practicable, towards compliance of the recommendations in the Malaysia Code on Corporate Governance.

### THE BOARD

The Board is responsible for ensuring that shareholders' interests are protected and that shareholders values are enhanced. Various processes and systems are in place to facilitate the Board in carrying out this stewardship responsibility.

#### Composition of the Board

The current Board comprises seven (7) Directors who are entrepreneurs and professionals of calibre and credibility and who possess skills and experience relevant to the business operations of the Group.

The composition of the Board is broadly balanced to reflect the interests of major shareholders, management and minority shareholders.

Out of the seven (7) Directors, two (2) are executives and non-independent namely Mr Yap Hoong Chai & Mr Yeap Weng Hong, two (2) are non-independent non-executive namely Mr Yip Kim Hoong and Mr Yeap Fock Hoong and three (3) are non-executive independents namely Mr Gan Soo Jin, Dato' Dr. Abdul Aziz Bin Mangkat and Encik Abdul Hamid Bin Mohamed Ghows. The Board is headed by a Chairman, Mr Yap Hoong Chai who is also the Group Managing Director. The presences of a sufficient number of independent directors provide a strong element of independence of the Board.

The two (2) executive directors are all hands on and have over two (2) decades of working experience in the poultry farming business. Out of the three (3) independent directors, two (2) are professional accountants by training who have extensive experience in both the corporate and financial service environment and the other was a former Deputy Director General of the Department of Veterinary Services in the Ministry of Agriculture & Agro-Based Industry. The remaining two (2) Non-Executive Non-Independent Directors, one is a professional pilot with a major Airline and the other is an ex-poultry farmer and businessman.

The profile of each Director is presented on pages 4 to 5 of this Annual Report.

Apart from statutory responsibilities, the Board has overall responsibility for the Corporate Governance of the Group, including the strategic directions and review of key initiatives and decisions of the Group.

#### Board Responsibility

The Board has full control of the Group and oversees its business affairs. It approves strategic plans, key business initiatives, major investments and funding decisions, reviews financial performances, develops corporate objectives, determines succession plans for senior management and ensures adequate internal controls. These actions are carried out directly by the Board and through Board Committees.

Five (5) Board meetings were held during the financial year.

Board Meetings are held every three (3) months with additional meetings held whenever necessary. All Directors fulfilled the requirements of the Articles of Association with respect to board meeting attendance.

## THE BOARD (cont'd)

### Board Responsibility (cont'd)

The attendance records of directors during the financial year (taking into account the date of their respective appointments) are as follows:

Director	Attendance
Yap Hoong Chai	5 of 5 meetings
Yip Kim Hoong	4 of 5 meetings
Yeap Weng Hong	5 of 5 meetings
Yeap Fock Hoong	4 of 5 meetings
Gan Soo Jin	5 of 5 meetings
Abdul Hamid Bin Mohamed Ghows	5 of 5 meetings
Lau Thow Sin (APPOINTED ON 28/11/2005 AND RESIGNED ON 03/04/2006)	1 of 1 meeting
Dato' Dr Abdul Aziz Bin Mangkat (APPOINTED ON 3/7/2006)	–

The Board has also delegated certain responsibilities to the Audit Committee, which operates within clearly defined terms of reference. The Chairman of this Committee reports the outcome of Committee meetings to the Board. A Report on this Committee is presented on pages 7 to 10 of this Annual Report.

### Supply of information

All scheduled meetings held during the year were preceded by a formal agenda issued by the company secretary in consultation with the Chairman. The agenda for each of the meeting was accompanied by the minutes of preceding Board meetings, reports on group financial performance, industry trends, business plans and proposals, quarterly result announcements and other relevant information.

The Directors have access to all information within the Group in furtherance of their duty. They also have access to the advice and services of the Company Secretary and independent professionals as and when required.

### Appointments of the Board and Re-election

The Board has in place its Nomination Committee since 20th May 2002 and delegated to it the responsibility of recommending the appointment of any new Directors. It also reviews the Board's structure, size and composition, as well as the Board's succession plans.

The committee comprises exclusively of three (3) Independent Non-Executive Directors.

Upon appointment, a briefing session is organized for directors to familiarize them with the operations of the Group. Throughout their tenure in office, they are constantly updated on the Group's business, the competitive and regulatory environment in which it operates and other changes. They are also advised on their obligations as directors of a listed company.

## STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

### THE BOARD (cont'd)

#### Appointments of the Board and Re-election (cont'd)

Pursuant to Practice Note 15/2003 on the Continuing Education Programme (CEP), most of the Directors had attended seminars and courses organised by the relevant regulatory authorities and professional bodies and the majority of the Directors have obtained the requisite CEP points.

In line with the recent amendment to Practice Note 15/2003, the Directors shall be responsible to determine their continuous training needs to keep themselves updated on the relevant regulatory and corporate governance developments.

Procedures relating to the appointment and re-election of directors are contained in the Company's Articles of Association. At the Annual General Meeting, one third of the Directors for the time being retire from office. The Directors who retire every year are those who have been longest in the office since their last appointment or election.

#### Directors' Remuneration

The Non-Executive Directors are provided with an annual fixed directors' fees, which are approved by the shareholders at the Annual General Meeting based on the recommendation of the Board. They are also provided with a meeting allowance each time they attend a Board Meeting.

The Remuneration Committee was in place since 20th May 2002 and it comprise two independent directors and one executive director. This committee is entrusted with the role of determining and recommending suitable policies in respect of salary packages for Executive Directors and will meet as and when required. The remuneration packages of Non-Executive Directors are determined by the Board.

The breakdown of the remuneration of the directors during the financial year is presented on pages 64 to 65 of this Annual Report.

### SHAREHOLDERS COMMUNICATION

The group recognizes the importance of effective communication with shareholders and the investment community, and adheres strictly to the disclosure requirements of the Bursa Malaysia.

Quarterly reports on the Group's results and announcements can be accessed from the Bursa Malaysia website. In addition the Group's annual report contains a review of its financial and operational performance.

The Annual General Meeting (AGM) is the principal forum for dialogue with shareholders. Shareholders are notified of the meeting and provided with a copy of the Annual Report 21 days before the meeting. At the AGM, the Board presents the progress and performance of the Group and provides opportunity for shareholders to raise questions pertaining to the business activities of the Group. All directors are available to respond to questions from shareholders during this meeting. The external auditors are also present to provide professional and independent clarification on issues and concerns raised by the shareholders.

## ACCOUNTABILITY AND AUDIT

### Financial Reports

The Board is responsible for ensuring that financial statements prepared for each financial year give a true and fair view of the Group's state of affairs. The directors took due care and reasonable steps to ensure that the requirements of accounting standards were fully met. Quarterly financial statements were reviewed by the Audit Committee and approved by the Board of Directors prior to their release to Bursa Malaysia.

A statement by Directors of their responsibilities in preparing the financial statements is set out on page 33 of this Annual Report.

### Internal Control

The Code requires the Board to maintain a sound system of internal control to safeguard shareholder's investment and the Group's assets. The Statement of Internal Control furnished on page 24 of this Annual Report provides an overview of the state of internal control within the Group.

### Relationship with auditors

The external auditors are engaged to express an opinion on the financial statements. They review and test the systems of internal financial control and the data contained in the financial statements to the extent necessary to express their audit opinion. They discuss with the management the reporting of operational results and the financial condition of the Group, and present their findings to the Audit Committee.

Through the Audit Committee, the Group has established a transparent and professional relationship with the external auditors in seeking advice and ensuring compliance with accounting standards in Malaysia.

### Statements of compliance with best practices of the code

The company is committed to achieving high standards of corporate governance throughout the Group and to the highest level of integrity and standards in all its business dealings. The Board considers that it has complied throughout the financial year with the Best Practices as set in the Code.

## STATEMENT ON INTERNAL CONTROL

### BOARD'S RESPONSIBILITY

The Board acknowledges its responsibility for the adequacy and integrity of the Group's system of internal controls. The system of internal controls, by its nature, can only provide reasonable and not absolute assurance against any material loss or fraud. It is also recognised that risks cannot be completely eliminated. As such, the systems and procedures put in place are aimed at minimising and managing risks.

### KEY PROCESSES

The Board confirms that there is an ongoing process in identifying, evaluating and managing significant risks faced by the Group; that the process has been in place up to the date of this statement; that this process is reviewed by the Board and is in accordance with the Statement on Internal Control: Guidance for Directors of Public Listed Companies.

The key processes that the Directors have established in reviewing the adequacy and integrity of the system of internal controls are as follows:

- ✔ A Risk Management Committee was in place to identify key risks facing the Group and to formulate appropriate measures to address those risks. The Risk Management Committee comprises of the Managing Director and senior management team and is supported by a sub-committee comprising operational managers of major departments. During the year, all major risks that have an impact on the Group such as market, economic, legislative and financial risks, have been identified, prioritised and monitored closely on an on going basis. The risk assessment process includes areas of protection of livestock against adverse climatic conditions and diseases as well as recruitment and retention of employees and the provision for doubtful trade debts.
- ✔ Since the previous financial year, the internal audit function has been outsourced to an independent professional firm who reports directly to the Audit Committee. Two reports on the internal audit findings were issued to the Audit Committee during the year. The internal audit function reviews critical business processes and identifies internal control gaps, assesses the effectiveness and adequacy of the existing state of internal control and recommends possible improvements to the internal control process.
- ✔ The Board has put in place an organisational structure with defined roles, responsibilities and delegation of authority. There are also established policies and procedures in terms of future planning, capital expenditure, development of information and reporting systems, and constant monitoring of the Group's business operations and its performance. Operational policies and procedures are communicated to the management and staff as to what is expected of them and to ensure that the required discretion is exercised in the carrying out of their duties.
- ✔ All major decisions require the final approval of the Board and are only made after appropriate in-depth analysis. The Board receives regular and comprehensive information in relation to all businesses within the Group.
- ✔ Monthly Executive Committee meetings are held and are attended by all Executive Directors and senior management to discuss the Group's operational matters.
- ✔ Detailed budgets are prepared by the finance department and approved by the Board. The monitoring of actual performance against what is budgeted is performed on a timely basis. When major variances are observed, further investigation is performed and follow-up management actions are taken where necessary.

This statement is made in accordance with the resolution of the Board dated 18th July 2006.



## cooking up customer satisfaction

Whether it's a get-together family barbecue or a restaurant banquet, Malaysians have come to trust Lay Hong for providing products that are both delicious and nutritious. They know that only the highest standards of manufacturing, quality control and security go into our chickens and eggs.



## GROUP FINANCIAL HIGHLIGHTS

	2002 RM' million	2003 RM' million	2004 RM' million	2005 RM' million	2006 RM' million
Turnover	81.964	96.530	129.797	180.478	<b>226.597</b>
Profit (Loss) before tax	1.256	1.406	(3.288)	(3.811)	<b>10.237</b>
Total assets	90.019	124.723	164.150	192.487	<b>219.273</b>
Paid-up capital	17.500	42.000	42.000	42.000	<b>42.000</b>
Net Tangible Assets (NTA)	42.465	53.674	52.408	47.848	<b>66.337</b>
NTA per share	2.427	1.278	1.248	1.139	<b>1.579</b>
Earnings per share - sen	3.23	2.94	(2.55)	(7.37)	<b>15.81</b>

## GROUP STRUCTURE & OPERATIONS



# FINANCIAL STATEMENTS

28	directors' report
33	statement by directors
33	statutory declaration
34	report of the auditors
35	consolidated balance sheet
36	consolidated income statement
37	consolidated statement of changes in equity
38	consolidated cash flow statement
40	balance sheet
41	income statement
41	statement of changes in equity
42	cash flow statement
44	notes to the financial statements



## DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 March 2006.

### PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and poultry farming.

The principal activities of the subsidiaries are disclosed in Note 4 to the financial statements.

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

### RESULTS

 RM	Group	Company
Profit after taxation	7,191,574	3,209,315
Minority interests	(552,046)	–
<b>Net profit for the year</b>	<b>6,639,528</b>	<b>3,209,315</b>

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the statements of changes in equity.

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

### DIVIDENDS

No dividends have been declared or paid since the end of the previous financial year.

At the forthcoming Annual General Meeting, a first and final dividend in respect of the financial year ended 31 March 2006, of 1 sen less 28% taxation on 42,000,000 ordinary shares, amounting to a dividend payable of RM302,400 (0.72 sen net per ordinary share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 March 2007.

The dividend payable amount is based on the Company's issued and paid-up share capital as at 31 March 2006. The actual dividend payment amount will be based on the Company's issued and paid-up share capital at the book closure date and may vary from the amount shown above.

## DIRECTORS

The names of the directors of the Company in office since the date of the last report and at the date of this report are:

Yap Hoong Chai  
 Yip Kim Hoong  
 Yeap Weng Hong  
 Yeap Fock Hoong  
 Gan Soo Jin  
 Abdul Hamid bin Mohamed Ghows  
 Lau Thow Sin (APPOINTED ON 28 NOVEMBER 2005 AND RESIGNED ON 3 APRIL 2006)  
 Dato' Dr Abdul Aziz bin Mangkat (APPOINTED ON 3 JULY 2006)

## DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, other than those arising from the share options granted under the Executive Share Option Scheme.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 22 to the financial statements or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in Note 33 to the financial statements.

## EXECUTIVE SHARE OPTION SCHEME

The Lay Hong Berhad Executive Share Option Scheme ("ESOS") is governed by the By-Laws approved by the shareholders at an Extraordinary General Meeting held on 28 September 2005. The ESOS was implemented on 23 November 2005 and is to be in force for a period of 5 years from the date of implementation.

The salient features and other terms of the ESOS are disclosed in Note 15 to the financial statements.

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the names of employees who have been granted options to subscribe for less than 400,000 ordinary shares of RM1 each. The list of employees granted options to subscribe for 400,000 or more ordinary shares of RM1 each during the financial year is as follows:

Name	Grant Date	Expiry Date	Exercise Price	----- No. of Share Options -----		
				Granted	Exercised	At 31 March 2006
Ng Kim Tian	23/11/2005	10/11/2010	1.00	400,000	–	400,000
Yap Chor How	23/11/2005	10/11/2010	1.00	400,000	–	400,000

Details of options granted to directors are disclosed in the section on Directors' Interest in this report.

**DIRECTORS' INTEREST**

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

	Number of Ordinary Shares of RM1 Each			At 31 March 2006
	At 1 April 2005	Bought	Sold	
<b>THE COMPANY</b>				
<b>Direct Interest</b>				
Yeap Fock Hoong	12,000	–	–	12,000
Yeap Weng Hong	7,200	–	–	7,200
Gan Soo Jin	48,000	–	–	48,000
Yip Kim Hoong	1,970,000	871,657	–	2,841,657
<b>Indirect Interest</b>				
Yap Hoong Chai	18,900,000	–	–	18,900,000
Yeap Fock Hoong	18,900,000	–	–	18,900,000
Yeap Weng Hong	18,900,000	–	–	18,900,000
<b>SUBSIDIARIES:</b>				
<b>Evergreen Organic Fertilisers Sdn Berhad</b>				
<b>Indirect Interest</b>				
Yap Hoong Chai	147,000	–	–	147,000
Yeap Fock Hoong	147,000	–	–	147,000
Yeap Weng Hong	147,000	–	–	147,000
<b>Innobrid Sdn Bhd</b>				
<b>Indirect Interest</b>				
Yap Hoong Chai	880,000	–	–	880,000
Yeap Fock Hoong	880,000	–	–	880,000
Yeap Weng Hong	880,000	–	–	880,000
<b>Sri Tawau Farming Sdn Bhd</b>				
<b>Indirect Interest</b>				
Yap Hoong Chai	500,001	–	–	500,001
Yeap Fock Hoong	500,001	–	–	500,001
Yeap Weng Hong	500,001	–	–	500,001

## DIRECTORS' INTEREST (cont'd)

	Number of Options Over Ordinary Shares of RM1 Each				At 31 March 2006
	At 1 April 2005	Granted	Exercised	Lapsed	
Yap Hoong Chai	–	600,000	–	–	600,000
Yeap Weng Hong	–	400,000	–	–	400,000

Yap Hoong Chai, Yeap Fock Hoong and Yeap Weng Hong, by virtue of their interests in shares in the Company are also deemed interested in shares of all the Company's subsidiaries to the extent the Company has an interest.

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

## OTHER STATUTORY INFORMATION

- a Before the balance sheets and income statements of the Group and of the Company were made out, the directors took reasonable steps:
  - i to ascertain that proper 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 known bad debts had been written off and that adequate provision had been made for doubtful debts; and
  - ii to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- b At the date of this report, the directors are not aware of any circumstances which would render:
  - i the amount written off for bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; and
  - ii the values attributed to the current assets in the financial statements of the Group and of the Company misleading.
- c At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- d At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

### OTHER STATUTORY INFORMATION (cont'd)

- e As at the date of this report, there does not exist:
  - i any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - ii any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- f In the opinion of the directors:
  - i 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 financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and
  - ii no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

### SIGNIFICANT EVENT

Significant events during the year are as disclosed in Note 31 to the financial statements.

### AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors

**Yap Hoong Chai**

**Yeap Weng Hong**

Klang, Malaysia  
18 July 2006



**STATEMENT BY DIRECTORS** PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, YAP HOONG CHAI and YEAP WENG HONG, being two of the directors of LAY HONG BERHAD, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 35 to 72 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 31 March 2006 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors

**Yap Hoong Chai**

**Yeap Weng Hong**

Klang, Malaysia  
18 July 2006

**STATUTORY DECLARATION** PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, NG KIM TIAN, being the officer primarily responsible for the financial management of LAY HONG BERHAD, do solemnly and sincerely declare that the accompanying financial statements set out on pages 35 to 72 are in my opinion 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  
above named NG KIM TIAN at Klang  
in Selangor Darul Ehsan on 18 July 2006

**Ng Kim Tian**

Before me,

No. B. 022  
**Yam Cheok Wan**  
41-A, (Front) Jalan Goh Hock Huat  
41400 Klang, Selangor  
Commissioner for Oaths

We have audited the financial statements set out on pages 35 to 72. 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 the 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 to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. 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 MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
  - i the financial position of the Group and of the Company as at 31 March 2006 and of the results and the cash flows of the Group and of the Company for the year then ended; and
  - ii the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- b the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and the auditors' reports thereon of the subsidiaries of which we have not acted as auditors, as indicated in Note 4 to the financial statements, being financial statements that have been included in the consolidated financial statements.

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


The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification material to the consolidated financial statements and did not include any comment required to be made under Section 174(3) of the Act.

**Ernst & Young**  
AF: 0039  
Chartered Accountants

**Pushpanathan A/L S.A. Kanagarayar**  
No. 1056/03/07 (J/PH)  
Partner

Kuala Lumpur, Malaysia  
18 July 2006

**CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2006**

 RM	Note	2006	2005
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	3	145,549,428	121,539,567
Investments	4	118,791	118,791
Goodwill arising on consolidation, net	5	1,551,051	1,655,167
Deferred tax assets	18	10,343,662	10,470,690
		<b>157,562,932</b>	<b>133,784,215</b>
<b>CURRENT ASSETS</b>			
Inventories	6	33,539,683	26,094,112
Trade receivables	7	25,272,448	29,442,640
Other receivables	8	2,343,781	2,396,918
Cash and bank balances	10	554,448	769,097
		<b>61,710,360</b>	<b>58,702,767</b>
<b>CURRENT LIABILITIES</b>			
Short term borrowings	11	41,463,106	42,335,452
Trade payables		29,536,613	29,227,836
Other payables	12	11,770,223	9,035,068
Due to a corporate shareholder	13	833,205	857,205
Taxation		-	9,102
		<b>83,603,147</b>	<b>81,464,663</b>
<b>NET CURRENT LIABILITIES</b>		<b>(21,892,787)</b>	<b>(22,761,896)</b>
		<b>135,670,145</b>	<b>111,022,319</b>
<b>FINANCED BY:</b>			
Share capital	15	42,000,000	42,000,000
Retained profits	16	13,999,825	7,360,297
Other reserves		11,887,758	142,536
Shareholders' equity		<b>67,887,583</b>	<b>49,502,833</b>
Minority interests		7,145,734	3,423,057
		<b>75,033,317</b>	<b>52,925,890</b>
Long term borrowings	11	36,145,561	41,009,000
Long term payables	17	1,024,216	-
Due to a corporate shareholder	13	3,398,000	3,398,000
Deferred tax liabilities	18	20,069,051	13,689,429
Non-current liabilities		<b>60,636,828</b>	<b>58,096,429</b>
		<b>135,670,145</b>	<b>111,022,319</b>


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

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

RM	Note	2006	2005
Revenue	19	226,596,606	180,478,140
Other operating income	20	1,623,351	1,536,209
Changes in inventories		7,435,514	375,888
Raw materials, livestocks and consumables used		(158,283,765)	(140,783,513)
Staff costs	21	(19,213,209)	(15,041,082)
Depreciation		(10,806,455)	(8,571,560)
Other operating expenses	23	(32,326,836)	(18,098,772)
Profit/(loss) from operations		15,025,206	(104,690)
Finance costs	24	(4,787,989)	(3,706,244)
Profit/(loss) before taxation		10,237,217	(3,810,934)
Taxation	25	(3,045,643)	936,448
Profit/(Loss) after taxation		7,191,574	(2,874,486)
Minority interests		(552,046)	(218,833)
Net profit/(loss) attributable to shareholders		6,639,528	(3,093,319)
Basic earnings/(loss) per share (sen)	26	15.81	(7.37)

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** FOR THE YEAR ENDED 31 MARCH 2006

 RM	Share Capital	Non Distributable Revaluation Reserve	Distributable Capital Reserve	Distributable Retained Profits	Total
<b>At 1 April 2004</b>					
As previously stated	42,000,000	142,536	539,441	11,493,160	54,175,137
Prior year adjustments (Note 28)	–	–	(539,441)	(1,039,544)	(1,578,985)
<b>At 1 April 2004 restated</b>					
As previously stated	42,000,000	142,536	–	10,453,616	52,596,152
Net loss for the year	–	–	–	(3,093,319)	(3,093,319)
<b>At 31 March 2005 restated</b>					
	42,000,000	142,536	–	7,360,297	49,502,833
<b>At 1 April 2005</b>					
As previously stated	42,000,000	142,536	539,441	8,394,035	51,076,012
Prior year adjustments (Note 28)	–	–	(539,441)	(1,033,738)	(1,573,179)
<b>At 1 April 2005 restated</b>					
	42,000,000	142,536	–	7,360,297	49,502,833
Net profit for the year	–	–	–	6,639,528	6,639,528
Revaluation surplus	–	11,745,222	–	–	11,745,222
<b>At 31 March 2006</b>					
	42,000,000	11,887,758	–	13,999,825	67,887,583

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

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006



2006 2005

### CASH FLOWS FROM OPERATING ACTIVITIES

Profit/(Loss) before taxation	10,237,217	(3,810,934)
Adjustments for:		
Amortisation of goodwill	106,536	106,472
Depreciation	10,806,455	8,571,560
Dividend income	(300)	(12,350)
Gain on disposal of property, plant and equipment	(156,316)	(362,581)
Gain on disposal of marketable securities	-	(303,990)
Interest expense	4,787,989	3,706,244
Interest income	-	(1,386)
Net unrealised foreign exchange gains	(236,602)	(14,698)
Bad debts written off	208,461	1,532
Provision for doubtful debts	1,962,717	360,943
Writeback of provision for doubtful debts	(398,461)	(57,342)
Provision of diminution in value of quoted shares	-	4,809
Property, plant & equipment written off	344,819	-
Operating profit before working capital changes	27,662,515	8,188,279
Increase in inventories	(7,445,571)	(271,609)
Decrease/(increase) in receivables	2,449,214	(6,958,764)
Increase in payables	4,302,330	7,684,011
(Decrease)/increase in amount due to a corporate shareholder	(24,000)	548,800
Cash generated from operations	26,944,488	9,190,717
Interest paid	(4,787,989)	(3,706,244)
Taxes refund/(paid)	154,909	(90,745)
Net cash generated from operating activities	22,311,408	5,393,728

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



2006 2005

**CASH FLOWS FROM INVESTING ACTIVITIES**

Acquisition of subsidiary	–	405,830
Purchase of property, plant and equipment	(15,736,799)	(23,364,913)
Proceeds from disposal of property, plant and equipment	698,519	846,629
Proceeds from disposal of marketable securities	–	590,223
Interest received	–	1,386
Dividend received	300	12,350

Net cash used in investing activities (15,037,980) (21,508,495)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Repayment of hire purchase financing, net	(3,963,026)	(6,777,298)
(Repayment)/drawdown of other short term borrowings, net	(1,611,000)	1,962,000
(Repayment)/drawdown of term loans, net	(540,039)	17,499,346

Net cash (used in)/generated from financing activities (6,114,065) 12,684,048

NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS 1,159,363 (3,430,719)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (3,749,992) (319,273)

CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 10) (2,590,629) (3,749,992)

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

## BALANCE SHEET AS AT 31 MARCH 2006

RM	Note	2006	2005
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	3	58,670,710	47,592,067
Investments	4	14,894,038	10,991,618
		<b>73,564,748</b>	<b>58,583,685</b>
<b>CURRENT ASSETS</b>			
Inventories	6	12,660,942	11,598,044
Trade receivables	7	5,351,705	7,019,631
Other receivables	8	916,146	863,772
Due from subsidiaries	9	37,556,615	37,611,336
Cash and bank balances	10	38,538	15,328
		<b>56,523,946</b>	<b>57,108,111</b>
<b>CURRENT LIABILITIES</b>			
Short term borrowings	11	19,777,367	20,666,605
Trade payables		19,157,191	19,514,196
Other payables	12	3,818,604	2,936,250
Due to subsidiaries	9	2,990,450	1,511,396
		<b>45,743,612</b>	<b>44,628,447</b>
<b>NET CURRENT ASSETS</b>		<b>10,780,334</b>	<b>12,479,664</b>
		<b>84,345,082</b>	<b>71,063,349</b>
<b>FINANCED BY:</b>			
Share capital	15	42,000,000	42,000,000
Retained profits	16	13,271,432	10,062,117
Other reserves		6,238,530	142,536
		<b>61,509,962</b>	<b>52,204,653</b>
Long term borrowings	11	14,278,730	13,446,634
Long term payables	17	1,024,216	-
Deferred tax liabilities	18	7,532,174	5,412,062
Non-current liabilities		<b>22,835,120</b>	<b>18,858,696</b>
		<b>84,345,082</b>	<b>71,063,349</b>

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



## INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

RM	Note	2006	2005
Revenue	19	131,668,802	123,882,582
Other operating income	20	992,266	900,070
Changes in inventories		1,429,021	737,811
Raw materials, livestock and consumables used		(105,143,592)	(103,499,449)
Staff costs	21	(7,104,071)	(6,154,971)
Depreciation		(5,048,843)	(4,273,349)
Other operating expenses	23	(10,450,992)	(7,937,573)
Profit from operations		6,342,591	3,655,121
Finance costs	24	(1,808,747)	(1,481,629)
Profit before taxation		4,533,844	2,173,492
Taxation	25	(1,324,529)	(670,915)
Net profit for the year		3,209,315	1,502,577

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2006

RM	Share Capital	Non Distributable Revaluation Reserve	Distributable Retained Profits	Total
At 1 April 2004	42,000,000	142,536	8,559,540	50,702,076
Net profit for the year	–	–	1,502,577	1,502,577
At 31 March 2005	42,000,000	142,536	10,062,117	52,204,653
Net profit for the year	–	–	3,209,315	3,209,315
Revaluation surplus	–	6,095,994	–	6,095,994
At 31 March 2006	42,000,000	6,238,530	13,271,432	61,509,962

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

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006



2006 2005

### CASH FLOWS FROM OPERATING ACTIVITIES

Profit before taxation	4,533,844	2,173,492
Adjustments for:		
Depreciation	5,048,843	4,273,349
Dividend income	(300)	(12,200)
Gain on disposal of property, plant and equipment	(21,515)	(196,155)
Gain on disposal of quoted investments	–	(303,990)
Interest expense	1,808,747	1,481,629
Interest income	–	(882)
Net unrealised foreign exchange (gain)/loss	(213,893)	120
Bad debts written off	28,261	1,532
Provision for doubtful debts	433,473	269,383
Writeback of provision for doubtful debts	(139,543)	–
Provision of diminution in value of quoted shares	–	2,404
Operating profit before working capital changes	11,477,917	7,688,682
Increase in inventories	(1,062,898)	(579,029)
Decrease in receivables	1,235,808	1,373,448
Increase in payables	1,763,458	6,640,136
Increase/(decrease) in intercompany balances	1,533,775	(13,777,918)
Cash generated from operations	14,948,060	1,345,319
Interest paid	(1,808,747)	(1,481,629)
Taxes refund/(paid)	203,036	(175,600)
Net cash from/(used in) operating activities	13,342,349	(311,910)

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



2006 2005

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of property, plant and equipment	(9,490,703)	(8,506,380)
Proceeds from disposal of property, plant and equipment	130,826	274,810
Proceeds from disposal of marketable securities	–	590,223
Additional investment in subsidiaries	(3,902,420)	–
Interest received	–	882
Dividend received	300	12,200

Net cash used in investing activities (13,261,997) (7,628,265)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Repayment of hire purchase financing, net	(1,926,548)	(2,518,680)
(Repayment)/drawdown of other short term borrowings, net	(602,000)	174,000
Drawdown of term loans, net	3,916,344	7,162,317

Net cash generated from financing activities 1,387,796 4,817,637

NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS 1,468,148 (3,122,538)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (1,709,942) 1,412,596

CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 10) (241,794) (1,709,942)

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

## 1 CORPORATE INFORMATION

The principal activities of the Company are investment holding and poultry farming. The principal activities of the subsidiaries are as disclosed in Note 4. There have been no significant changes in the nature of the principal activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Second Board of the Bursa Malaysia Securities Berhad. The principal place of business of the Company is located at No. 39 & 41, Jalan 5, Kawasan 16, Taman Intan, 41300 Klang, Selangor Darul Ehsan.

The number of employees in the Group and the Company at the end of the financial year were 928 (2005: 880) and 226 (2005: 276) respectively.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 18 July 2006.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### a Basis of Preparation

The financial statements of the Group and of the Company have been prepared under the historical cost convention unless otherwise indicated in the accounting policies below and comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia.

### b Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries. Subsidiaries are those companies in which the Group has a long term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. 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 at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill. Negative goodwill on consolidation is not amortised.

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary 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 statement.

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 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 at the date of acquisition.

Goodwill is stated at cost less accumulated amortisation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(n). Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet, net of negative goodwill.

Goodwill is amortised on a straight line basis over its estimated useful life of 25 years.

### d Investment in Subsidiaries

The Company's investments in subsidiaries are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(n). On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is recognised in the income statement.

### e Property, Plant and Equipment and Depreciation

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

The Group revalues its land and buildings at least once in every five years. Land and buildings are stated at cost for land that are acquired less than 3 years.

Surplus arising from revaluation is dealt with through the revaluation reserve account. Any deficit arising is set-off against the revaluation reserve to the extent of a previous increase for the same asset. In all other cases, a decrease in carrying amount will be charged immediately to the income statement.

Freehold land and capital work-in-progress are not depreciated. Leasehold land is depreciated over the period of the respective leases which range from 30 to 98 years. Depreciation of other property, plant and equipment is provided on a straight line basis to write off the cost of each asset to its residual value over its estimated useful life at the following annual rates:

Buildings	2% - 10%
Plant and machinery	3% - 20%
Motor vehicles	20%
Office equipment	10% - 20%
Furniture and fittings	5%

Upon the disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement and the unutilised portion of the revaluation surplus on that item is taken directly to retained profits.

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

f Inventories

i Livestocks

Livestocks comprise breeders, broilers and layers and are stated at the lower of cost or amortised cost and net realisable value.

a Layer Breeders

Cost includes cost of parent stock plus all attributable costs to the point of lay at week 22. The total estimated economic useful life of breeders is 72 weeks and accordingly, the cost is amortised over the breeder's estimated economic life of 50 weeks.

b Broiler Breeders

Cost includes cost of parent stock plus all attributable costs to the point of lay at week 24. The total estimated economic useful life of breeders is 65 weeks and accordingly, the cost is amortised over the breeder's estimated economic life of 41 weeks.

c Layers

Cost includes cost of pullet plus all attributable costs including relevant overheads in breeding the pullet to the point of lay at week 21. The total estimated economic life of layers is 77 weeks and accordingly, the cost is amortised over the layer's estimated economic life of 56 weeks.

d Broilers

Cost is stated at the lower of cost and net realisable value. Cost of broilers include direct production costs and appropriate production overheads.

ii Eggs, organic fertilisers, packing materials, raw materials, processed and frozen products

Eggs, organic fertilisers, raw materials, processed and frozen products are stated at the lower of cost and net realisable value. Cost of eggs, organic fertilisers, packing materials, processed and frozen products include direct production costs and appropriate production overheads and is determined on the weighted average basis.

g Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank, deposits at call, net of outstanding bank overdrafts.

h Leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incident to ownership. All other leases are classified as operating leases.

i Finance leases

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### h Leases (cont'd)

#### i Finance leases (cont'd)

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

The depreciation policy for leased assets is consistent with that for depreciable property, plant and equipment as described in Note 2(e).

#### ii Operating leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the relevant lease.

### i 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.

### j 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 rate that has 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 base 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 difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rate 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 statements, 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.

2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

k Employee Benefits

i Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year 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

As required by law, the Group makes contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

l 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 Revenue is recognised net of discounts upon the transfer of risks and rewards.
- ii Dividend income is recognised when the right to receive payment is established.
- iii Rental and interest income are recognised on the accruals basis.

m Foreign currencies

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the dates of the transactions. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. Non-monetary items initially denominated in foreign currencies 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.

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

RM	2006	2005
Singapore Dollar	2.28	2.30
Euro	4.47	4.91

n Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at revalued amounts. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.



## 2 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### o Financial Instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instruments.

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

#### i Non-Current Investments

Non-current investments other than investments in subsidiaries are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(n).

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in the income statement.

#### ii Marketable Securities

Marketable securities are carried at the lower of cost and market value, determined on an aggregate basis. Cost is determined on the weighted average basis while market value is determined based on quoted market values. Increases or decreases in the carrying amount of marketable securities are recognised in the income statement. On disposal of marketable securities, the difference between net disposal proceeds and the carrying amount is recognised in the income statement.

#### iii Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimation is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

#### iv Payables

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

#### v Interest-Bearing Borrowings

Interest-bearing bank loans, bankers' acceptances and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

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

#### vi Equity Instruments

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

## 3 PROPERTY, PLANT AND EQUIPMENT

RM	Land and Buildings	Plant and Machinery	Motor Vehicles	Office equipment, Furniture and Fittings	Capital Work-In-Progress	Total
<b>GROUP</b>						
<b>Cost/Valuation</b>						
At 1 April 2005	98,642,435	51,264,231	9,715,051	3,943,485	355,767	163,920,969
Reclassification	(26,578,604)	27,025,513	(441,329)	(5,580)	–	–
	72,063,831	78,289,744	9,273,722	3,937,905	355,767	163,920,969
Additions	5,071,870	10,589,109	886,966	644,775	376,711	17,569,431
Revaluation	26,888,501	–	–	–	–	26,888,501
Disposals	(67,861)	(112,852)	(879,881)	(2,500)	–	(1,063,094)
Write off	(325,030)	(800,985)	(24,217)	(62,980)	–	(1,213,212)
Transfers	355,767	–	–	–	(355,767)	–
<b>At 31 March 2006</b>	<b>103,987,078</b>	<b>87,965,016</b>	<b>9,256,590</b>	<b>4,517,200</b>	<b>376,711</b>	<b>206,102,595</b>
<b>Accumulated Depreciation</b>						
At 1 April 2005	20,513,111	15,945,671	4,471,952	1,450,668	–	42,381,402
Reclassification	(7,058,550)	7,101,143	(42,529)	(64)	–	–
	13,454,561	23,046,814	4,429,423	1,450,604	–	42,381,402
Charge for the year	2,372,372	6,448,138	1,501,718	484,227	–	10,806,455
Adjustment for revaluation	8,674,255	–	–	–	–	8,674,255
Disposals	–	(62,567)	(377,558)	(427)	–	(440,552)
Write off	(229,279)	(560,646)	(24,213)	(54,255)	–	(868,393)
<b>At 31 March 2006</b>	<b>24,271,909</b>	<b>28,871,739</b>	<b>5,529,370</b>	<b>1,880,149</b>	<b>–</b>	<b>60,553,167</b>
<b>Net Book Value</b>						
<b>At 31 March 2006</b>	<b>79,715,169</b>	<b>59,093,277</b>	<b>3,727,220</b>	<b>2,637,051</b>	<b>376,711</b>	<b>145,549,428</b>
At 31 March 2005	58,609,270	55,242,930	4,844,299	2,487,301	355,767	121,539,567
<b>Details at 1 April 2004</b>						
Cost	70,775,038	38,064,336	8,879,772	3,256,854	–	120,976,000
Valuation	14,382,677	–	–	–	–	14,382,677
Accumulated depreciation	18,454,856	13,023,425	4,122,663	1,025,210	–	36,626,154
<b>Depreciation charge for 2005</b>	<b>3,478,570</b>	<b>3,148,911</b>	<b>1,513,549</b>	<b>430,530</b>	<b>–</b>	<b>8,571,560</b>

## 3 PROPERTY, PLANT AND EQUIPMENT (cont'd)

RM	Land and Buildings	Plant and Machinery	Motor Vehicles	Office Equipment, Furniture and Fittings	Capital Work-In-Progress	Total
<b>COMPANY</b>						
<b>Cost/Valuation</b>						
At 1 April 2005	42,361,232	16,024,302	5,754,666	2,932,381	55,297	67,127,878
Reclassification	(18,350,804)	18,350,804	–	–	–	–
	24,010,428	34,375,106	5,754,666	2,932,381	55,297	67,127,878
Additions	2,432,714	6,856,046	100,000	101,943	–	9,490,703
Revaluation	7,505,386	–	–	–	–	7,505,386
Disposals	–	–	(234,134)	–	–	(234,134)
Transfers	55,297	–	–	–	(55,297)	–
<b>At 31 March 2006</b>	<b>34,003,825</b>	<b>41,231,152</b>	<b>5,620,532</b>	<b>3,034,324</b>	<b>–</b>	<b>83,889,833</b>
<b>Accumulated Depreciation</b>						
<b>Cost/Valuation</b>						
At 1 April 2005	8,702,107	7,065,920	2,578,782	1,189,002	–	19,535,811
Reclassification	(4,565,821)	4,565,821	–	–	–	–
	4,136,286	11,631,741	2,578,782	1,189,002	–	19,535,811
Charge for the year	720,635	2,939,195	1,009,988	379,025	–	5,048,843
Adjustment for revaluation	759,292	–	–	–	–	759,292
Disposals	–	–	(124,823)	–	–	(124,823)
<b>At 31 March 2006</b>	<b>5,616,213</b>	<b>14,570,936</b>	<b>3,463,947</b>	<b>1,568,027</b>	<b>–</b>	<b>25,219,123</b>
<b>Net Book Value</b>						
<b>At 31 March 2006</b>	<b>28,387,612</b>	<b>26,660,216</b>	<b>2,156,585</b>	<b>1,466,297</b>	<b>–</b>	<b>58,670,710</b>
At 31 March 2005	19,874,142	22,743,365	3,175,884	1,743,379	55,297	47,592,067
<b>Details at 1 April 2004</b>						
Cost	23,563,119	14,547,087	5,755,238	2,736,925	–	46,602,369
Valuation	10,349,542	–	–	–	–	10,349,542
Accumulated depreciation	7,109,833	5,847,777	2,285,385	819,772	–	16,062,767
<b>Depreciation charge for 2005</b>	<b>1,592,274</b>	<b>1,218,143</b>	<b>1,093,702</b>	<b>369,230</b>	<b>–</b>	<b>4,273,349</b>

**3 PROPERTY, PLANT AND EQUIPMENT (cont'd)**

The details of the land and buildings stated at cost and valuation are as follows:

RM	Valuation	Cost	Total
<b>GROUP</b>			
<b>Cost/Valuation</b>			
Land			
- Freehold	16,095,000	1,193,956	17,288,956
- Long leasehold	6,060,115	455,440	6,515,555
- Short leasehold	91,903	–	91,903
Buildings	61,897,389	18,193,276	80,090,665
	84,144,407	19,842,672	103,987,079
<b>Accumulated Depreciation</b>			
Land			
- Freehold	–	–	–
- Long leasehold	836	20,393	21,229
- Short leasehold	–	–	–
Buildings	20,838,152	3,412,529	24,250,681
	20,838,988	3,432,922	24,271,910
<b>Net Book Value</b>			
<b>At 31 March 2006</b>	<b>63,305,419</b>	<b>16,409,750</b>	<b>79,715,169</b>
At 31 March 2005	8,055,495	50,553,775	58,609,270
<b>COMPANY</b>			
<b>Cost/Valuation</b>			
Land - Freehold	9,015,000	1,193,957	10,208,957
Buildings	19,736,125	4,058,743	23,794,868
	28,751,125	5,252,700	34,003,825
<b>Accumulated Depreciation</b>			
Buildings	5,459,125	157,088	5,616,213
	5,459,125	157,088	5,616,213
<b>Net Book Value</b>			
<b>At 31 March 2006</b>	<b>23,292,000</b>	<b>5,095,612</b>	<b>28,387,612</b>
At 31 March 2005	6,118,799	13,755,343	19,874,142


### 3 PROPERTY, PLANT AND EQUIPMENT (cont'd)

- a Freehold and long term leasehold land of certain subsidiaries with net book value amounting to RM5,572,318 (2005: RM4,068,695) have been pledged to financial institutions as security for bank borrowings.
- b Due to the absence of certain historical records for the periods prior to the initial revaluation in 1993, the net book values of the land and buildings stated at valuation had the revalued assets been carried at historical cost less accumulated depreciation, are not disclosed.
- c The land and building were revalued on 28 March 2006 by Sidsapesan Sittampalam, a registered valuer with PPC International Sdn. Bhd. on the basis of open market values on existing use basis. The resultant revaluation surpluses amounting to RM18,214,246 for the Group and RM6,746,094 for the Company have been credited directly to the asset revaluation reserve account. Deferred taxation on the surplus arising from the revaluation has been provided accordingly.

The net carrying amounts of the revalued freehold and leasehold land and buildings that would have been included in the financial statements had these properties been carried at cost less accumulated depreciation are as follows:

 RM	Group 2006	Company 2006
Freehold land	8,261,974	3,628,882
Long term leasehold land	2,536,398	–
Short term leasehold land	75,416	–
Buildings	34,217,387	12,917,024
	<b>45,091,175</b>	<b>16,545,906</b>

- d The net book values of property, plant and equipment held under hire purchase arrangements are as follows:

 RM	Group		Company	
	2006	2005	2006	2005
Motor vehicles	2,514,065	4,044,014	1,444,517	3,008,838
Office equipment	547,245	734,872	547,245	734,872
Plant and machinery	9,067,742	11,760,423	1,765,905	3,231,209

Interest capitalised during the financial year under capital work-in-progress amounted to RM127,027 (2005: RM573,167).

- e During the year, the Group and the Company acquired property, plant and equipment with an aggregate cost of RM17,569,431 (2005: RM37,711,314) and RM9,490,703 (2005: 11,054,928) respectively of which RM1,752,293 (2005: RM8,263,188) and RM nil (2005: RM2,548,547) respectively were acquired by means of hire purchase arrangements.

## 4 INVESTMENTS

RM	Group		Company	
	2006	2005	2006	2005
<b>a SUBSIDIARIES</b>				
Unquoted shares				
- at cost	-	-	11,278,252	7,375,832
- at valuation**	-	-	3,497,390	3,497,390
	-	-	14,775,642	10,873,222
<b>b OTHER INVESTMENTS</b>				
Quoted shares at cost in Malaysia	5,600	5,600	2,799	2,799
Provision for diminution in value	(4,810)	(4,810)	(2,404)	(2,404)
	790	790	395	395
Other investments	118,001	118,001	118,001	118,001
	118,791	118,791	118,396	118,396
Total investments	118,791	118,791	14,894,038	10,991,618
Market value of shares quoted in Malaysia	1,310	790	655	395

Details of the subsidiaries are as follows:

Name of Subsidiaries	Country of Incorporation	Effective Interest Held (%)		Principal Activities
		2006	2005	
Hing Hong Sdn Berhad	Malaysia	100	100	Poultry farming
Innofarm (Klang) Sdn Bhd #	Malaysia	70	70	Poultry farming
Evergreen Organic Fertilisers Sdn Berhad	Malaysia	51	51	Organic fertiliser processing
Sri Tawau Farming Sdn Bhd # + and its subsidiary	Malaysia	50	50	Poultry farming
Evergrowth Marketing Sdn Bhd #	Malaysia	30	30	Poultry processing and marketing
Innobrid Sdn Bhd # ^ and its subsidiary	Malaysia	50	50	Poultry farming
Innobrid Marketing Sdn Bhd #	Malaysia	62	38	Poultry processing and marketing

## 4 INVESTMENTS (cont'd)

Name of Subsidiaries	Country of Incorporation	Effective Interest Held (%)		Principal Activities
		2006	2005	
Eminent Farm Sdn Bhd #	Malaysia	100	100	Poultry farming
Lay Hong Liquid Egg Sdn Bhd #	Malaysia	100	100	Liquid egg processing
Lay Hong Poultry Processing Sdn Bhd #	Malaysia	100	100	Poultry processing and marketing

# Audited by firms of auditors other than Ernst & Young

+ Equity interest of 50% plus one special rights ordinary share

^ Equity interest of 50% plus one share

\*\* The unquoted investment in a subsidiary was revalued by the directors in an earlier year, and approved by the relevant authorities, based on the net tangible assets of the subsidiary as at 31 August 1994. The surplus arising from the revaluation was credited to the revaluation reserve.

During the financial year, the Group acquired an additional 25% equity interest comprising 392,000 ordinary shares of RM1 each fully paid in Innobrid Marketing Sdn Bhd for a cash consideration of RM4 (Refer to Note 31 (a)).

## 5 GOODWILL ON CONSOLIDATION

RM	Group	
	2006	2005
Arising from acquisition of subsidiaries:		
Goodwill	2,661,777	2,661,777
Negative goodwill	(367,781)	(362,677)
At 1 April 2005/2004	2,293,996	2,299,100
Negative goodwill on acquisition of subsidiary	-	(5,104)
Additional goodwill in a subsidiary due to increase in equity interest	2,420	-
	2,296,416	2,293,996
Less: Accumulated amortisation	(745,365)	(638,829)
	1,551,051	1,655,167

The goodwill arising on consolidation is attributable to the acquisition of Sri Tawau Farming Sdn Bhd, Innobrid Sdn Bhd and Innobrid Marketing Sdn Bhd. The goodwill is amortised over a period of 25 years.

The negative goodwill arising on consolidation is attributable to the acquisition of Hing Hong Sdn Berhad, Innofarm (Klang) Sdn Bhd and Evergrowth Marketing Sdn Bhd.

**6 INVENTORIES**

RM	Group		Company	
	2006	2005	2006	2005
At cost:				
Livestocks	18,383,995	15,274,039	8,782,422	7,351,221
Eggs	1,732,210	2,110,661	630,010	632,190
Raw materials	3,345,382	4,692,351	2,120,466	2,719,877
Organic fertilisers	370,495	443,991	-	-
Consumables and packing materials	2,915,793	1,946,831	1,128,044	894,756
Processed and frozen product	6,791,808	1,626,239	-	-
	<b>33,539,683</b>	<b>26,094,112</b>	<b>12,660,942</b>	<b>11,598,044</b>

**7 TRADE RECEIVABLES**

RM	Group		Company	
	2006	2005	2006	2005
Trade receivables	30,008,948	32,614,884	5,939,288	7,313,284
Provision for doubtful debts	(4,736,500)	(3,172,244)	(587,583)	(293,653)
	<b>25,272,448</b>	<b>29,442,640</b>	<b>5,351,705</b>	<b>7,019,631</b>

The Group's normal credit term ranges from 30 to 60 days. Other credit terms are assessed and approved on a case-by-case basis.

As at 31 March 2006, the Group and Company has a significant concentration of credit risk in the form of outstanding balances due from a customer representing approximately 5% and 21% respectively on trade receivables (net).

**8 OTHER RECEIVABLES**

RM	Group		Company	
	2006	2005	2006	2005
Prepayments	622,433	447,574	369,329	246,533
Sundry receivables	811,808	1,056,162	442,476	541,349
Deposits	909,540	893,182	104,341	75,890
	<b>2,343,781</b>	<b>2,396,918</b>	<b>916,146</b>	<b>863,772</b>

The Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.



## 9 DUE FROM/DUE TO SUBSIDIARIES

Included in the net amount due from and due to subsidiaries, is a trade receivables balance of RM9,339,856 and other receivables balance of RM25,226,309.

The amounts due from and due to subsidiaries which are substantially trade in nature are unsecured, interest-free and have no fixed terms of repayment.

## 10 CASH AND CASH EQUIVALENTS

RM	Group		Company	
	2006	2005	2006	2005
Cash on hand and at banks	554,448	769,097	38,538	15,328
Less: Bank overdrafts (Note 11)	(3,145,077)	(4,519,089)	(280,332)	(1,725,270)
<b>Cash and cash equivalents</b>	<b>(2,590,629)</b>	<b>(3,749,992)</b>	<b>(241,794)</b>	<b>(1,709,942)</b>

## 11 BORROWINGS

RM	Group		Company	
	2006	2005	2006	2005
<b>SHORT TERM BORROWINGS</b>				
Secured:				
Bank overdrafts	2,864,745	2,793,819	-	-
Bankers' acceptances	11,260,000	12,269,000	-	-
Term loans	7,924,656	5,379,490	2,350,948	549,448
Hire purchase payables (Note 14)	3,222,209	3,702,498	1,234,923	1,926,513
	25,271,610	24,144,807	3,585,871	2,475,961
Unsecured:				
Bank overdrafts	280,332	1,725,270	280,332	1,725,270
Bankers' acceptances	15,476,000	16,078,000	15,476,000	16,078,000
Term loans	435,164	387,375	435,164	387,374
	16,191,496	18,190,645	16,191,496	18,190,644
	41,463,106	42,335,452	19,777,367	20,666,605

## 11 BORROWINGS (cont'd)

RM	Group		Company	
	2006	2005	2006	2005
<b>LONG TERM BORROWINGS</b>				
Secured:				
Term loans	28,676,049	31,382,670	10,917,264	8,423,837
Hire purchase payables (Note 14)	4,816,045	6,546,490	707,999	1,942,957
	33,492,094	37,929,160	11,625,263	10,366,794
Unsecured:				
Term loans	2,653,467	3,079,840	2,653,467	3,079,840
	36,145,561	41,009,000	14,278,730	13,446,634
<b>TOTAL BORROWINGS</b>				
Bank overdrafts (Note 10)	3,145,077	4,519,089	280,332	1,725,270
Bankers' acceptances	26,736,000	28,347,000	15,476,000	16,078,000
Term loans	39,689,336	40,229,375	16,356,843	12,440,499
Hire purchase payables (Note 14)	8,038,254	10,248,988	1,942,922	3,869,470
	77,608,667	83,344,452	34,056,097	34,113,239
Maturity of borrowings (excluding hire purchase):				
Within one year	38,240,897	38,627,420	18,542,444	18,734,557
More than 1 year and less than 2 years	8,972,855	11,271,437	2,997,262	3,158,011
More than 2 years and less than 5 years	20,436,203	15,950,025	10,050,917	6,464,046
5 years or more	1,920,458	7,246,582	522,552	1,887,155
	69,570,413	73,095,464	32,113,175	30,243,769

The weighted average effective interest rate at the balance sheet date for borrowings, excluding hire purchase payables, were as follows:

%	Group		Company	
	2006	2005	2006	2005
Bank overdrafts	7.86	7.29	7.72	7.22
Bankers' acceptances	4.28	3.88	4.29	3.71
Term loans	6.92	6.77	7.28	7.22

The credit facilities of the Company are secured by way of a negative pledge and debentures on specific equipment of the Company.

The credit facilities of the subsidiaries are secured by way of corporate guarantees from the Company and a corporate shareholder, fixed charge on certain landed properties as disclosed in Note 3, subordination of shareholders' loan and amount due to holding company of RM7.8 million (2005: RM7.8 million) in certain subsidiaries.

## 12 OTHER PAYABLES

RM	Group		Company	
	2006	2005	2006	2005
Due to director of a subsidiary	–	124,500	–	–
Accruals	5,013,158	2,516,156	1,293,439	866,297
Sundry payables	6,757,065	6,394,412	2,525,165	2,069,953
	<b>11,770,223</b>	<b>9,035,068</b>	<b>3,818,604</b>	<b>2,936,250</b>

The amount due to director of a subsidiary was unsecured, interest-free and had no fixed terms of repayment.

## 13 DUE TO A CORPORATE SHAREHOLDER - GROUP

The amount due to Innofarm Sdn Bhd, a corporate shareholder of the Company and a subsidiary in which certain directors have an interest (refer Note 33), is unsecured and interest-free. Included in the amount due to a corporate shareholder and repayable after 12 months is an amount of RM2.8 million (2005: RM2.8 million) which has been subordinated for credit facilities granted to a subsidiary by a financial institution and an amount of RM598,000 (2005: RM598,000). A further amount of RM833,205 (2005: RM857,205) is repayable within 12 months.

## 14 HIRE PURCHASE PAYABLES

RM	Group		Company	
	2006	2005	2006	2005
<b>MINIMUM HIRE PURCHASE PAYMENTS:</b>				
Not later than 1 year	2,701,412	4,369,976	1,327,456	2,148,812
Later than 1 year and not later than 2 years	1,678,834	3,593,300	417,675	1,327,456
Later than 2 years and not later than 5 years	4,607,464	3,688,154	336,589	754,300
	8,987,710	11,651,430	2,081,720	4,230,568
Less: Future finance charges	(949,456)	(1,402,442)	(138,798)	(361,098)
Present value of hire purchase liabilities	<b>8,038,254</b>	<b>10,248,988</b>	<b>1,942,922</b>	<b>3,869,470</b>
<b>PRESENT VALUE OF HIRE PURCHASE LIABILITIES:</b>				
Not later than 1 year	3,222,209	3,702,498	1,234,923	1,926,513
Later than 1 year and not later than 2 years	1,919,232	2,852,559	383,639	1,234,923
Later than 2 years and not later than 5 years	2,896,813	3,693,931	324,360	708,034
	<b>8,038,254</b>	<b>10,248,988</b>	<b>1,942,922</b>	<b>3,869,470</b>
<b>ANALYSED AS:</b>				
Due within 12 months	3,222,209	3,702,498	1,234,923	1,926,513
Due after 12 months	4,816,045	6,546,490	707,999	1,942,957
	<b>8,038,254</b>	<b>10,248,988</b>	<b>1,942,922</b>	<b>3,869,470</b>

The hire purchase liabilities bore interest at the balance sheet date between 4.76% to 8.95% (2005: 6.00% to 11.06%) per annum.

## 15 SHARE CAPITAL

	Number of Ordinary Shares of RM1 each		Amount (RM)	
	2006	2005	2006	2005
Authorised	100,000,000	100,000,000	100,000,000	100,000,000
Issued and fully paid	42,000,000	42,000,000	42,000,000	42,000,000

The Lay Hong Berhad Executive Share Option Scheme ("ESOS") is governed by the By-Laws approved by the shareholders at an Extraordinary General Meeting held on 28 September 2005. The ESOS was implemented on 23 November 2005 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 maximum number of new shares which may be available under the ESOS shall not exceed in aggregate fifteen percent (15%) of the total issued and paid-up share capital of the Company at the point of granting of the Option and subject always to the following:
  - i the number of new shares allocated, in aggregate, to the directors and senior management of the Group must not exceed fifty percent (50%) of the new shares available under the scheme; and
  - ii the number of new shares allotted to any individual Eligible Executive must not exceed ten percent (10%) of the aggregate shares available under the scheme where the Eligible Executive, either singly or collectively through persons connected with the Eligible Executive, holds twenty percent (20%) or more of the issued and paid-up share capital of the Company.
- b the ESOS shall be in force for a period of five (5) years, unless terminated earlier or extended in accordance with the terms of By-Laws of the ESOS.
- c the subscription price shall be the higher of the following:
  - i the weighted average market price (WAMP) of the shares for the five (5) market days immediately preceding the offer date, with a discount of not more than ten percent (10%) at the Option Committee's discretion; or
  - ii the par value of the shares.
- d the new shares to be issued and allotted upon the exercise of any option will upon issue and allotment rank pari passu in all respects with the existing issued ordinary shares of the Company except that the new shares will not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the date of allotment.

The share options outstanding as at end of the financial year are as follows:

Grant Date	Expiry Date	Option Price	No. of Share Options			At 31 March 2006
			Granted	Exercised	Lapsed	
23/11/2005	10/11/2010	RM1.00	6,300,000	—	—	6,300,000

## 16 RETAINED PROFITS

As at 31 March 2006, the Company has available tax exempt income under Schedule 7A of the Income Tax Act, 1967 and the Income Tax (Amendment) Act, 1999 which can be used to declare tax exempt dividends amounting to approximately RM10,088,000 (2005: RM10,088,000), subject to agreement with the Inland Revenue Board.

The Company has sufficient tax credit under Section 108 of the Income Tax Act 1967 and the balance in the tax exempt income account to frank the payment of dividends out of its entire retained profits as at 31 March 2006.

## 17 LONG TERM PAYABLES

This represents an amount payable for purchase of property, plant and equipment with fixed terms of payment. Under the terms of purchase, their settlements are required to be made by October 2007.

## 18 DEFERRED TAXATION

RM	Group		Company	
	2006	2005	2006	2005
At 1 April 2005/2004	3,218,739	4,159,690	5,412,062	4,741,147
Recognised in the income statement (Note 25)	3,208,258	(940,951)	1,470,012	670,915
Recognised in equity	3,298,392	–	650,100	–
<b>At 31 March</b>	<b>9,725,389</b>	<b>3,218,739</b>	<b>7,532,174</b>	<b>5,412,062</b>
Presented after offsetting as follows:				
Deferred tax assets	(10,343,662)	(10,470,690)	(273,819)	(623,315)
Deferred tax liabilities	20,069,051	13,689,429	7,805,993	6,035,377
	<b>9,725,389</b>	<b>3,218,739</b>	<b>7,532,174</b>	<b>5,412,062</b>

RM	Accelerated	Revaluation	Total
	Capital Allowances	Reserve	
<b>DEFERRED TAX LIABILITIES OF THE GROUP:</b>			
At 1 April 2005	13,689,429	–	13,689,429
Recognised in the income statement	3,081,230	–	3,081,230
Recognised in equity	–	3,298,392	3,298,392
<b>At 31 March 2006</b>	<b>16,770,659</b>	<b>3,298,392</b>	<b>20,069,051</b>
At 1 April 2004	12,074,940	–	12,074,940
Recognised in the income statement	1,614,489	–	1,614,489
<b>At 31 March 2005</b>	<b>13,689,429</b>	<b>–</b>	<b>13,689,429</b>

## 18 DEFERRED TAXATION (cont'd)

RM	Accelerated Capital Allowances	Revaluation Reserve	Total
<b>DEFERRED TAX LIABILITIES OF THE COMPANY:</b>			
At 1 April 2005	6,035,377	–	6,035,377
Recognised in the income statement	1,120,516	–	1,120,516
Recognised in equity	–	650,100	650,100
<b>At 31 March 2006</b>	<b>7,155,893</b>	<b>650,100</b>	<b>7,805,993</b>
At 1 April 2004	5,019,136	–	5,019,136
Recognised in the income statement	1,016,241	–	1,016,241
<b>At 31 March 2005</b>	<b>6,035,377</b>	<b>–</b>	<b>6,035,377</b>

RM	Tax Losses and Unabsorbed Capital Allowances	Others	Total
<b>DEFERRED TAX ASSETS OF THE GROUP:</b>			
At 1 April 2005	10,428,818	41,872	10,470,690
Recognised in the income statement	(403,037)	276,009	(127,028)
<b>At 31 March 2006</b>	<b>10,025,781</b>	<b>317,881</b>	<b>10,343,662</b>
At 1 April 2004	7,688,748	231,836	7,920,584
Recognised in the income statement	2,740,070	(189,964)	2,550,106
<b>At 31 March 2005</b>	<b>10,428,818</b>	<b>41,872</b>	<b>10,470,690</b>

**DEFERRED TAX ASSETS OF THE COMPANY:**

At 1 April 2005	622,642	673	623,315
Recognised in the income statement	(475,901)	126,405	(349,496)
<b>At 31 March 2006</b>	<b>146,741</b>	<b>127,078</b>	<b>273,819</b>
At 1 April 2004	283,323	–	283,323
Recognised in the income statement	339,319	673	339,992
<b>At 31 March 2005</b>	<b>622,642</b>	<b>673</b>	<b>623,315</b>

RM	Group 2006	2005
Deferred tax assets have not been recognised in respect of reinvestment allowance	<b>3,110,595</b>	3,145,293

## 19 REVENUE

Revenue of the Group and of the Company consists of the following:

RM	Group		Company	
	2006	2005	2006	2005
Eggs	90,578,231	71,962,249	82,650,496	65,311,984
Livestocks	37,808,145	46,058,242	1,814,260	2,656,868
Ready feed	28,286,128	25,789,666	46,005,096	53,969,854
Processed and frozen product	67,081,742	33,449,027	–	–
Others	2,842,360	3,218,956	1,198,950	1,943,876
	<b>226,596,606</b>	<b>180,478,140</b>	<b>131,668,802</b>	<b>123,882,582</b>

## 20 OTHER OPERATING INCOME

Included in other operating income of the Group and of the Company are the following:

RM	Group		Company	
	2006	2005	2006	2005
Bad debt recovered	–	5,252	–	–
Gain on disposal of:				
Property, plant and equipment	156,316	362,581	21,515	196,155
Quoted investments	–	303,990	–	303,990
Rental income				
Subsidiary	–	–	3,600	3,600
Others	108,126	117,446	–	–
Dividend from quoted investments (gross)	–	12,300	–	12,150
Dividend from unquoted investments (gross)	300	50	300	50
Interest income				
Others	–	1,386	–	882
Insurance claim	123,008	4,990	670	–
Management fees	–	15,000	336,000	336,000
Writeback in provision for doubtful debt	398,461	57,342	139,543	–
Gain on foreign exchange:				
Realised	119,043	437	112,080	–
Unrealised	236,602	14,818	213,893	–

## 21 STAFF COSTS

RM	Group		Company	
	2006	2005	2006	2005
Wages and salaries	10,781,879	8,916,865	3,899,958	3,513,491
Social security cost	117,657	93,704	36,147	32,244
Employees Provident Fund	1,131,225	874,939	478,996	440,304
Other staff related expenses	7,182,448	5,155,574	2,688,970	2,168,932
	<b>19,213,209</b>	<b>15,041,082</b>	<b>7,104,071</b>	<b>6,154,971</b>

## 21 STAFF COSTS (cont'd)

Included in staff costs of the Group and the Company are directors' remuneration (excluding directors' fees and benefits-in-kind) amounting to RM1,043,802 (2005: RM987,060) and RM825,402 (2005: RM852,060) respectively as further disclosed in Note 22.

## 22 DIRECTORS' REMUNERATION

RM	Group		Company	
	2006	2005	2006	2005
<b>DIRECTORS OF THE COMPANY</b>				
<b>Executive:</b>				
Salaries and other emoluments	641,402	697,560	641,402	697,560
Fees	112,000	100,000	40,000	28,000
Bonus	178,000	148,500	178,000	148,500
Benefits-in-kind	51,950	51,950	51,950	51,950
	<b>983,352</b>	<b>998,010</b>	<b>911,352</b>	<b>926,010</b>
<b>Non-executive:</b>				
Fees	152,000	128,000	80,000	56,000
Bonus	6,000	6,000	6,000	6,000
Total	<b>158,000</b>	<b>134,000</b>	<b>86,000</b>	<b>62,000</b>
<b>OTHER DIRECTORS</b>				
Salaries and other emoluments	203,400	135,000	–	–
Fees	42,000	46,000	–	–
Bonus	15,000	–	–	–
	<b>260,400</b>	<b>181,000</b>	<b>–</b>	<b>–</b>
Total	<b>1,401,752</b>	<b>1,313,010</b>	<b>997,352</b>	<b>988,010</b>
Analysis excluding benefit-in-kind:				
Total executive directors' remuneration excluding benefits-in-kind	931,402	946,060	859,402	874,060
Total non-executive directors' remuneration excluding benefits-in-kind	418,400	315,000	86,000	62,000
Total directors' remuneration excluding benefits-in-kind	<b>1,349,802</b>	<b>1,261,060</b>	<b>945,402</b>	<b>936,060</b>



## 22 DIRECTORS' REMUNERATION (cont'd)

The number of directors of the Company whose total remuneration during the year fell within the following bands is analysed below:

	Number of Directors	
	2006	2005
Executive directors:		
RM600,001 – RM650,000	1	1
RM550,001 – RM600,000	–	–
RM350,001 – RM400,000	1	1
Non-Executive directors:		
RM50,001 - RM100,000	2	1
RM1 to RM50,000	2	3

## 23 OTHER OPERATING EXPENSES

Included in other operating expenses of the Group and the Company are the following:

	Group		Company	
RM	2006	2005	2006	2005
Amortisation of goodwill	106,536	106,472	–	–
Bad debts written off	208,461	1,532	28,261	1,532
Directors' fees (Note 22)	306,000	274,000	120,000	84,000
Under/(over) provision in prior year	5,600	–	(4,000)	–
Auditors' remuneration:				
- Group auditors	48,500	49,000	27,000	27,000
- Other auditors	30,400	42,500	–	–
	<b>78,900</b>	<b>91,500</b>	<b>27,000</b>	<b>27,000</b>
Statutory audits				
current year	83,700	85,500	21,000	21,000
overprovision in prior year	(10,800)	–	–	–
Other services	6,000	6,000	6,000	6,000
Hire of plant and machinery	245,401	283,908	101,984	53,555
Loss on foreign exchange:				
Realised	8,557	20,275	–	7,194
Unrealised	–	120	–	120
Management fees	–	20,000	–	–
Provision for doubtful debts	1,962,717	360,943	433,473	269,383
Provision of diminution in value of quoted shares	–	4,809	–	2,404
Rental				
Third parties	2,030,602	1,248,268	161,886	178,486
Subsidiary	–	–	30,000	30,000
Property, plant & equipment written off	344,819	–	–	–

## 24 FINANCE COSTS

RM	Group		Company	
	2006	2005	2006	2005
Included in finance costs of the Group and of the Company are:				
Interest expense on borrowings	4,915,016	4,279,411	1,935,774	1,775,137
Less: Amount capitalised in capital work-in-progress	(127,027)	(573,167)	(127,027)	(293,508)
	<b>4,787,989</b>	<b>3,706,244</b>	<b>1,808,747</b>	<b>1,481,629</b>

## 25 TAXATION

RM	Group		Company	
	2006	2005	2006	2005
Tax expense for the year	10,674	5,245	-	-
Overprovision of tax in prior year	(173,289)	(742)	(145,483)	-
	<b>(162,615)</b>	<b>4,503</b>	<b>(145,483)</b>	<b>-</b>
Deferred tax (Note 18):				
Relating to origination and reversal of deferred tax	3,210,420	(954,790)	1,444,862	676,734
(Over)/under provision of deferred tax in prior years	(2,162)	13,839	25,150	(5,819)
	<b>3,208,258</b>	<b>(940,951)</b>	<b>1,470,012</b>	<b>670,915</b>
	<b>3,045,643</b>	<b>(936,448)</b>	<b>1,324,529</b>	<b>670,915</b>

A reconciliation of income tax expense/(benefit) applicable to profit/(loss) before taxation at the statutory income tax rate to income tax expense/(benefit) at the effective income tax rate of the Group and of the Company is as follows:

RM	2006	2005
<b>GROUP</b>		
Profit/(Loss) before taxation	<b>10,237,217</b>	<b>(3,810,934)</b>
Taxation at Malaysian statutory tax rate of 28%	<b>2,146,186</b>	<b>(1,230,280)</b>
Taxation at Malaysian statutory tax rate of 20%	<b>551,693</b>	<b>166,524</b>
Relating to origination & reversal of deferred tax arising from different tax rates	<b>154,628</b>	<b>-</b>
Relating to origination & reversal of deferred tax arising from control transfer of property, plant & equipment	<b>116,084</b>	<b>-</b>
Utilisation of previously unrecognised unutilised reinvestment allowances	<b>(34,864)</b>	<b>(15,007)</b>
Expenses not deductible for tax purposes	<b>287,367</b>	<b>129,218</b>
(Over)/under provision of deferred tax in prior year	<b>(2,162)</b>	<b>13,839</b>
Overprovision of tax in prior years	<b>(173,289)</b>	<b>(742)</b>
Tax expense/(benefit) for the year	<b>3,045,643</b>	<b>(936,448)</b>

## 25 TAXATION (cont'd)

RM	2006	2005
<b>COMPANY</b>		
Profit before taxation	<b>4,533,844</b>	2,173,492
Taxation at Malaysian statutory tax rate of 28%	<b>1,269,476</b>	608,578
Relating to origination & reversal of deferred tax arising from control transfer of property, plant & equipment	<b>(11,946)</b>	–
Expenses not deductible for tax purposes	<b>187,332</b>	68,156
Under/(over) provision of deferred tax in prior years	<b>25,150</b>	(5,819)
Overprovision of income tax expense in prior years	<b>(145,483)</b>	–
<b>Tax expense for the year</b>	<b>1,324,529</b>	670,915

RM	Group		Company	
	2006	2005	2006	2005
Tax savings recognised during the year arising from:				
Utilisation of tax losses brought forward from previous year	<b>434,251</b>	–	–	–

## 26 EARNINGS/(LOSS) PER SHARE

- a The basic earnings per share of the Group for the year ending 31 March 2006 is calculated by dividing the net profit for the year of RM6,639,528 (2005: net loss of RM3,093,319) by the weighted average number of ordinary shares in issue during the year of 42,000,000 (2005: 42,000,000).
- b The fully diluted earnings per share for the Group assuming full conversion of the ESOS is not presented as it is anti-dilutive.

## 27 DIVIDENDS

At the forthcoming Annual General Meeting, a first and final dividend in respect of the financial year ended 31 March 2006, of 1 sen less 28% taxation on 42,000,000 ordinary shares, amounting to a dividend payable of RM302,400 (0.72 sen net per ordinary share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 March 2007.

## 28 PRIOR YEAR ADJUSTMENTS

In prior years,

- a the Group recognised deferred tax assets on unused reinvestment allowances as required by paragraph 37 of FRS112<sub>2004</sub> - Income Taxes. During the current year, the Group changed its accounting policy and accordingly, deferred tax assets on unused reinvestment allowances are no longer recognised.
- b The Group recognised gains arising from the disposal of certain property, plant and equipment in a subsidiary, as a capital reserve. During the current year, the Group changed its accounting policy and accordingly, reclassified such reserve to retained earnings accordingly.
- c The effects arising from the above mentioned changes on the comparative figures are as follows:

RM	2006	2005
Effects on retained profits:		
At 1 April 2005/2004, as previously stated	8,394,035	11,493,160
- effect of derecognising deferred tax asset	(1,573,179)	(1,578,985)
- effect of realisation of capital reserve	539,441	539,441
<u>At 1 April 2005/2004, as restated</u>	<u>7,360,297</u>	<u>10,453,616</u>
Effects on net profit for the year		
Net profit/(loss) for the year before prior year adjustments	6,639,528	(3,099,125)
- effect of derecognising deferred tax asset	-	5,806
<u>Net profit/(loss) for the year</u>	<u>6,639,528</u>	<u>(3,093,319)</u>

Comparative amounts as at 31 March 2005 have been restated as follows:

RM	As Restated	Adjustments	As previously Stated
Balance Sheet			
Deferred tax assets	10,470,690	3,252,293	13,722,983
Minority Interest	3,423,057	1,572,116	4,995,173
Capital reserve	-	(539,441)	539,441
Income Statement			
Minority Interests	(218,833)	5,577	(213,256)
Taxation	936,448	(11,383)	925,065

## 29 CAPITAL COMMITMENTS

RM	Group		Company	
	2006	2005	2006	2005
Approved and contracted for				
- Property, plant and equipment	<b>3,680,000</b>	6,755,000	<b>1,845,000</b>	5,063,000
Approved but not contracted for				
- Property, plant and equipment	<b>479,000</b>	4,222,000	-	4,222,000

## 30 CONTINGENT LIABILITIES

RM	Company	
	2006	2005
Unsecured		
Corporate guarantee issued to financial institutions and corporate shareholder for credit facilities granted to subsidiaries	<b>38,296,204</b>	40,785,822

## 31 SIGNIFICANT EVENTS

- a As stated in Note 4, the company acquired 392,000 ordinary shares of RM1 each fully paid in Innobrid Marketing Sdn Bhd from its minority shareholders for a total consideration of RM4. With this acquisition, the company now effectively owns 62.25% of the same.
- b During the year, two of the wholly-owned subsidiary companies have increased their issued and fully paid-up shares as follows:
  - i Lay Hong Poultry Processing Sdn Bhd from 1,000,000 ordinary shares of RM1 each fully paid to 4,000,000 ordinary shares of RM1 each fully paid
  - ii Eminent Farm Sdn Bhd from 100,000 ordinary shares of RM1 each fully paid to 1,000,000 ordinary shares of RM1 each fully paid

## 32 SEGMENT INFORMATION

No segment information is provided as the Group's activities are primarily in one industry segment of poultry farming, and are principally conducted in Malaysia.

**33 SIGNIFICANT RELATED PARTY TRANSACTIONS**

RM	2006	2005
<b>GROUP</b>		
Amount due to Innofarm Sdn Bhd, a corporate shareholder of the Company and shareholder in which certain directors, namely, Yap Hoong Chai, Yeap Fock Hoong and Yeap Weng Hong have an interest	4,231,205	4,255,205
<b>COMPANY</b>		
Purchases from subsidiaries		
- Innofarm (Klang) Sdn Bhd	11,248,083	9,058,936
- Sri Tawau Farming Sdn Bhd	-	38,722
Sales to subsidiaries		
- Innofarm (Klang) Sdn Bhd	8,864,611	9,467,196
- Innobrid Sdn Bhd	13,182,750	25,156,102
- Evergreen Organic Fertilisers Sdn Berhad	288,000	768,000
Management fees receivable from subsidiaries		
- Innofarm (Klang) Sdn Bhd	120,000	120,000
- Evergreen Organic Fertilisers Sdn Berhad	36,000	36,000

The directors are of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

**34 FINANCIAL INSTRUMENTS**
**a 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 interest rate, foreign exchange, liquidity and credit risks. The Group operates within clearly defined guidelines that are approved by the Board and the Group's policy is not to engage in speculative transactions.

**b Interest Rate Risk**

The Group's primary interest rate risk relates to interest-bearing debt; the Group had no substantial long-term interest-bearing assets as at 31 March 2006. The investments in financial assets, if any are mainly short term in nature and they are not held for speculative purposes.

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

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

## 34 FINANCIAL INSTRUMENTS (cont'd)

## c Foreign Exchange Risk

The Group is exposed primarily to the Singapore Dollar and Euro. Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

## d Liquidity Risk

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, 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. In addition, the Group strives to maintain available banking facilities of a reasonable level. 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.

## e Credit Risk

Credit risks, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via Group management reporting procedures.

As at 31 March 2006, the Group and Company has a significant concentration of credit risk in the form of outstanding balances due from a customer representing approximately 5% and 21% respectively.

## f Fair Values

The aggregate net fair values of financial assets and financial liabilities which are not carried at fair values on the balance sheets of the Group and of the Company are represented as follows:

	RM	Note	Group		Company	
			Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>FINANCIAL ASSETS</b>						
Due from subsidiaries			–	–	37,556,615	*
<b>FINANCIAL LIABILITIES</b>						
Due to subsidiaries			–	–	2,990,450	*
Term loans		11	39,689,336	39,708,255	16,356,843	16,356,843
Due to corporate shareholder		13	4,231,205	*	–	–
Hire purchase payables		14	8,038,254	9,041,351	1,942,922	2,003,543
			51,958,795	48,749,606	21,290,215	18,360,386

\* It is not practical to estimate the fair values of amounts due from/to subsidiaries and to corporate shareholder due principally to a lack of fixed repayment terms entered into by the parties involved and without incurring excessive costs.

## 34 FINANCIAL INSTRUMENTS (cont'd)

## f Fair Values (cont'd)

The nominal/notional amounts and net fair values of financial instruments not recognised in the balance sheet of the Company as at the end of the financial year are:

RM	Note	Company	
		Nominal/ Notional Amount	Net Fair Value
Contingent liabilities	30	38,296,204	#

# It is not practicable to estimate the fair value of contingent liabilities reliably due to the uncertainties of timing, costs and eventual outcome.

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

## i Cash and Cash Equivalents, Trade and Other Receivables/Payables and Short Term Borrowings.

The carrying amounts approximate their fair values due to the relatively short term maturity of these financial instruments.

## ii Marketable Securities

The fair value of quoted shares is determined by reference to the stock exchange quoted market bid prices at the close of the business on the balance sheet date.

## iii Borrowings

The fair value of borrowings is estimated by discounting the expected future cash flows using the current interest rates for liabilities with similar risk profiles.

## 35 COMPARATIVES

Certain comparative figures, where appropriate, have been reclassified to conform with the current financial year's presentation.

Deferred tax assets and liabilities of the following items have been restated as a result of changes in the nature of the evidence subsequent to the date of the last report:

RM	As Restated	Adjustments	As Previously Stated
<b>GROUP</b>			
Deferred tax liabilities:			
Accelerated capital allowances	13,689,429	(106,999)	13,796,428
Deferred tax assets:			
Tax losses and capital allowances	10,428,818	(508,559)	10,937,377
Others	41,872	(3,034)	44,906
	10,470,690	(511,593)	10,982,283



## ANALYSIS OF SHAREHOLDINGS AS AT 1 AUGUST 2006

Authorised Share Capital	: RM 100,000,000
Issued & Fully Paid-Up Capital	: RM 42,000,000
Class of Shares	: RM 1.00 Ordinary Share
Voting Rights	: One Vote per share

## DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholding	No. of Shareholders	% Shareholders	No. of Shares Held	% of Issued Share Capital
1 - 99	70	3.83	924	0.00
100 - 1,000	99	5.41	66,702	0.16
1,001 - 10,000	1,417	77.43	5,094,220	12.13
10,001 - 100,000	222	12.13	4,839,197	11.52
100,001 - 2,099,999 *	19	1.04	10,262,300	24.44
2,100,000 and above **	3	0.16	21,736,657	51.75
	1,830	100.00	42,000,000	100.00

\* less than 5% issued shares

\*\* 5% and above of issued shares

## SUBSTANTIAL REGISTERED SHAREHOLDERS

	No. of shares	%
1 Bumiputra - Commerce Nominees (Tempatan) Sdn Bhd for Innofarm Sdn Bhd	10,364,000	24.68
2 Innofarm Sdn Bhd	8,536,000	20.32

**THIRTY LARGEST REGISTERED SHAREHOLDERS**

Name of Shareholder	No. of Shares	%
1 Bumiputra - Commerce Nominees (Tempatan) Sdn Bhd -pledged securities account for Innofarm Sdn Bhd	10,364,000	24.68
2 Innofarm Sdn Bhd	8,536,000	20.32
3 Yip Kim Hoong	2,836,657	6.75
4 Wong Chee Choon	1,363,600	3.25
5 Mayban Securities Nominees (Tempatan) Sdn Bhd -pledged securities account for Ong Huey Peng	1,237,000	2.95
6 Lembaga Tabung Haji	1,216,800	2.90
7 Poo Choo @ Ong Poo Choi	1,210,800	2.88
8 Lai Kum Sim	1,107,000	2.63
9 Ong Har Hong	1,073,000	2.55
10 Tan Han Chuan	816,000	1.94
11 Tan Ching Ching	673,800	1.60
12 Mayban Nominees (Tempatan) Sdn Bhd -pledged securities account for Lim Chai Beng	506,800	1.21
13 Ban Seng Guan Sdn Bhd	189,600	0.45
14 HDM Nominees (Tempatan) Sdn Bhd -EON Finance Berhad for Wah Keng Sen	121,300	0.29
15 Tawakar Enterprise Sdn Bhd	120,000	0.29
16 Ong Wah Seng	110,400	0.26
17 Tan Choo Mit	107,600	0.26
18 Yip Chor Wei	105,000	0.25
19 Low Saw Tin	102,000	0.24
20 Public Nominees (Tempatan) Sdn Bhd -pledged securities account for Chieng You Ping	100,800	0.24
21 Si Hong Kuan	100,800	0.24
22 Malaysia Nominees (Tempatan) Sendirian Berhad -pledged securities account for Wan Holdings Sdn Bhd	86,400	0.21
23 Alliancegroup Nominees (Tempatan) Sdn Bhd -pledged securities account for Lim Yoke Sim	83,000	0.20
24 Citigroup Nominees (Tempatan) Sdn Bhd -pledged securities account for Lim Choong Kong	70,000	0.17
25 Low Fatt Chye	67,200	0.16
26 Lee You Long	64,900	0.15
27 Sing Kong Wey	62,400	0.15
28 Yeap Wan Keng	62,400	0.15
29 Chan Seng Cheong	60,000	0.14
30 Mayban Nominees (Tempatan) Sdn Bhd -pledged securities account for Chew Weng Khak @ Chew Weng Kiak	57,600	0.14
<b>Total</b>	<b>32,612,857</b>	<b>77.65</b>

**PROPERTIES OWNED BY LAY HONG BERHAD GROUP OF COMPANIES AS AT 31 MARCH 2006**

Location	Description & Existing Use	Approximate Area (Acres)	Tenure & Expiry Date	Age of Building (Years)	NBV (RM'000)	Date of Acquisition/ Revaluation
<b>SELANGOR</b>						
Nos. 39 & 41 Jalan 5, Kawasan 16 Taman Intan, 41300 Klang	Office Building	9111 sq. ft.	Freehold	21	1,100	28/3/06
Lot Nos. 4857/8 Mukim of Jeram District of Kuala Selangor	Layer Farm & Feedmill	24.8	Land under Tenant's Lease May 2006 (4858) Freehold (4857)	7-22	3,600	28/3/06
Lot No. 559 Mukim of Ijok Kuala Selangor	Layer Farm & fertiliser plant & building	34	Freehold	7-14	10,080	28/3/06
Lot No. 1640 Mukim of Ijok Kuala Selangor	Chick Farm	5	Freehold	4-15	920	28/3/06
Lot No. 1954 Mukim of Jeram District of Kuala Selangor	Layer Farm	5	Freehold	4	3,500	28/3/06
Lot No. 3095 Mukim of Jeram District of Kuala Selangor	Pullet Farm	4.8	Freehold	4	2,220	28/3/06
Lot No. 1555 Mukim of Jeram District of Kuala Selangor	Layer Farm	6	Freehold	2	3,944	24/2/04
Lot No. 1933 Mukim of Jeram District of Kuala Selangor	Pullet Farm	5	Lease Under Tenant's Lease May 2014	2	701	16/3/05
Lot No. 1868 Mukim of Jeram District of Kuala Selangor	Layer Farm	4.8	Freehold	1	2,360	28/3/06
Lot No. 1820 Mukim of Jeram District of Kuala Selangor	Vacant Land	4.9	Freehold	-	451	13/7/01
Lot Nos. 4847/8 Mukim of Jeram District of Kuala Selangor	Layer Farm	26	Land Under Tenant's Lease Aug 2006	7-19	535	1/9/86

PROPERTIES OWNED BY LAY HONG BERHAD GROUP OF COMPANIES AS AT 31 MARCH 2006 (CONT'D)

Location	Description & Existing Use	Approximate Area (Acres)	Tenure & Expiry Date	Age of Building (Years)	NBV (RM'000)	Date of Acquisition/ Revaluation
Lot No. 4859 Mukim of Jeram District of Kuala Selangor	Fertilizer Plant & Building	4.3	Land Under Tenant's Lease Nov 2006	10-12	382	1/12/94
Lot No. 1942 Mukim of Jeram District of Kuala Selangor	Fertiliser Plant & Building	2.5	Land under Tenant's Lease Sep 2012	3	299	1/10/02
Lot Nos. 1632/3 Mukim of Ijok Kuala Selangor	Breeder Farm & Hatchery	10	Freehold	5-14	1,520	28/3/06
Lot No. 807 Mukim Ujong Permatang Kuala Selangor	Broiler Farm	5	Freehold	7-11	1,000	28/3/06
Lot No. 681 Mukim Ujong Permatang Kuala Selangor	Broiler Farm	5	Freehold	7-11	1,100	28/3/06
Lot Nos. 708/9 Mukim Ujong Permatang Kuala Selangor	Broiler Farm	10	Freehold	7-10	2,200	28/3/06
Lot No. 969 Mukim Ujong Permatang Kuala Selangor	Broiler Farm	5	Freehold	7-9	1,100	28/3/06
Lot Nos. 683/4 & 685 Mukim Ujong Permatang Kuala Selangor	Broiler Farm	15	Land Under Tenant's Lease May 2012	6-9	2,246	19/5/97
Lot Nos. 1475/6 Lot Nos. 253 & 244 Mukim Pasangan Kuala Selangor	Breeder Farm & Hatchery	18.5	Freehold	4-8	5,230	28/3/06
Lot No. 1011 Mukim Pasangan Kuala Selangor	Vacant Land	3	Freehold	-	180	28/3/06

Location	Description & Existing Use	Approximate Area (Acres)	Tenure & Expiry Date	Age of Building (Years)	NBV (RM'000)	Date of Acquisition/ Revaluation
Lot Nos.16456/7 & 16486 Mukim Tanjong Karang District of Kuala Selangor	Processing Plant	3	Leasehold Nov 2080 (16456/7) July 2080 (16486)	2	7,358	14/6/00 (16456/7) 6/12/04 (16486)
Lot Nos. 739/40 & 741 Mukim Api-Api District of Kuala Selangor	Breeder Farm	15	Freehold	3	5,980	28/3/06
No. 29, Jalan Perindustrian 5 Off Jalan Haji Abdul Manan Batu 5 1/2, Jalan Meru 41050 Klang, Selangor	Manufacturing Liquid Egg Plant	1158 m2	Freehold	3	1,530	28/3/06
Lot No. 16465 Mukim Tanjong Karang District of Kuala Selangor	Vacant Land	1	Leasehold Nov 2080	–	102	4/7/05
<b>MELAKA</b>						
Lot Nos. 1717/8/9 & 1720 Mukim of Ayer Panas Jasin, Melaka	Layer Farm & fertiliser plant & building	40.4	Freehold	12-21	3,700	28/3/06
<b>SABAH</b>						
CL 045169248 Kampung Indai Tuaran, Sabah	Broiler Farm	10.7	Leasehold Jan 2060	10	1,110	28/3/06
NT No. 043176030 Lubok Bagiang Tuaran, Sabah	Broiler Farm	6.4	Leasehold June 2094	11	1,218	28/3/06
NT No. 043171651 Kampung Serusup Tuaran, Sabah	Vacant Land	9.4	Leasehold June 2094	–	255	28/3/06
CL 045115928 Tuaran, Sabah	Layer Farm & Feedmill	89	Leasehold Jan 2938	16	4,285	28/3/06

PROPERTIES OWNED BY LAY HONG BERHAD GROUP OF COMPANIES AS AT 31 MARCH 2006 (CONT'D)

Location	Description & Existing Use	Approximate Area (Acres)	Tenure & Expiry Date	Age of Building (Years)	NBV (RM'000)	Date of Acquisition/ Revaluation
CL 025308043 Papar, Sabah	Breeder Farm	19.2	Leasehold Jan 2063	5-9	3,138	28/3/06
CL 025166714 Papar, Sabah	Vacant Land	18.8	Leasehold Jan 2056	–	481	28/3/06
CL 025166705 Papar, Sabah	Vacant Land	19.7	Leasehold Jan 2056	–	481	28/3/06
NT No. 043140905 Kampung Serusop Tuaran, Sabah	Broiler Farm	5	Leasehold Feb 2099	4	943	28/3/06
NT No. 043140914 Kampung Lok Bagiang Tuaran, Sabah	Broiler Farm	2.7	Leasehold Aug 2098	4	415	28/3/06
CL 015580104 Kota Kinabalu, Sabah (KKIP)	Feedmill	2.7	Leasehold Dec 2096	4	3,182	28/3/06
NT. No. 044018224 Tuaran, Sabah	Broiler Farm	4	Leasehold Jul 2031	4	715	28/3/06

## FORM OF PROXY

I/We \_\_\_\_\_ of

NRIC No./Co. No.

being a member/members of Lay Hong Berhad hereby appoint

of

NRIC No.

or failing him/her

of

NRIC No.

as my/our proxy to vote for me/us on my/our behalf at the Twenty-Second Annual General Meeting of the Company to be held on Thursday, 28th September 2006, at Putra Room, Kelab Golf Sultan Abdul Aziz Shah, No 1 Rumah Kelab, Jalan Kelab Golf 13/6, 40100 Shah Alam, Selangor at 11.30 AM and at any adjournment thereof. My/our proxy is to vote as indicated below:

Resolution	Ordinary Resolutions	For	Against
1.	To receive the Audited Financial Statements for the financial year ended 31st March 2006.		
2.	To declare a First and Final Dividend of 1 Sen less tax at 28% for the year ended 31st March 2006.		
3.	To approve Directors' Fees for the financial year ended 31st March 2006.		
4.	To re-elect Mr Yip Kim Hoong as Director.		
5.	To re-elect Mr Yeap Fock Hoong as Director.		
6.	To re-elect Dato' Dr. Abdul Aziz Bin Mangkat DIMP KMN ASK as Director.		
7.	To re-appoint Messrs Ernst & Young as Auditors.		
8.	To authorise the issue of shares up to 10% of Issued Capital.		
9.	To approve the Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions.		

(Please indicate with an 'X' in the appropriate spaces how you wish to cast your vote. If you do not indicate how you wish your proxy to vote on any Resolution, the proxy will vote as he/she thinks fit or, at his/her discretion, abstain from voting.)

Signature of Shareholder or Common Seal

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2006 No. of shares held: \_\_\_\_\_

### NOTES

- Every member entitled to attend and vote at the Meeting is entitled to appoint a proxy (or in the case of a corporation, to appoint a representative) to attend and vote in his/her stead. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
- The Proxy Form in the case of an individual shall be signed by the appointer or his/her attorney, and in the case of a corporation, either under its common seal or under the hand of an officer or attorney duly authorized.
- Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.
- Proxies or other instruments shall not be treated as valid unless they are deposited at the Registered Office of the Company not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof, or in the case of a poll, not less than 24 hours before the time appointed for the holding of the poll.

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**LAY HONG BERHAD**

26, Jalan Istana  
41000 Klang  
Selangor, Malaysia

**STAMP HERE**

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